

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

STATE OF INDIANA

SINGLE AUDIT REPORT

July 1, 2008 to June 30, 2009



**FILED**  
03/31/2010



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**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, 2009, 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 the local government investment pool which represent 100% of the assets and revenues of the investment trust fund. We also did not audit certain component units of the State, as discussed in Note I(A), which represent 31.4% of the assets of the colleges and universities and 99.6% of the assets and 98.8% of the revenues of the proprietary discretely presented component units. The financial statements of the investment trust fund and 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. 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, 2009, 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 I(A) to the financial statements, the Indiana Housing and Community Development Authority, Ports of Indiana, Indiana State Fair Commission, Indiana Comprehensive Health Insurance Association and the Indiana Political Subdivision Risk Management Commission, discretely presented component units, report on a December 31, 2008, year-end. As discussed in Note IV(G) to the financial statements, the State of Indiana has restated certain beginning fund balances and net assets.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

The Management Discussion and Analysis and Schedules of Funding Progress for Employee Retirement Systems and Plans and Other Postemployment Benefit Plans, as listed in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which 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 23, 2009, 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 23, 2009



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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, 2009, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 23, 2009. We did not audit the financial statements of the local government investment pool which represents 100% of the assets and revenues of the investment trust fund. We also did not audit the financial statements of certain component units of the State, as discussed in Note I(A), which represent 31.4% of the assets of the colleges and universities discretely presented component units and 99.6% of the assets and 98.8% of the 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 significant control deficiencies. Significant control deficiencies 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. A Significant control deficiency is described in the accompanying Schedule of Findings and Questioned Costs as Finding 2008-CAFR-4.

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 significant control deficiency 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 significant control deficiencies, and accordingly, would not necessarily disclose all significant control deficiencies that are also considered to be material weaknesses. Material weaknesses are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2003-CAFR-1, 2005-CAFR-1, 2007-CAFR-1, 2008-CAFR-1, 2008-CAFR-5, and 2009-CAFR-1.

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 23, 2009

# MANAGEMENT'S DISCUSSION AND ANALYSIS



**STATE OF INDIANA**  
**Management's Discussion and Analysis**  
**June 30, 2009**

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, 2009. 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) 2008 numbers have been restated.

**Financial Highlights**

- For FY 2009, on a government-wide basis, the assets of the State of Indiana exceeded its liabilities by \$16.9 billion. This compares with \$17.9 billion for FY 2008, as restated. Of this amount, \$5.4 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 \$1.5 billion, or 13.8% of the total general fund expenditures.
- On a government-wide basis for the primary government, the State incurred expenses net of program revenue of \$15.6 billion, which are offset by general revenues totaling \$14.5 billion, giving a decrease in net assets of \$1.1 billion.
- According to a Moody's Economy.com report in November, 2009, Indiana was one of only eleven states in recovery from the recession. Another index developed by the Federal Reserve Bank of Philadelphia found that Indiana was one of only seven states faring better economically in September 2009 than three months before.
- General revenue for the primary government decreased by \$558.0 million, or 3.7%, from FY 2008. The driving force behind this decrease is the decline in income taxes revenue as a result of the increase to the State's unemployment rate.
- The State of Indiana achieved its fourth consecutive balanced budget for the fiscal year ended June 30, 2009 with revenue exceeding expenditures by \$28.8 million. Another balanced budget was achieved through restraint and prudent fiscal management by state agencies, and through the use of American Recovery and Reinvestment Act (ARRA) stimulus funds.
- Indiana's credit rating remained at AAA, the highest rating assigned by the independent credit rating agency Standard & Poor's Ratings Service (S&P). The upgrade during 2008 from AA+ "reflects the state's continued strong management that has led to the property tax reform that has realigned state and local spending and is not expected to impact the state's long-term financial performance. As well, the state's commitment to attract diverse jobs through its economic development efforts has translated into a shift away from traditional manufacturing employment," said the credit agency. The report said the administration has made significant financial management changes and strengthened budgeting practices. S&P cited four areas in issuing the AAA credit rating: stable and diversifying economic base despite continued manufacturing concentration; a conservative biennial budget that will add to the fund balance by the end of the biennium; property tax reform that has clarified the state's financial responsibilities; and, low overall debt levels.

### Key Economic Indicators

	<u>Dec. 31, 2008</u>	<u>Dec. 31, 2007</u>	<u>% Change</u>
Total Employed Labor Force	2,949,605	3,057,742	-3.5%
Total Goods and Service Employment	2,920,900	3,015,700	-3.1%
Service-Providing Employment	2,291,800	2,314,700	-1.0%
Goods-Producing Employment	629,100	701,000	-10.3%
Unemployment Rate	8.1%	4.5%	80.0%
Median Household Income	47,966	47,448	1.1%

Sources: Indiana Department of Workforce Development, Bureau of Labor Statistics, and U.S. Census Bureau.

Salaries and benefits for State employees represent approximately 8.1% 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

	<b>Governor's Authority</b>	<b>Judiciary</b>	<b>Other Elected Officials</b>	<b>On Disability Leave - In Pay Status</b>	<b>On Disability Leave - Not in Pay Status</b>	<b><u>Total</u></b>
2009	31,254	835	1,093	624	358	34,164
2008	32,606	811	1,139	727	339	35,622
2007	31,524	772	1,123	789	313	34,521
2006	31,822	753	1,102	941	279	34,897
2005	34,673	743	1,058	1,077	269	37,820
2004	35,794	756	1,020	1,012	266	38,848
2003	34,909	741	1,003	988	248	37,889
2002	35,474	731	1,017	1,078	252	38,552
2001	36,376	728	1,002	969	238	39,313
2000	35,516	713	983	988	3	38,203

Note:

\* Tracking of employees on disability leave in pay status versus non-pay status began in earnest during fiscal year 2001.

For more information on people paid through the Auditor of State's Office, please read 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	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 11,490.2	\$ 12,994.8	\$ 173.3	\$ 369.6	\$ 11,663.5	\$ 13,364.4
Capital assets	11,434.8	10,702.9	14.5	13.7	11,449.3	10,716.6
<b>Total assets</b>	<b>22,925.0</b>	<b>23,697.7</b>	<b>187.8</b>	<b>383.3</b>	<b>23,112.8</b>	<b>24,081.0</b>
Current liabilities	2,787.5	3,513.1	915.7	10.8	3,703.2	3,523.9
Long-term liabilities	2,491.4	2,570.1	42.8	47.2	2,534.2	2,617.3
<b>Total liabilities</b>	<b>5,278.9</b>	<b>6,083.2</b>	<b>958.5</b>	<b>58.0</b>	<b>6,237.4</b>	<b>6,141.2</b>
Net assets:						
Invested in capital assets, net of related debt	10,148.7	9,381.3	14.5	13.7	10,163.2	9,395.0
Restricted	1,323.7	719.8	-	265.0	1,323.7	984.8
Unrestricted	6,173.7	7,513.4	(785.2)	46.6	5,388.5	7,560.0
<b>Total net assets</b>	<b>\$ 17,646.1</b>	<b>\$ 17,614.5</b>	<b>\$ (770.7)</b>	<b>\$ 325.3</b>	<b>\$ 16,875.4</b>	<b>\$ 17,939.8</b>

At the end of the current fiscal year, net assets for governmental activities were \$17.6 billion as compared to \$17.6 billion in 2008. There was an increase of \$31.6 million.

Current and other assets decreased by \$1.5 billion with a decrease in securities lending collateral making up the bulk of this. Capital assets increased by \$731.9 million. The principal reason for the increase in capital assets was the increase in land, infrastructure, and construction in progress at the Indiana Department of Transportation due to the State's Major Moves initiative.

Total liabilities decreased by \$804.3 million. This decrease is explained principally from a decrease in securities on loan as of June 30, 2009. A liability that increased to offset the total decrease was from the

startup of recognizing a GASB 49 pollution remediation liability of \$66.7 million.

The State began recognizing the Teachers' Retirement Fund's net pension obligation for their pre-1996 retirement account as a liability this fiscal year which at \$945.0 million is a significant portion of total liabilities.

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 \$365.2 million or 5.9% 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	
	2009	2008	2009	2008	2009	2008
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,363.8	\$ 1,681.7	\$ 1,251.9	\$ 682.4	\$ 2,615.7	\$ 2,364.1
Operating grants and contributions	10,493.8	9,372.8	10.5	134.6	10,504.3	9,507.4
Capital grants and contributions	21.4	26.9	-	-	21.4	26.9
General revenues:						
Individual and corporate income taxes	5,135.4	5,812.1	-	-	5,135.4	5,812.1
Sales taxes	6,146.4	5,869.1	-	-	6,146.4	5,869.1
Other	3,220.6	3,363.8	6.3	21.6	3,226.9	3,385.4
<b>Total revenues</b>	<b>26,381.4</b>	<b>26,126.4</b>	<b>1,268.7</b>	<b>838.6</b>	<b>27,650.1</b>	<b>26,965.0</b>
<b>Program Expense</b>						
General government	4,321.6	5,163.8	-	-	4,321.6	5,163.8
Public safety	1,527.9	1,381.7	-	-	1,527.9	1,381.7
Health	371.2	387.3	-	-	371.2	387.3
Welfare	9,150.2	9,201.1	-	-	9,150.2	9,201.1
Conservation, culture and development	722.5	581.6	-	-	722.5	581.6
Education	8,929.1	7,367.2	-	-	8,929.1	7,367.2
Transportation	1,324.5	1,297.6	-	-	1,324.5	1,297.6
Interest expense	0.7	0.7	-	-	0.7	0.7
Unemployment compensation fund	-	-	2,341.3	846.0	2,341.3	846.0
Other	-	-	25.5	24.5	25.5	24.5
<b>Total expenses</b>	<b>26,347.7</b>	<b>25,381.0</b>	<b>2,366.8</b>	<b>870.5</b>	<b>28,714.5</b>	<b>26,251.5</b>
Excess (deficiency) before transfers	33.7	745.4	(1,098.1)	(31.9)	(1,064.4)	713.5
Transfers	(2.1)	(3.7)	2.1	3.7	-	-
<b>Change in net assets</b>	<b>31.6</b>	<b>741.7</b>	<b>(1,096.0)</b>	<b>(28.2)</b>	<b>(1,064.4)</b>	<b>713.5</b>
Beginning net assets, as restated	17,614.5	16,872.8	325.3	353.5	17,939.8	17,226.3
Ending net assets	<b>\$ 17,646.1</b>	<b>\$ 17,614.5</b>	<b>\$ (770.7)</b>	<b>\$ 325.3</b>	<b>\$ 16,875.4</b>	<b>\$ 17,939.8</b>

## Governmental Activities

Program expenses exceeded program revenues by \$14.5 billion. General revenues and transfers were \$14.5 billion. The increase in net assets was \$31.6 million, which is 0.2% of total revenues.

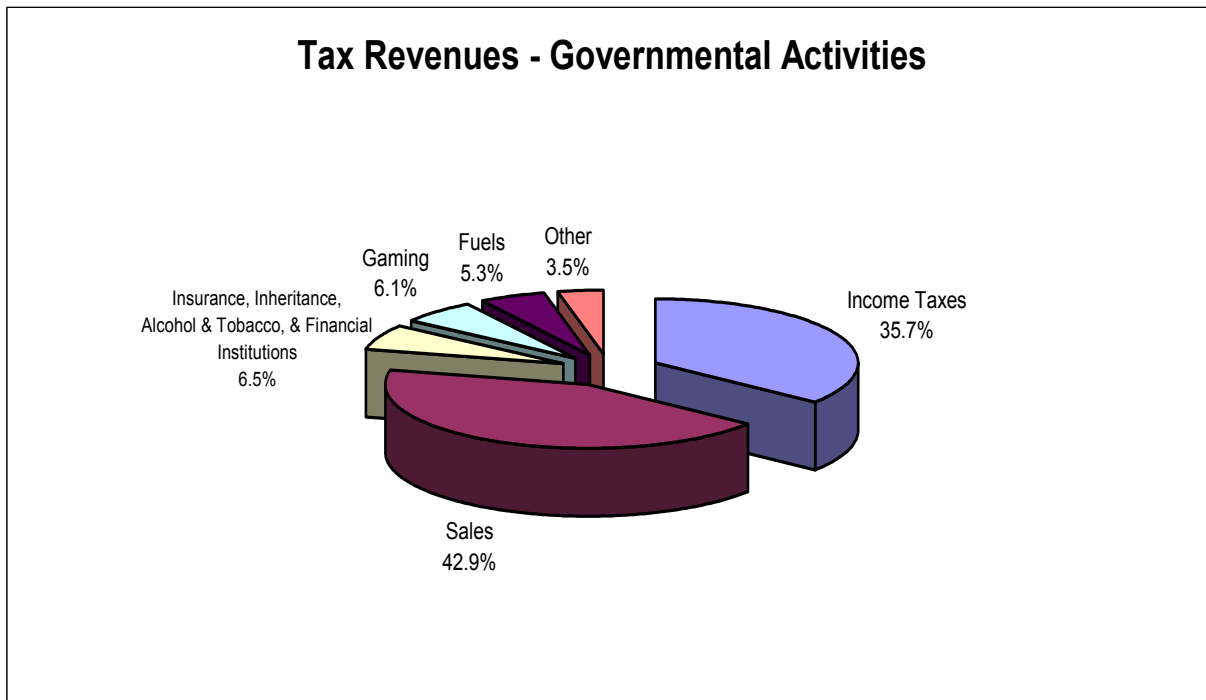
The decrease to excess (deficiency) before transfers of \$711.7 million was brought about by an increase of total revenues of \$255.0 million offset by an increase in total expenses of \$966.7 million.

Revenues increased mainly as a result of the increase in operating grants and contributions under program revenues. This is attributed to the revenues received

from the American Recovery and Reinvestment Act of 2009 (ARRA of 2009 Fund), which is a new major fund for the year.

The increase in expenses was caused by the increase in education spending of \$1.6 billion. General Fund expenses for education increased by \$938.7 million, which along with the \$544.0 million in ARRA Fund expenses for education were the critical factors for the increase in Education expense. The increase in General Fund education expenses was due to the increase in state support for schools.

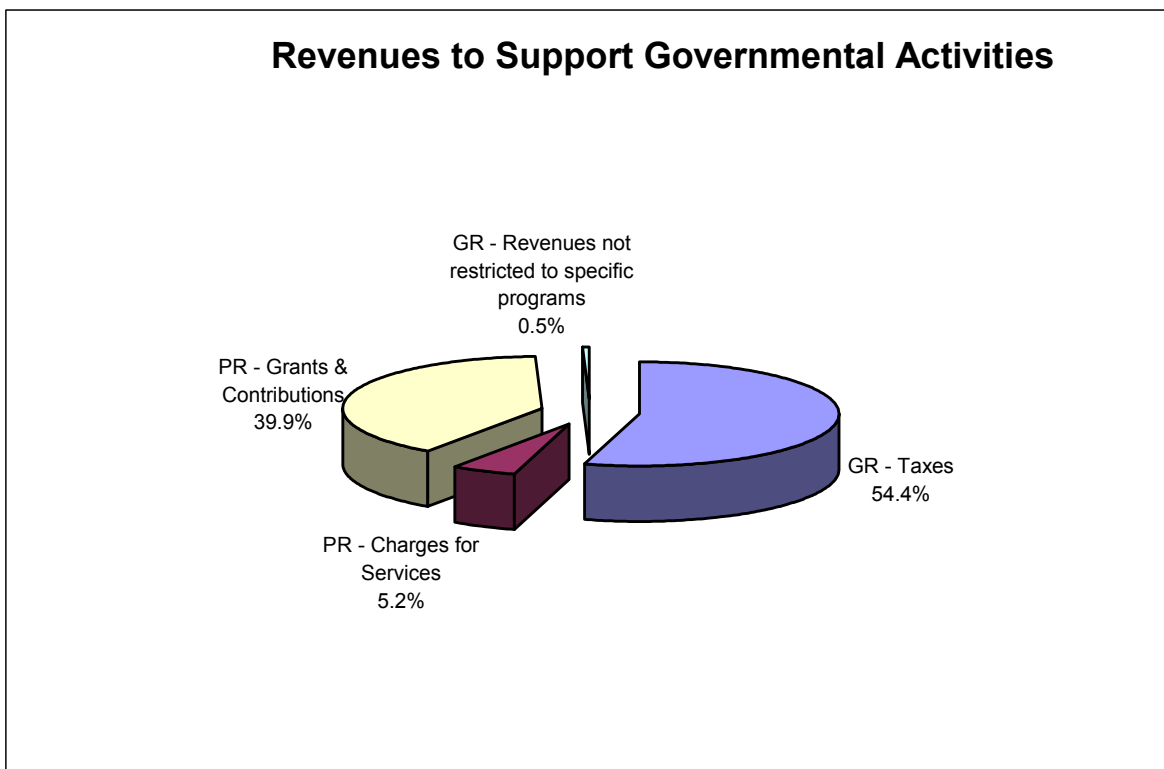
Tax revenues for governmental activities were broken down as follows:



Tax revenues of \$14.4 billion represent 54.5% of total revenues for governmental activities. This compares to \$14.8 billion in FY 2008 or 56.3% of total revenues in FY 2008. Program revenues accounted for \$11.8 billion or 45.0% of total revenues. In FY 2008, program revenues accounted for \$11.1 billion or 42.4% of total revenues. General revenues other than tax revenues

were \$132.4 million or 0.5% of total revenues. Of this \$91.3 million was investment earnings. This compares to 2008, when general revenues other than taxes were \$315.6 million or 1.2% of total revenues and \$239.4 million was investment earnings. Investment earnings decreased by \$148.1 million from FY 2008 to FY 2009 or 61.8% due to the decrease in interest rates.

Total revenues for governmental activities were broken down as follows:



PR = program revenues  
GR = general revenues

Total revenues were 100.1% of expenses which was a decrease from 102.8% in FY 2008. Total revenues grew 0.98% from \$26.1 billion in FY 2008 to \$26.4 billion in FY 2009. Expenses grew 3.8% from \$25.4 billion in FY 2008 to \$26.3 billion in FY 2009.

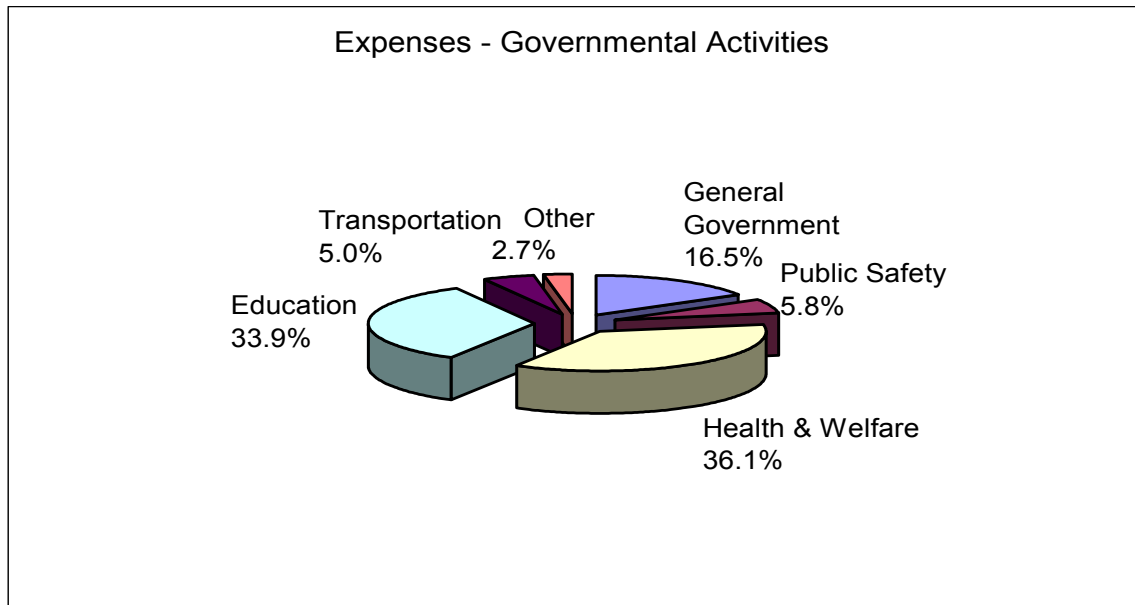
The largest portion of the State's expenses is Health and Welfare, which is \$9.5 billion, or 36.1% of total expenses. This compares with \$9.6 billion, or 37.8% of total expenses in FY 2008. The change in expenses was a decrease of \$67 million or -0.7%. Expenses remained stable due in large part to the federal stimulus fund expenditures. Some of the major expenses were Medicaid assistance including administration, \$6.1 billion and the federal food stamp program, \$1.1 billion.

Education comprises 33.9%, or \$8.9 billion, of the State's expenses. In FY 2008, Education accounted for 29.0%, or \$7.4 billion, of expenses. All but \$1.5 billion of this is funded from general revenues. Some of the

major expenses were tuition support, \$4.6 billion, State colleges and universities, \$1.5 billion, Teachers' Retirement Pension, \$602.5 million, \$544.0 million for K-12 and higher education from the ARRA of 2009 Fund, and the national school lunch program, \$227.0 million. Education expenditures increased significantly as compared to the prior year as a result of increases in General Fund and ARRA of 2009 Fund expenditures.

\$4.3 billion, or 16.4% of expenses, was spent for General Government. General Government comprised \$5.2 billion or 20.5% of expenses in FY 2008. General Government includes local distributions and money for State administration and those functions that serve the State as a whole. The exercise of restraint and prudent fiscal management in tough economic times were principal reasons that resulted in the decrease of General Government expenses.

Total expenses for governmental activities were broken down as follows:



### Business-type Activities

Business-type activities represent 4.6% of the Primary Government's revenues and 8.2% of the expenses. The Unemployment Compensation Fund accounts for 97.8% of business-type activities' operating revenues and 98.9% of operating expenses. The change in net assets for business-type activities was a decline of \$1.1 billion.

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

and the fund covers general and administrative expenses. Benefits and administrative expenses paid exceeded revenue in the fund by \$1.1 billion. This compares to FY 2008 when this fund's expenses exceeded revenue by \$41.1 million. Employer contributions into the fund increased by \$570.0 million, from \$653.8 million in FY 2008 to \$1,223.7 million in FY 2009. The decrease in net assets is due to the increase in benefits paid because of more Hoosiers receiving unemployment benefits.

Net Cost of Primary Government (in millions)			
	June 30, 2009	June 30, 2008	% change
<b>Governmental Activities:</b>			
General government	\$ 3,258.0	\$ 3,912.4	-16.7%
Public safety	799.7	711.1	12.5%
Health	133.2	141.7	-6.0%
Welfare	2,520.7	2,539.7	-0.7%
Conservation, culture, and development	263.6	162.4	62.3%
Education	7,402.2	6,513.2	13.6%
Transportation	90.6	318.4	-71.5%
Unallocated interest expense	0.7	0.7	0.0%
<b>Business-type Activities:</b>			
Unemployment Compensation Fund	1,107.0	57.6	1821.9%
Malpractice Insurance Authority	(4.3)	(5.5)	-21.8%
Inns and Concessions	1.7	1.4	21.4%
<b>TOTAL</b>	<b>\$ 15,573.1</b>	<b>\$ 14,353.1</b>	<b>8.5%</b>

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 note IV(B) in the Notes to the Financial Statements.

### 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, 2009 was \$1.5 billion, which is 50.5% of assets. This compares to a fund balance at June 30, 2008 of \$2.8 billion, which was 52.8% of assets. This indicates that the State's financial position in the General Fund decreased from the prior year by \$1.3 billion. The General Fund surplus balance no longer includes a reserve for tuition support because the State Tuition Reserve Fund, a non-major special revenue fund, was established per IC 4-12-1-15.7 to fund or meet revenue shortfalls for tuition support distributions under IC 20-43. The fund balance of \$1.5 billion is composed of reserves of \$73.7 million and unreserved of \$1.5 billion. Major reserves are:

- Encumbrances of \$33.0 million, which is money set aside to pay for future obligations.
- Loans of \$36.0 million, which consists of \$22.4 million in loans to entities outside the primary government and \$13.6 million in interfund loans.

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, 2009, the surplus balance was \$477.7 million. The balance decreased by \$935.4 million from the June 30, 2008 balance of \$1,413.1 million. This surplus balance is composed of:

- \$365.2 million rainy day fund, which is to assist in stabilizing revenue during periods of economic recession and is part of designated unreserved.
- \$54.9 million, which represents the excess of revenues over expenditures.
- \$57.6 million which represents the reserve for Medicaid.

The \$54.9 million is on a cash basis. Accrual adjustments of \$527.0 million reconcile this to the General Fund unreserved, undesignated fund balance on a GAAP basis of \$581.9 million. The unreserved, undesignated fund balance of \$581.9 million plus the

unreserved fund balance designated for appropriations of \$449.8 million, plus the unreserved fund balance designated for allotments of \$427.9 million give the total unreserved fund balance of \$1,459.6 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(B).

The General Fund's revenues increased 13.7%, or \$1.5 billion, from FY 2008, because sales tax revenues are now by law being deposited into the General Fund instead of the Property Tax Replacement Fund per P.L. 146-2008. Sales tax revenues into the General Fund increased \$2.3 billion, or 64.5% due to this switch in funds for receipting sales tax revenues. Income tax revenues decreased by \$693.5 million, or 12.1%, from FY 2008, which is explained by the State's increased unemployment rate.

General Fund expenditures increased \$1.6 billion, or 17.8%, from FY2008. The increase was due to an increase in general government expenditures of \$617.1 million and education expenditures of \$938.7 million. General government expenditures increased mainly because of the increase in property tax relief to counties. Education expenditures increased because of the increase in state funding in support of schools.

The General Fund had transfers in of \$2.6 billion compared to \$2.7 billion in FY 2008. Transfers out were \$5.7 billion compared to \$4.2 billion in FY 2008. More detail on these transfers can be found in the Notes to the Financial Statements IV(B).

Overall, the declined position of the General Fund in the amount of \$1.3 billion can be attributed to the decrease in income tax revenue of .7 billion and the increase in general government and education expenditures.

### 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 \$445.1 million in taxes vs. \$485.7 million in FY 2008. Current service charges, including vehicle licenses, decreased from \$135.0 million to \$122.0 million. This decrease continues to be the result of reduced driving by Indiana citizens due to high gas prices and from the credit given to citizens for online vehicle registrations. The fund distributed \$272.4

million to local units of government, \$212.4 million for public safety, and transferred \$327.2 million to other funds, which include the Department of Transportation and the Underground Petroleum Storage Tank Excess Liability Fund. These amounts compare to FY 2008 distributions of \$369.4 million to local units of government, \$230.7 million for public safety, and transfers of \$354.0 million to other funds. The change in fund balance from FY 2008 to FY 2009 was an increase of \$2.4 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 \$3.6 billion in Federal revenue as compared to \$4.1 billion in FY 2008. State funding comes through the \$1.8 billion of transfers in which was a decrease of \$105.4 million from FY 2008. Transfers out were \$329.4 million compared with \$151.9 million in FY 2008. The Fund distributed \$5.4 billion in Medicaid assistance as compared to \$6.5 billion in FY 2008. This decrease was due for the most part to new and increased funding and expenditures for Medicaid assistance under the ARRA of 2009 Fund. The change in fund balance decreased by \$15.9 million from FY 2008 to FY 2009.

### **Major Moves Construction Fund**

The Major Moves Construction Fund was created in fiscal year 2006 as part of the leasing of the Indiana Toll Road to Cintra-Mcquarie, a private company. This fund distributes money received from the Toll Road lease for new constructions and major preservation of highways and bridges throughout Indiana.

The Major Moves Construction Fund transferred \$399.0 million to the State Highway Department Fund. The fund received \$101.9 million in investment income and distributed \$10.0 million to the Northwest Indiana Regional Development Authority. The change in fund balance from FY 2008 to FY 2009 was a decline of \$311.7 million.

### **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 \$970.8 million in grants and received \$839.8 million in transfers in, which are taxes and revenues collected in other funds, compared with \$668.0 million and \$591.1 million in FY 2008, respectively. The fund expended \$1.9 billion during the year, compared with \$1.7 billion in FY 2008. The fund balance increased by \$30.7 million from FY 2008 to FY 2009. This increase is principally from the increase in

federal grants revenue.

### **Property Tax Replacement Fund**

The Property Tax Replacement Fund receives as transfers from other funds, 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 to the citizens. In FY 2009, the fund had zero revenues as compared to \$2.1 billion in sales tax revenues for FY 2008. This decrease was due to the reallocation of sales tax revenues from this fund to the General Fund per legislation.

The fund received transfers in of \$1.8 billion from the General Fund. Of this \$1.8 billion, \$1.5 billion was transferred pursuant to P.L. 146-2008, Section 852, effective January 1, 2009 and \$279.8 million was received in individual income taxes. This compares to FY 2008 tax transfers of \$1.2 billion from the General Fund. The fund received transfers in of \$188.6 million from the State Gaming Fund, as compared to \$582.9 million in FY 2008. This decrease is because starting in 2009 State Gaming Fund revenues are distributed instead to the General Fund.

The fund has a total transfer out for the year of \$999.4 million. Out of this amount, the fund transferred out \$848.2 million to the State Tuition Reserve Fund for tuition support per legislation. \$121.4 million was transferred to the Build Indiana Fund, in contrast to FY 2008 when \$80.4 million was transferred. The change in fund balance from FY 2008 to FY 2009 was a decline of \$119.2 million to zero out the balance of this fund as the use of this fund was terminated as of June 30, 2009 per P.L. 146-2008, Section 813.

### **ARRA of 2009 Fund**

The ARRA of 2009 Fund was created this fiscal year upon the American Recovery and Reinvestment Act of 2009 becoming law on February 17, 2009. The hope for ARRA of 2009 Fund spending is to stimulate the economy and create jobs. The exact amount of funding Indiana will receive is unknown, but we expect to receive approximately \$4.3 billion in increases to existing federal programs. Some of the areas with the largest projected increases of funding include Medicaid, Education, Infrastructure, Nutrition, and Weatherization.

The ARRA of 2009 Fund received \$996.6 million in federal grants revenues of which \$985.0 was expended. The largest expenditures were increases in spending for Education of \$544.0 million and for Welfare of \$425.6 million. The Welfare expenditures were for the Medicaid program. The Education expenditures primarily were for the State's fiscal stabilization fund which is earmarked for K-12 Education and Higher

Education.

The fund balance at the end of the fiscal year was \$11.6 million.

## General Fund Budgetary Highlights

Actual State General Fund revenue collections, normalized for the impact of House Enrolled Act 1001 (2008), decreased by \$962.9 million or 7.4% in FY 2009. The budget enacted in May 2007 appropriated 3.4% more General Fund dollars for FY 2009 over FY 2008. Administrative actions taken by Governor Daniels in addition to the use of American Recovery and Reinvestment Act (ARRA) funds reduced actual expenditure growth (general fund only) to -0.9% in FY 2009 over FY 2008, enabling the State to close the books with a balanced budget for the fourth consecutive year. Expenditure growth has averaged less than 2.4% over the past five years in comparison to growth of nearly 5.9% between FY 1996 and FY 2004. Final budgeted expenditures for the General Fund were less

than the originally budgeted expenditures due to the Governor's actions to control spending.

At year-end, the State had \$1.4 billion in reserves. The reserves consist of \$57.6 million in Medicaid Reserves, \$941.7 million in Tuition Support Reserves, \$365.2 million in the Rainy Day Fund, and \$54.9 million in General Fund working balance. The reserves were \$1.3 billion after accounting for a \$90 million liability from property tax replacement and homestead credits. At the close of FY 2009, all payment delays had been repaid.

## Capital Asset and Debt Administration

### Capital Assets

Capital assets were \$11.4 billion, which was 49.9% 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 \$10.2 billion. Related debt was 11.1% of capital assets. Total capital assets increased by \$731.8 million or 6.8% and is mainly attributable to increases in the Indiana Department of Transportation's land, infrastructure, and construction in progress. INDOT's capital assets increase of \$731.3

million accounted for 99.9% of the total increase in capital assets. Construction in progress consisting of right of way and work in progress increased \$518.4 million, infrastructure consisting of interstate roads, non-interstate roads, and bridges increased \$139.8 million, and land increased by \$73.1 million. 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 2008 to fiscal year 2009.

State of Indiana Capital Assets (in millions of dollars)							
	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2009	2008	2009	2008	2009	2008	
Land	\$ 1,396.7	\$ 1,318.4	\$ -	\$ -	\$ 1,396.7	\$ 1,318.4	5.9%
Infrastructure	7,902.7	7,762.9	-	-	7,902.7	7,762.9	1.8%
Construction in Progress	1,281.5	749.1	-	3.1	1,281.5	752.2	70.4%
Property, plant and equipment	1,873.7	1,863.1	26.8	22.8	1,900.5	1,885.9	0.8%
Less accumulated depreciation	(1,019.8)	(990.5)	(12.3)	(12.2)	(1,032.1)	(1,002.7)	2.9%
<b>Total</b>	<b>\$ 11,434.8</b>	<b>\$ 10,703.0</b>	<b>\$ 14.5</b>	<b>\$ 13.7</b>	<b>\$ 11,449.3</b>	<b>\$ 10,716.7</b>	<b>6.8%</b>

## Long-term Obligations

Major long-term obligations items are included in the following table. These items comprised 100%

of total long-term liabilities and 40.6% of total liabilities.

The following table shows the percentage change from fiscal year 2008 to fiscal year 2009.

State of Indiana Long-term Liabilities (in millions of dollars)							
	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2009	2008	2009	2008	2009	2008	
Accrued liability for							
compensated absences	\$ 67.1	\$ 67.9	\$ 0.3	\$ 0.2	\$ 67.4	\$ 68.1	-1.0%
Intergovernmental payable	50.0	60.0	-	-	50.0	60.0	-16.7%
Capital lease payable	1,242.9	1,280.4	-	-	1,242.9	1,280.4	-2.9%
Claims payable	-	-	42.5	47.0	42.5	47.0	-9.6%
Net pension obligations	957.5	1,076.0	-	-	957.5	1,076.0	-11.0%
Other postemployment benefits	71.8	35.7	-	-	71.8	35.7	101.1%
Pollution remediation	52.1	-	-	-	52.1	-	N/A
Due to component units	50.0	50.0	-	-	50.0	50.0	0.0%
<b>Total</b>	<b>\$ 2,491.4</b>	<b>\$ 2,570.0</b>	<b>\$ 42.8</b>	<b>\$ 47.2</b>	<b>\$ 2,534.2</b>	<b>\$ 2,617.2</b>	<b>-3.2%</b>

Total long-term liabilities decreased by 3.2% or \$83.0 million. Significant decreases were in net pension obligations of \$118.5 million and capital leases payable of \$37.5 million.

The significant decrease in net pension obligations is because of the removal of the PERF-Municipal's NPO as a liability since the State of Indiana is not responsible for the funding of this plan's pension benefits.

The decrease in capital leases payable is made up in large part from a decrease of \$35.7 million in the direct financing lease with the Highway Revenue Bonds Fund of the Indiana Finance Authority. We had other capital leases that decreased by \$1.8 million.

The \$10.0 million decrease in intergovernmental payables resulted from a distribution for infrastructure projects under the Major Moves Construction Fund.

Due to the implementation of GASB 49, we are

reporting for the first time a long term liability for pollution remediation of \$52.1 million.

Other postemployment benefits increased \$36.1 million in the second year of reporting under GASB 45. This increase in OPEB liability is based on an interim OPEB financial report for the fiscal year ending June 30, 2009. The June 30, 2007 actuarial valuation (most recent) was used and then projected to June 30, 2008 with adjustments for known experience for the period ending June 30, 2009.

Claims payable for business activities decreased by \$4.5 million. This was the amount of decrease in claims payable for the Indiana Residual Malpractice Insurance Authority.

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 \$7.9 billion in roads and bridges using the modified approach, \$1.2 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 23,000 lane miles of roads and approximately 5,191 bridges that the State is responsible to maintain.

The State has consistently maintained the assessed conditions of roads over the past eight 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 2009, indicated that the average PQI for roads exceeded the minimum acceptable standard.

The State has maintained the assessed conditions of

## Economic Factors

The economic and revenue forecasts upon which the FY 2010 – FY 2011 state budget was based were presented to the State Budget Committee on May 27, 2009. Real Gross Domestic Product was forecasted to decrease by 1.66% in FY 2009 and another 1.16% in FY 2010, and then to increase by 2.76% in FY 2011. Nominal Indiana nonfarm personal income was forecasted to increase by 1.12% in FY 2009, and then to decrease by 0.60% in FY 2010 before increasing by 2.28% in FY 2011.

The May 27, 2009 forecast introduced three new

## Contacting the Auditor of State

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have

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 2009, indicated that the average sufficiency rating for bridges exceeded the minimum acceptable standard.

INDOT's total actual maintenance and preservation costs for infrastructure presented as required supplementary information were higher than the total planned (needed) amount. However, actual maintenance and preservation costs for interstate roads, interstate bridges, NHS-bridges, non-interstate, and non-NHS bridges were lower than their planned amounts. This is because the planned amounts are estimates and INDOT's construction budget was decreased 8%.

economic variables to more accurately capture how state revenues track the economy: (1) Wages and salary disbursements were forecasted to decrease by 0.87% in FY 2009 and another 1.93% in FY 2010, and then to increase by 1.79% in FY 2011, (2) Household financial assets were forecasted to decrease by 15.3% in FY 2009, and then to increase by 3.47% in FY 2010 and 8.99% in FY 2011, and (3) Personal consumption expenditures were forecasted to increase by 0.52% in FY 2009, by 0.96% in FY 2010, and by 3.80% in FY 2011.

questions about this report or need additional financial information, contact the Auditor of State, Room 240 State House, 200 West Washington Street, Indianapolis, Indiana 46204-2793, telephone (317) 232-3300.

# BASIC FINANCIAL STATEMENTS



**GOVERNMENT-WIDE  
FINANCIAL  
STATEMENTS**

**State of Indiana**  
**Statement of Net Assets**  
**June 30, 2009**  
(amounts expressed in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets:</b>				
Current assets:				
Cash, cash equivalents and investments	\$ 6,919,643	\$ 90,269	\$ 7,009,912	\$ 3,607,173
Securities lending collateral	1,143,229	-	1,143,229	430,292
Receivables (net)	2,482,891	82,342	2,565,233	708,822
Inventory	6,409	607	7,016	17,392
Prepaid expenses	4,857	49	4,906	25,577
Loans	67,428	-	67,428	-
Intergovernmental loans	-	-	-	815,679
Due from component unit	32,258	-	32,258	-
Investment in direct financing lease	-	-	-	56,643
Funds held in trust by others	-	-	-	78,029
Other postemployment benefits	-	-	-	7,442
Other current assets	-	-	-	91,305
<b>Total current assets</b>	<b>10,656,715</b>	<b>173,267</b>	<b>10,829,982</b>	<b>5,838,354</b>
Noncurrent assets:				
Cash, cash equivalents and investments - restricted	-	-	-	2,166,971
Taxes, interest, and penalties receivable	253,578	-	253,578	5,117
Pollution remediation recovery	5,217	-	5,217	-
Other receivables	2,051	-	2,051	4,859,877
Investments - unrestricted	-	-	-	3,537,257
Loans	424,794	-	424,794	-
Bond issuance costs net of amortization	-	-	-	48,999
Intergovernmental loans	-	-	-	1,813,270
Due from primary government	-	-	-	50,000
Investment in direct financing lease	-	-	-	2,054,022
Net pension assets	83,773	-	83,773	89
Other postemployment benefits	-	-	-	1,413
Other noncurrent assets	-	-	-	57,295
Capital assets:				
Land	1,396,659	-	1,396,659	421,567
Infrastructure	7,902,729	-	7,902,729	616,000
Construction in progress	1,281,535	-	1,281,535	934,675
Property, plant, and equipment	1,873,680	26,812	1,900,492	9,416,131
Less accumulated depreciation	(1,019,761)	(12,287)	(1,032,048)	(4,186,806)
Total capital assets, net of depreciation	11,434,842	14,525	11,449,367	7,201,567
<b>Total noncurrent assets</b>	<b>12,204,255</b>	<b>14,525</b>	<b>12,218,780</b>	<b>21,795,877</b>
<b>Total assets</b>	<b>22,860,970</b>	<b>187,792</b>	<b>23,048,762</b>	<b>27,634,231</b>
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable	1,088,355	542	1,088,897	381,350
Claim payable	-	3,221	3,221	13,664
Interest payable	-	-	-	139,339
Current portion of long-term debt	-	-	-	1,503,022
Line of credit	-	-	-	350,000
Intergovernmental payable	125,035	-	125,035	-
Due to primary government	-	-	-	32,258
Leases payable	43,209	-	43,209	1,261
Accrued prize liability	-	-	-	52,175
Salaries, health, disability, and benefits payable	134,409	508	134,917	27,265
Tax refunds payable	83,039	-	83,039	-
Unearned revenue	5,302	5,741	11,043	284,557
Accrued liability for compensated absences	80,186	198	80,384	67,837
Due to federal government (net)	-	904,944	904,944	-
Pollution remediation payable	14,609	-	14,609	-
Securities lending payable	6,076	-	6,076	-
Securities lending collateral	1,143,229	-	1,143,229	430,292
Deposits held in custody for others	-	-	-	67,454
Other current liabilities	37	525	562	66,872
<b>Total current liabilities</b>	<b>2,723,486</b>	<b>915,679</b>	<b>3,639,165</b>	<b>3,417,346</b>

**State of Indiana**  
**Statement of Net Assets**  
**June 30, 2009**  
(amounts expressed in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Long-term liabilities:				
Accrued liability for compensated absences	\$ 67,086	\$ 310	\$ 67,396	\$ 66,422
Claims payable	-	42,483	42,483	-
Intergovernmental payable	50,000	-	50,000	-
Accrued prize liability	-	-	-	100,850
Net pension obligations	957,499	-	957,499	-
Other postemployment benefits	71,831	-	71,831	27,557
Pollution remediation payable	52,068	-	52,068	4,289
Due to component unit	50,000	-	50,000	-
Unearned revenue	-	-	-	3,593,646
Leases payable	1,242,898	-	1,242,898	2,730
Funds held in trust for others	-	-	-	146,719
Advances from federal government	-	-	-	34,968
Revenue bonds/notes payable	-	-	-	11,767,201
Other noncurrent liabilities	-	-	-	98,317
Total long-term liabilities	2,491,382	42,793	2,534,175	15,842,699
<b>Total liabilities</b>	<b>5,214,868</b>	<b>958,472</b>	<b>6,173,340</b>	<b>19,260,045</b>
<b>Net Assets:</b>				
Invested in capital assets net of related debt	10,148,735	14,525	10,163,260	3,501,924
Restricted-nonexpendable:				
Grants/constitutional restrictions	-	-	-	9,031
Permanent funds	1,094,864	-	1,094,864	19,088
Future debt service	-	-	-	163,704
Instruction and research	-	-	-	213,252
Student aid	-	-	-	197,481
Other purposes	-	-	-	28,486
Total restricted-nonexpendable	1,094,864	-	1,094,864	631,042
Restricted-expendable:				
Instruction and research	-	-	-	444,089
Grants/constitutional restrictions	228,723	-	228,723	18,879
Endowments	-	-	-	296,880
Future debt service	-	-	-	205,236
Pension fund distribution	-	-	-	8,239
Public safety programs	-	-	-	8,027
Student aid	-	-	-	601,673
Auxiliary enterprises	-	-	-	7,126
Capital projects	-	-	-	259,752
Water pollution and drinking water projects	-	-	-	1,003,399
Other purposes	-	-	-	91,815
Total restricted-expendable	228,723	-	228,723	2,945,115
Unrestricted	6,173,780	(785,205)	5,388,575	1,296,105
<b>Total net assets</b>	<b>\$ 17,646,102</b>	<b>\$ (770,680)</b>	<b>\$ 16,875,422</b>	<b>\$ 8,374,186</b>

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, 2009**  
(amounts expressed in thousands)

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets					
	Primary Government		Business-type		Total	
	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Units
<b>Primary government:</b>						
General government activities:						
General government	\$ 4,321,592	\$ 684,486	\$ 377,217	\$ 1,870	\$ (3,258,019)	\$ -
Public safety	1,527,879	4,133,815	294,859	19,527	(799,678)	(799,678)
Health	371,212	7,362	230,652	-	(133,198)	(133,198)
Welfare	9,150,207	45,226	6,584,331	-	(2,520,650)	(2,520,650)
Conservation, culture and development	722,506	172,351	286,594	-	(263,561)	(263,561)
Education	8,929,055	4,518	1,522,295	-	(7,402,242)	(7,402,242)
Transportation	1,324,487	36,088	1,197,755	-	(90,644)	(90,644)
Unallocated interest expense	732	-	-	-	(732)	(732)
Total governmental activities	26,347,670	1,363,846	10,493,703	21,397	(14,468,724)	(14,468,724)
<b>Business-type activities:</b>						
Unemployment Compensation Fund	2,341,269	1,223,731	10,523	-	-	(1,107,015)
Malpractice Insurance Authority	1,070	5,418	-	-	-	4,348
Inns and Concessions	24,449	22,767	-	-	(1,682)	(1,682)
Total business-type activities	2,366,788	1,251,916	10,523	-	(1,104,349)	(1,104,349)
<b>Total primary government</b>	<b>\$ 28,714,458</b>	<b>\$ 2,615,762</b>	<b>\$ 10,504,226</b>	<b>\$ 21,397</b>	<b>(14,468,724)</b>	<b>(15,573,073)</b>
<b>Component units:</b>						
Proprietary	1,854,609	1,327,939	543,171	4,501	-	21,002
Colleges and universities	5,600,454	2,802,035	1,005,605	60,161	-	(1,732,655)
Total component units	\$ 7,455,063	\$ 4,129,974	\$ 1,548,776	\$ 64,662	\$ -	\$ (1,711,651)
<b>General Revenues:</b>						
Income tax					5,135,398	-
Sales tax					6,146,378	-
Fuels tax					763,994	-
Gaming tax					880,491	-
Inheritance tax					183,214	-
Alcohol & Tobacco tax					540,201	-
Insurance tax					187,329	-
Financial Institutions tax					26,264	-
Other tax					506,699	-
Total taxes					14,369,968	-
Revenue not restricted to specific programs					-	-
Investment earnings					91,331	97,591
Payments from State of Indiana					6,260	(477,485)
Other					-	1,488,043
Transfers within primary government					41,116	403,047
Other					(2,113)	-
<b>Total general revenues and transfers</b>					14,500,302	1,413,605
Changes in net assets					31,578	(298,046)
Net assets - beginning, as restated					(1,064,398)	-
Net assets - ending					17,614,524	8,672,232
<b>Net assets - ending</b>					\$ 17,646,102	\$ 8,374,186

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, 2009**  
(amounts expressed in thousands)

	<u>General Fund</u>	<u>Motor Vehicle Highway Fund</u>	<u>Medicaid Assistance Fund</u>	<u>Major Moves Construction Fund</u>
<b>Assets:</b>				
Cash, cash equivalents and investments-unrestricted	\$ 737,747	\$ 4,152	\$ 80,763	\$ 2,262,605
Securities lending collateral	580,571	-	-	258,217
Receivables:				
Taxes (net of allowance for uncollectible accounts)	1,647,688	17,893	-	-
Securities lending	3,174	-	-	1,436
Accounts	20,550	-	173	-
Grants	4,679	42	239,643	-
Interest	3,947	-	-	-
Interfund loans	13,558	39,913	-	-
Due from component unit	201	-	-	-
Prepaid expenditures	11	1	-	-
Loans	22,896	-	-	-
	<u>3,035,022</u>	<u>62,001</u>	<u>320,579</u>	<u>2,522,258</u>
Total assets	<u>\$ 3,035,022</u>	<u>\$ 62,001</u>	<u>\$ 320,579</u>	<u>\$ 2,522,258</u>
<b>Liabilities:</b>				
Accounts payable	\$ 116,275	\$ 2,329	\$ 339,942	\$ 21
Salaries and benefits payable	42,865	7,079	-	-
Interfund loans	-	-	-	-
Interfund services used	3,579	322	-	-
Intergovernmental payable	41,243	19,276	-	-
Tax refunds payable	78,885	-	-	-
Deferred revenue	632,336	7,223	-	-
Accrued liability for compensated absences-current	2,795	86	-	-
Pollution remediation payable	-	-	-	-
Securities lending payable	3,174	-	-	1,436
Securities lending collateral	580,571	-	-	258,217
	<u>1,501,723</u>	<u>36,315</u>	<u>339,942</u>	<u>259,674</u>
Total liabilities	<u>1,501,723</u>	<u>36,315</u>	<u>339,942</u>	<u>259,674</u>
<b>Fund balance:</b>				
Reserved:				
Encumbrances	33,049	5,352	-	-
Special purposes	-	-	-	-
Tuition support	-	-	-	-
Interfund loans	13,558	39,913	-	-
Long-term loans and advances	22,396	-	-	-
Restricted purposes	4,679	42	20,043	-
Unreserved:				
Unreserved fund balance reported in:				
General fund	1,459,617	-	-	-
Special revenue funds	-	(19,621)	(39,406)	2,262,584
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
	<u>1,533,299</u>	<u>25,686</u>	<u>(19,363)</u>	<u>2,262,584</u>
Total fund balances	<u>1,533,299</u>	<u>25,686</u>	<u>(19,363)</u>	<u>2,262,584</u>
<b>Total liabilities and fund balances</b>	<u>\$ 3,035,022</u>	<u>\$ 62,001</u>	<u>\$ 320,579</u>	<u>\$ 2,522,258</u>

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

<u>State Highway Department Fund</u>	<u>Property Tax Replacement Fund</u>	<u>ARRA of 2009 Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total</u>
\$ 174,686	\$ -	\$ 6,708	\$ 3,534,014	\$ 6,800,675
3,500	-	-	300,941	1,143,229
1	-	-	192,947	1,858,529
11	-	-	1,455	6,076
566	-	-	43,814	65,103
57,487	-	41,200	186,370	529,421
1	-	-	96	4,044
-	-	-	-	53,471
-	-	-	32,057	32,258
-	-	-	8	20
9,609	-	-	459,718	492,223
<u>\$ 245,861</u>	<u>\$ -</u>	<u>\$ 47,908</u>	<u>\$ 4,751,420</u>	<u>\$ 10,985,049</u>
\$ 26,909	\$ -	\$ 35,261	200,707	\$ 721,444
9,499	-	1,083	32,295	92,821
-	-	-	53,471	53,471
423	-	-	6,165	10,489
-	-	-	54,516	115,035
-	-	-	4,154	83,039
565	-	-	57,752	697,876
832	-	-	2,323	6,036
-	-	-	212	212
11	-	-	1,455	6,076
3,500	-	-	300,941	1,143,229
<u>41,739</u>	<u>-</u>	<u>36,344</u>	<u>713,991</u>	<u>2,929,728</u>
1,497,959	-	217,888	199,588	1,953,836
-	-	-	4,768	4,768
-	-	-	941,719	941,719
-	-	-	-	53,471
9,524	-	-	444,238	476,158
57,487	-	1,892	144,580	228,723
-	-	-	-	1,459,617
(1,360,848)	-	(208,216)	1,555,564	2,190,057
-	-	-	85,468	85,468
-	-	-	661,504	661,504
<u>204,122</u>	<u>-</u>	<u>11,564</u>	<u>4,037,429</u>	<u>8,055,321</u>
<u>\$ 245,861</u>	<u>\$ -</u>	<u>\$ 47,908</u>	<u>\$ 4,751,420</u>	<u>\$ 10,985,049</u>

**State of Indiana**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
**June 30, 2009**  
(amounts expressed in thousands)

**Total fund balances-governmental funds** \$ 8,055,321

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	\$ 1,396,659	
Infrastructure assets	7,902,729	
Construction in progress	1,281,458	
Property, plant, and equipment	1,821,270	
Accumulated depreciation	<u>(988,868)</u>	
Total capital assets, net of depreciation		11,413,248

The State's pension funds have net pension assets not reported as assets in the funds. 83,773

Some of the state's receivables 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.

Taxes receivable	\$ 692,575	
Accounts receivable	<u>84,256</u>	
		776,831

Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Accounts payable	\$ (236,215)	
Salaries, health, disability and benefits payable	(845)	
Pollution remediation	<u>(61,248)</u>	
		(298,308)

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. 109,092

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	(137,356)	
Other postemployment benefits	(71,831)	
Loan from the Indiana Board for Depositories	(50,000)	
Capital lease payable	(1,277,169)	
Net pension obligations	<u>(957,499)</u>	
Total long-term liabilities		<u>(2,493,855)</u>

**Net assets of governmental activities** \$ 17,646,102

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



**State of Indiana**  
**Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2009**  
(amounts expressed in thousands)

	<u>General Fund</u>	<u>Motor Vehicle Highway Fund</u>	<u>Medicaid Assistance Fund</u>	<u>Major Moves Construction Fund</u>
<b>Revenues:</b>				
Taxes:				
Income	\$ 5,035,065	\$ -	\$ -	\$ -
Sales	6,009,729	-	-	-
Fuels	-	445,112	-	-
Gaming	83,723	-	-	-
Inheritance	183,216	-	-	-
Alcohol and tobacco	334,985	-	-	-
Insurance	182,933	-	-	-
Financial Institutions	-	-	-	-
Other	240,430	-	-	-
Total taxes	<u>12,070,081</u>	<u>445,112</u>	<u>-</u>	<u>-</u>
Current service charges	185,912	122,032	110,154	-
Investment income	95,134	-	-	101,880
Sales/rents	1,804	7	-	-
Grants	12,942	17,465	3,602,154	-
Other	39,312	30,070	143,397	-
	<u>12,405,185</u>	<u>614,686</u>	<u>3,855,705</u>	<u>101,880</u>
<b>Expenditures:</b>				
Current:				
General government	2,144,038	272,367	-	-
Public safety	714,838	212,394	-	-
Health	67,140	112	-	-
Welfare	307,186	-	5,362,763	-
Conservation, culture and development	88,026	-	-	-
Education	7,227,174	271	-	-
Transportation	2,187	2,301	-	14,705
	<u>10,550,589</u>	<u>487,445</u>	<u>5,362,763</u>	<u>14,705</u>
Excess (deficiency) of revenues over expenditures	<u>1,854,596</u>	<u>127,241</u>	<u>(1,507,058)</u>	<u>87,175</u>
<b>Other financing sources (uses):</b>				
Transfers in	2,550,671	202,329	1,820,551	-
Transfers (out)	(5,672,367)	(327,207)	(329,435)	(399,000)
Proceeds from capital lease	77	-	-	-
	<u>(3,121,619)</u>	<u>(124,878)</u>	<u>1,491,116</u>	<u>(399,000)</u>
<b>Net change in fund balances</b>	<b>(1,267,023)</b>	<b>2,363</b>	<b>(15,942)</b>	<b>(311,825)</b>
<b>Fund Balance July 1, as restated</b>	<b>2,800,322</b>	<b>23,323</b>	<b>(3,421)</b>	<b>2,574,409</b>
<b>Fund Balance June 30</b>	<b><u>\$ 1,533,299</u></b>	<b><u>\$ 25,686</u></b>	<b><u>\$ (19,363)</u></b>	<b><u>\$ 2,262,584</u></b>

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

<u>State Highway Department Fund</u>	<u>Property Tax Replacement Fund</u>	<u>ARRA OF 2009 Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 139,210	\$ 5,174,275
-	-	-	145,992	6,155,721
4	-	-	327,497	772,613
-	-	-	796,781	880,504
-	-	-	-	183,216
-	-	-	205,115	540,100
-	-	-	4,396	187,329
-	-	-	16,025	16,025
-	-	-	275,281	515,711
4	-	-	1,910,297	14,425,494
1,422	-	-	1,092,089	1,511,609
245	-	-	310	197,569
2,239	-	-	16,319	20,369
970,755	-	996,614	3,859,787	9,459,717
89,212	-	-	446,780	748,771
<u>1,063,877</u>	<u>-</u>	<u>996,614</u>	<u>7,325,582</u>	<u>26,363,529</u>
1,055	1,020,134	-	890,398	4,327,992
-	-	-	581,730	1,508,962
-	-	-	306,257	373,509
-	-	425,584	2,880,958	8,976,491
-	-	3,479	572,968	664,473
-	-	543,958	1,188,079	8,959,482
1,857,907	-	12,023	219,889	2,109,012
<u>1,858,962</u>	<u>1,020,134</u>	<u>985,044</u>	<u>6,640,279</u>	<u>26,919,921</u>
<u>(795,085)</u>	<u>(1,020,134)</u>	<u>11,570</u>	<u>685,303</u>	<u>(556,392)</u>
839,846	2,019,620	-	3,143,376	10,576,393
(19,473)	(999,486)	(6)	(2,822,931)	(10,569,905)
5,454	-	-	127	5,658
<u>825,827</u>	<u>1,020,134</u>	<u>(6)</u>	<u>320,572</u>	<u>12,146</u>
30,742	-	11,564	1,005,875	(544,246)
173,380	-	-	3,031,554	8,599,567
<u>\$ 204,122</u>	<u>\$ -</u>	<u>\$ 11,564</u>	<u>\$ 4,037,429</u>	<u>\$ 8,055,321</u>

**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, 2009**  
(amounts expressed in thousands)

Net change in fund balances-total governmental funds	\$ (544,246)
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.	731,308
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 net capital outlays (\$60,273) exceeds depreciation (\$59,546) in the current period.	727
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Tax revenue	(49,526)
Non-tax revenue	(27,438)
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.	
Operating expenses	(130,156)
Statutory expenses	10,000
Amounts due to component units	33,391
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.	31,028
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	14,114
Decrease in net pension obligations	6,868
The change in other postemployment benefits do not provide or require the use of current financial resources.	(36,086)
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 internal service funds is reported with governmental activities.	(8,407)
Change in net assets of governmental activities.	<u>\$ 31,578</u>

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



**State of Indiana**  
**Statement of Fund Net Assets**  
**Proprietary Funds**  
**June 30, 2009**

(amounts expressed in thousands)

	<u>Unemployment Compensation Fund</u>	<u>Non-Major Enterprise Funds</u>	<u>Total</u>	<u>Internal Service Funds</u>
<b>Assets</b>				
Current assets:				
Cash, cash equivalents and investments - unrestricted	\$ 20,918	\$ 69,351	\$ 90,269	\$ 118,968
Receivables:				
Accounts	76,297	826	77,123	7,047
Interest	-	732	732	-
Grants	4,487	-	4,487	-
Interfund services provided	-	-	-	10,489
Inventory	-	607	607	6,409
Prepaid expenses	-	49	49	4,857
Total current assets	<u>101,702</u>	<u>71,565</u>	<u>173,267</u>	<u>147,770</u>
Noncurrent assets:				
Capital assets:				
Construction in progress	-	-	-	77
Property, plant, and equipment	-	26,812	26,812	52,410
Less accumulated depreciation	-	(12,287)	(12,287)	(30,893)
Total capital assets, net of depreciation	<u>-</u>	<u>14,525</u>	<u>14,525</u>	<u>21,594</u>
Total noncurrent assets	<u>-</u>	<u>14,525</u>	<u>14,525</u>	<u>21,594</u>
<b>Total assets</b>	<b><u>101,702</u></b>	<b><u>86,090</u></b>	<b><u>187,792</u></b>	<b><u>169,364</u></b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	-	542	542	6,653
Claims payable	-	3,221	3,221	-
Salaries and benefits payable	-	508	508	1,448
Capital lease payable	-	-	-	275
Health/disability benefits payable	-	-	-	39,295
Accrued liability for compensated absences	-	198	198	2,037
Due to federal government (net)	904,944	-	904,944	-
Interfund services used	-	-	-	20
Deferred revenue	-	5,741	5,741	1
Other liabilities	-	525	525	37
Total current liabilities	<u>904,944</u>	<u>10,735</u>	<u>915,679</u>	<u>49,766</u>
Noncurrent liabilities:				
Accrued liability for compensated absences	-	310	310	1,843
Capital lease payable	-	-	-	8,663
Claims payable	-	42,483	42,483	-
Total noncurrent liabilities	<u>-</u>	<u>42,793</u>	<u>42,793</u>	<u>10,506</u>
<b>Total liabilities</b>	<b><u>904,944</u></b>	<b><u>53,528</u></b>	<b><u>958,472</u></b>	<b><u>60,272</u></b>
<b>Net assets</b>				
Invested in capital assets net of related debt	-	14,525	14,525	12,657
Unrestricted	<u>(803,242)</u>	<u>18,037</u>	<u>(785,205)</u>	<u>96,435</u>
<b>Total net assets</b>	<b><u>\$ (803,242)</u></b>	<b><u>\$ 32,562</u></b>	<b><u>\$ (770,680)</u></b>	<b><u>\$ 109,092</u></b>

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, 2009**

(amounts expressed in thousands)

	Unemployment Compensation Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
<b>Operating revenues:</b>				
Sales/rents/premiums	\$ -	\$ 27,949	\$ 27,949	\$ 521,129
Employer contributions	1,223,731	-	1,223,731	-
Charges for services	-	-	-	1,193
Other	-	236	236	997
<b>Total operating revenues</b>	<b>1,223,731</b>	<b>28,185</b>	<b>1,251,916</b>	<b>523,319</b>
Cost of sales	-	4,175	4,175	23,554
<b>Gross margin</b>	<b>1,223,731</b>	<b>24,010</b>	<b>1,247,741</b>	<b>499,765</b>
<b>Operating expenses:</b>				
General and administrative expense	6,711	20,368	27,079	138,695
Claims expense	-	243	243	-
Health / disability benefit payments	-	-	-	342,971
Unemployment compensation benefits	2,334,558	-	2,334,558	-
Depreciation and amortization	-	635	635	7,605
Other	-	98	98	-
<b>Total operating expenses</b>	<b>2,341,269</b>	<b>21,344</b>	<b>2,362,613</b>	<b>489,271</b>
<b>Operating income (loss)</b>	<b>(1,117,538)</b>	<b>2,666</b>	<b>(1,114,872)</b>	<b>10,494</b>
<b>Nonoperating revenues (expenses):</b>				
Interest and other investment income	2,719	3,541	6,260	1
Interest and other investment expense	-	-	-	(732)
Gain (Loss) on disposition of assets	-	-	-	(2,296)
Other	10,523	-	10,523	(7,273)
<b>Total nonoperating revenues (expenses)</b>	<b>13,242</b>	<b>3,541</b>	<b>16,783</b>	<b>(10,300)</b>
<b>Income before contributions and transfers</b>	<b>(1,104,296)</b>	<b>6,207</b>	<b>(1,098,089)</b>	<b>194</b>
Transfers in	-	2,113	2,113	14,129
Transfers (out)	-	-	-	(22,730)
<b>Change in net assets</b>	<b>(1,104,296)</b>	<b>8,320</b>	<b>(1,095,976)</b>	<b>(8,407)</b>
<b>Total net assets, July 1, as restated</b>	<b>301,054</b>	<b>24,242</b>	<b>325,296</b>	<b>117,499</b>
<b>Total net assets, June 30</b>	<b>\$ (803,242)</b>	<b>\$ 32,562</b>	<b>\$ (770,680)</b>	<b>\$ 109,092</b>

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, 2009**

(amounts expressed in thousands)

	Unemployment Compensation Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
<b>Cash flows from operating activities:</b>				
Cash received from customers	\$ 849,033	\$ 27,615	\$ 876,648	\$ 524,284
Cash paid for general and administrative	(6,711)	(20,264)	(26,975)	(138,406)
Cash paid for salary/health/disability benefit payments	-	-	-	(340,977)
Cash paid to suppliers	-	(4,174)	(4,174)	(27,724)
Cash paid for claims expense	(1,967,608)	(4,250)	(1,971,858)	-
Net cash provided (used) by operating activities	(1,125,286)	(1,073)	(1,126,359)	17,177
<b>Cash flows from noncapital financing activities:</b>				
Transfers in	-	-	-	14,205
Transfers out	-	-	-	(22,730)
Loan from federal government	1,271,906	-	1,271,906	-
Repayment of loan from federal government	(366,961)	-	(366,961)	-
Other	11,564	-	11,564	(7,637)
Net cash provided (used) by noncapital financing activities	916,509	-	916,509	(16,162)
<b>Cash flows from capital and related financing activities:</b>				
Acquisition/construction of capital assets	-	(1,486)	(1,486)	(9,391)
Proceeds from sale of assets	-	-	-	84
Principal payments -- capital leases	-	-	-	(259)
Capital contributions	-	2,114	2,114	-
Interest paid	-	-	-	(721)
Net cash provided (used) by capital and related financing activities	-	628	628	(10,287)
<b>Cash flows from investing activities:</b>				
Proceeds from sales of investments	-	8,000	8,000	-
Purchase of investments	-	(11,648)	(11,648)	-
Interest income (expense) on investments	2,719	2,761	5,480	1
Net cash provided (used) by investing activities	2,719	(887)	1,832	1
<b>Net increase (decrease) in cash and cash equivalents</b>	(206,058)	(1,332)	(207,390)	(9,271)
<b>Cash and cash equivalents, July 1</b>	226,976	6,459	233,435	128,239
<b>Cash and cash equivalents, June 30</b>	<u>\$ 20,918</u>	<u>\$ 5,127</u>	<u>\$ 26,045</u>	<u>\$ 118,968</u>
<b>Reconciliation of cash , cash equivalents and investments:</b>				
Cash and cash equivalents unrestricted at end of year	\$ 20,918	\$ 5,127	\$ 26,045	\$ 118,968
Investments unrestricted	-	64,224	64,224	-
<b>Cash, cash equivalents and investments per balance sheet</b>	<u>\$ 20,918</u>	<u>\$ 69,351</u>	<u>\$ 90,269</u>	<u>\$ 118,968</u>
<b>Noncash investing, capital and financing activities:</b>				
Increase in fair value of investments	\$ -	\$ 736	\$ 736	\$ -

**State of Indiana**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June**  
**30, 2009**

(amounts expressed in thousands)

	<b>Unemployment Compensation Fund</b>	<b>Non-Major Enterprise Funds</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ (1,117,538)	\$ 2,666	\$ (1,114,872)	\$ 10,494
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation/amortization expense	-	635	635	7,605
(Increase) decrease in receivables	(7,737)	119	(7,618)	669
(Increase) decrease in interfund services provided	-	-	-	792
(Increase) decrease in inventory	-	-	-	766
(Increase) decrease in prepaid expenses	-	(4)	(4)	(901)
(Increase) decrease in claims payable	-	(4,007)	(4,007)	-
Increase (decrease) in health and disability benefits payable	-	-	-	1,992
Increase (decrease) in accounts payable	(11)	(36)	(47)	(3,980)
Increase (decrease) in deferred revenue	-	(696)	(696)	(495)
Increase (decrease) in salaries payable	-	57	57	60
Increase (decrease) in compensated absences	-	86	86	178
Increase (decrease) in other payables	-	107	107	(3)
Net cash provided (used) by operating activities	<u>\$ (1,125,286)</u>	<u>\$ (1,073)</u>	<u>\$ (1,126,359)</u>	<u>\$ 17,177</u>

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, 2009**  
(amounts expressed in thousands)

	Pension and Other Employee Benefit Trust Funds	Private-Purpose Trust Funds	Investment Trust Fund	Agency Funds
<b>Assets:</b>				
Cash, cash equivalents and non-pension investments	\$ 1,811,649	\$ 32,183	\$ -	\$ 595,776
Securities lending collateral	2,519,391	8,500	2,801	45,500
Receivables:				
Taxes	-	-	-	13,582
Contributions	206,522	-	-	-
Interest	80,681	13	138	-
Securities lending	-	24	-	194
Member loans	1,948	-	-	-
Due from other funds	19,662	-	-	-
Due from component unit	2,251	-	-	-
From investment sales	1,336,661	-	-	-
Other	682	-	-	57
Total receivables	1,648,407	37	138	13,833
Prepaid expenses	29	-	-	-
Pension and other employee benefit investments at fair value:				
Equity Securities	7,100,640	-	-	-
Debt Securities	7,298,857	-	-	-
Mutual Funds and Collective Trust Funds	2,312,106	-	-	-
Other	1,895,127	-	-	-
Total investments	18,606,730	-	-	-
Pool Investments at Amortized Cost:				
Cash and cash equivalents	-	-	177,449	-
Money Market Mutual Funds	-	-	81,403	-
U.S. Government Agencies	-	-	16,023	-
Commercial Paper	-	-	18,669	-
Total investments	-	-	293,544	-
Property, plant and equipment net of accumulated depreciation	7,547	-	-	-
<b>Total assets</b>	<b>24,593,753</b>	<b>40,720</b>	<b>296,483</b>	<b>655,109</b>
<b>Liabilities:</b>				
Accounts/escrows payable	22,396	4,008	-	595,833
Salaries and benefits payable	938	-	-	-
Management fee payable	-	-	18	-
Due to other funds	19,662	-	-	-
Securities lending payable	-	24	-	194
Benefits payable	67,611	-	-	-
Distributions payable	-	-	3	-
Due to component unit	2,251	-	-	-
Deferred revenue	40,052	-	-	-
Compensated absences	373	-	-	-
Investment purchases payable	1,881,483	-	-	-
Securities purchased payable	2,519,391	-	-	-
Securities lending collateral	-	8,500	2,801	45,500
Other	-	-	13	13,582
<b>Total liabilities</b>	<b>4,554,157</b>	<b>12,532</b>	<b>2,835</b>	<b>\$ 655,109</b>
<b>Net assets:</b>				
Held in trust for:				
Employees' pension benefits	19,803,170	-	-	
OPEB benefits	121,577	-	-	
Future death benefits	9,408	-	-	
State and local units	105,441	-	-	
Trust beneficiaries	-	28,188	-	
Local government investment pool participants	-	-	293,648	
<b>Total net assets</b>	<b>\$ 20,039,596</b>	<b>\$ 28,188</b>	<b>\$ 293,648</b>	

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, 2009**

(amounts expressed in thousands)

	<b>Pension and Other Employee Benefit Trust Funds</b>	<b>Private-Purpose Trust Funds</b>	<b>Investment Trust Fund</b>
<b>Additions:</b>			
Member contributions	\$ 336,996	\$ 82,852	\$ 1,469,663
Employer contributions	1,380,919	-	-
Contributions from the State of Indiana	140,072	-	-
Net investment income (loss)	(4,578,959)	276	4,831
Grants	-	4	-
Less investment expense	(122,414)	-	(31)
Donations/escheats	-	72,618	-
Transfers in	7,662	-	-
Reinvestment of distributions	-	-	4,458
Other	166	-	-
<b>Total additions</b>	<b>(2,835,558)</b>	<b>155,750</b>	<b>1,478,921</b>
<b>Deductions:</b>			
Pension and disability benefits	1,571,787	-	-
Retiree health benefits	3,373	-	-
Death benefits	806	-	-
Payments to participants/beneficiaries	-	165,650	4,449
Refunds of contributions and interest	50,355	-	1,371,619
Administrative	34,492	-	240
Pension relief distributions	167,279	-	-
Capital projects	2,183	-	-
Depreciation	1	-	-
Transfers out	7,662	-	-
Other	4,020	-	119
<b>Total deductions</b>	<b>1,841,958</b>	<b>165,650</b>	<b>1,376,427</b>
<b>Net increase (decrease) in net assets</b>	<b>(4,677,516)</b>	<b>(9,900)</b>	<b>102,494</b>
<b>Net assets held in trust, July 1, as restated</b>	<b>24,717,112</b>	<b>38,088</b>	<b>191,154</b>
<b>Net assets held in trust, June 30</b>	<b>\$ 20,039,596</b>	<b>\$ 28,188</b>	<b>\$ 293,648</b>

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, 2009**  
**(amounts expressed in thousands)**

	Proprietary	Colleges and Universities	Total
<b>Assets:</b>			
Current assets:			
Cash, cash equivalents and investments	\$ 2,006,106	\$ 1,601,067	\$ 3,607,173
Securities lending collateral	122,675	307,617	430,292
Receivables (net)	331,249	377,573	708,822
Inventory	413	16,979	17,392
Prepaid expenses	3,947	21,630	25,577
Intergovernmental loans	815,679	-	815,679
Investment in direct financing lease	56,643	-	56,643
Funds held in trust by others	-	78,029	78,029
Other postemployment benefits	-	7,442	7,442
Other current assets	25,072	66,233	91,305
<b>Total current assets</b>	<b>3,361,784</b>	<b>2,476,570</b>	<b>5,838,354</b>
Noncurrent assets:			
Cash, cash equivalents and investments - restricted	481,499	1,685,472	2,166,971
Taxes, interest, and penalties receivable	5,117	-	5,117
Other receivables	4,511,782	348,095	4,859,877
Investments - unrestricted	562,886	2,974,371	3,537,257
Bond issuance costs net of amortization	48,689	310	48,999
Intergovernmental loans	1,813,270	-	1,813,270
Due from primary government	50,000	-	50,000
Investment in direct financing lease	2,054,022	-	2,054,022
Net pension assets	89	-	89
Other postemployment benefits	-	1,413	1,413
Other noncurrent assets	7,577	49,718	57,295
Capital assets:			
Land	231,063	190,504	421,567
Infrastructure	328,822	287,178	616,000
Construction in progress	294,542	640,133	934,675
Property, plant, and equipment	1,377,908	8,038,223	9,416,131
Less accumulated depreciation	(493,193)	(3,693,613)	(4,186,806)
Capital assets, net of accumulated depreciation	1,739,142	5,462,425	7,201,567
<b>Total noncurrent assets</b>	<b>11,274,073</b>	<b>10,521,804</b>	<b>21,795,877</b>
<b>Total assets</b>	<b>14,635,857</b>	<b>12,998,374</b>	<b>27,634,231</b>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable	49,199	332,151	381,350
Claims payable	13,664	-	13,664
Interest payable	135,996	3,343	139,339
Current portion of long-term debt	1,144,581	358,441	1,503,022
Line of credit	350,000	-	350,000
Due to primary government	32,258	-	32,258
Capital lease payable	-	1,261	1,261
Accrued prize liability	52,175	-	52,175
Salaries, health, disability, and benefits payable	279	26,986	27,265
Deferred revenue	72,442	212,115	284,557
Accrued liability for compensated absences	203	67,634	67,837
Securities lending collateral	122,675	307,617	430,292
Deposits held in custody for others	25,722	41,732	67,454
Other current liabilities	13,317	53,555	66,872
<b>Total current liabilities</b>	<b>2,012,511</b>	<b>1,404,835</b>	<b>3,417,346</b>
Long-term liabilities:			
Accrued liability for compensated absences	243	66,179	66,422
Accrued prize liability	100,850	-	100,850
Other postemployment benefits	-	27,557	27,557
Pollution remediation payable	4,289	-	4,289
Deferred revenue	3,553,111	40,535	3,593,646
Capital lease payable	-	2,730	2,730
Funds held in trust for others	-	146,719	146,719
Advances from federal government	6,179	28,789	34,968
Revenue bonds/notes payable	9,623,887	2,143,314	11,767,201
Other noncurrent liabilities	5,232	93,085	98,317
<b>Total long-term liabilities</b>	<b>13,293,791</b>	<b>2,548,908</b>	<b>15,842,699</b>
<b>Total liabilities</b>	<b>15,306,302</b>	<b>3,953,743</b>	<b>19,260,045</b>
<b>Net Assets:</b>			
Invested in capital assets net of related debt	305,588	3,196,336	3,501,924
Restricted-nonexpendable:			
Grants/constitutional restrictions	9,031	-	9,031
Permanent funds	-	19,088	19,088
Future debt service	163,704	-	163,704
Instruction and research	-	213,252	213,252
Student aid	-	197,481	197,481
Other purposes	-	28,486	28,486
<b>Total restricted-nonexpendable</b>	<b>172,735</b>	<b>458,307</b>	<b>631,042</b>
Restricted-expendable:			
Instruction and research	-	444,089	444,089
Grants/constitutional restrictions	-	18,879	18,879
Endowments	-	296,880	296,880
Future debt service	196,859	8,377	205,236
Pension fund distribution	8,239	-	8,239
Public safety programs	-	8,027	8,027
Student aid	-	601,673	601,673
Auxiliary enterprises	71	7,055	7,126
Capital projects	40,436	219,316	259,752
Water pollution and drinking water projects	1,003,399	-	1,003,399
Other purposes	1,687	90,128	91,815
<b>Total restricted-expendable</b>	<b>1,250,691</b>	<b>1,694,424</b>	<b>2,945,115</b>
Unrestricted	(2,399,459)	3,695,564	1,296,105
<b>Total net assets</b>	<b>\$ (670,445)</b>	<b>\$ 9,044,631</b>	<b>\$ 8,374,186</b>

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, 2009  
(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	\$ 1,854,609	\$ 1,327,939	\$ 543,171	\$ 4,501	\$ 21,002	\$ -	\$ 21,002
Colleges and universities	5,600,454	2,802,035	1,005,605	60,161	-	(1,732,653)	(1,732,653)
Total component units	\$ 7,455,063	\$ 4,129,974	\$ 1,548,776	\$ 64,662	21,002	(1,732,653)	(1,711,651)
General Revenues:							
					189,050	(666,535)	(477,485)
					9,926	1,478,117	1,488,043
					1,280	401,767	403,047
					200,256	1,213,349	1,413,605
					221,258	(519,304)	(298,046)
					(891,703)	9,563,935	8,672,232
					\$ (670,445)	\$ 9,044,631	\$ 8,374,186

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, 2009**  
(amounts expressed in thousands)

	Indiana Finance Authority	Indiana Bond Bank	Indiana Housing and Community Development Authority	Board for Depositories	Secondary Market for Education Loans
<b>Assets</b>					
Current assets:					
Cash, cash equivalents and investments	\$ 918,078	\$ 77,133	\$ 426,709	\$ 150,014	\$ 71,436
Securities lending collateral	-	-	-	122,675	-
Receivables (net)	159,075	27,119	429	849	117,274
Inventory	-	-	-	-	-
Prepaid expenses	-	-	-	-	-
Intergovernmental loans	-	815,679	-	-	-
Investment in direct financing lease	56,500	-	-	-	-
Other current assets	168	-	22,302	-	2,602
<b>Total current assets</b>	<b>1,133,821</b>	<b>919,931</b>	<b>449,440</b>	<b>273,538</b>	<b>191,312</b>
Noncurrent assets:					
Cash, cash equivalents and investments - restricted	-	36,256	327,462	-	-
Taxes, interest, and penalties receivable	-	-	5,117	-	-
Loans receivable	2,671,664	-	1,158,050	-	1,669,116
Investments - unrestricted	455,483	-	-	107,403	-
Bond issuance costs, net of amortization	15,323	22,896	9,969	-	-
Intergovernmental loans	-	1,813,270	-	-	-
Due from primary government	-	-	-	50,000	-
Investment in direct financing lease	1,386,815	-	-	-	-
Net pension assets	-	-	-	-	-
Other noncurrent assets	144	-	-	11	7,422
Capital assets:					
Land	85,885	-	-	-	-
Infrastructure	276,378	-	-	-	-
Construction in progress	154,578	-	-	-	-
Property, plant, and equipment	1,230,292	-	3,285	202	2,294
Less accumulated depreciation	(377,643)	-	(2,181)	(181)	(1,336)
<b>Total capital assets, net of depreciation</b>	<b>1,369,490</b>	<b>-</b>	<b>1,104</b>	<b>21</b>	<b>958</b>
<b>Total noncurrent assets</b>	<b>5,898,919</b>	<b>1,872,422</b>	<b>1,501,702</b>	<b>157,435</b>	<b>1,677,496</b>
<b>Total assets</b>	<b>7,032,740</b>	<b>2,792,353</b>	<b>1,951,142</b>	<b>430,973</b>	<b>1,868,808</b>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	4,721	544	1,472	72	8,338
Claims payable	-	-	-	-	-
Interest payable	64,991	41,202	29,020	-	457
Current portion of long-term debt	194,800	844,535	103,736	-	-
Line of credit	-	-	350,000	-	-
Due to primary government	201	-	-	-	-
Accrued prize liability	-	-	-	-	-
Salaries, health, disability, and benefits payable	-	-	-	-	-
Deferred revenue	63,559	-	-	-	-
Accrued liability for compensated absences	-	-	-	-	-
Securities lending collateral	-	-	-	122,675	-
Deposits held in custody for others	-	25,551	171	-	-
Other current liabilities	2,770	-	8,080	3	-
<b>Total current liabilities</b>	<b>331,042</b>	<b>911,832</b>	<b>492,479</b>	<b>122,750</b>	<b>8,795</b>
Long-term liabilities:					
Accrued liability for compensated absences	-	-	-	-	-
Accrued prize liability	-	-	-	-	-
Pollution remediation payable	4,289	-	-	-	-
Deferred revenue	3,545,081	493	-	-	-
Advances from federal government	6,179	-	-	-	-
Revenue bonds/notes payable	4,775,544	1,862,440	1,201,204	-	1,770,350
Other noncurrent liabilities	-	-	1,198	-	4,034
<b>Total long-term liabilities</b>	<b>8,331,093</b>	<b>1,862,933</b>	<b>1,202,402</b>	<b>-</b>	<b>1,774,384</b>
<b>Total liabilities</b>	<b>8,662,135</b>	<b>2,774,765</b>	<b>1,694,881</b>	<b>122,750</b>	<b>1,783,179</b>
<b>Net assets</b>					
Invested in capital assets net of related debt	90,472	-	1,104	21	958
Restricted-nonexpendable					
Grants/constitutional restrictions	-	-	8,480	-	-
Future debt service	-	-	163,704	-	-
<b>Total restricted-nonexpendable</b>	<b>-</b>	<b>-</b>	<b>172,184</b>	<b>-</b>	<b>-</b>
Restricted-expendable					
Future debt service	175,555	2,264	-	-	14,656
Pension fund distribution	-	-	-	8,239	-
Auxiliary enterprises	-	-	-	-	-
Capital projects	-	-	-	-	-
Water pollution and drinking water projects	1,003,399	-	-	-	-
Other purposes	-	-	-	-	-
<b>Total restricted-expendable</b>	<b>1,178,954</b>	<b>2,264</b>	<b>-</b>	<b>8,239</b>	<b>14,656</b>
Unrestricted (deficit)	(2,898,821)	15,324	82,973	299,963	70,015
<b>Total net assets</b>	<b>\$ (1,629,395)</b>	<b>\$ 17,588</b>	<b>\$ 256,261</b>	<b>\$ 308,223</b>	<b>\$ 85,629</b>

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

continued on next page

State Lottery Commission	Indiana Stadium and Convention Building Authority	Non-Major	IFA & ISCBA Elimination	Total Component Units
\$ 71,622	\$ 237,006	\$ 54,108	\$ -	\$ 2,006,106
-	-	-	-	122,675
24,585	8,241	5,442	(11,765)	331,249
402	-	11	-	413
3,532	-	415	-	3,947
-	-	-	-	815,679
-	-	143	-	56,643
-	-	-	-	25,072
100,141	245,247	60,119	(11,765)	3,361,784
110,400	-	7,381	-	481,499
-	-	-	-	5,117
-	-	-	(987,048)	4,511,782
-	-	-	-	562,886
-	-	501	-	48,689
-	-	-	-	1,813,270
-	-	-	-	50,000
-	666,525	682	-	2,054,022
-	-	89	-	89
-	-	-	-	7,577
-	-	145,178	-	231,063
-	-	52,444	-	328,822
-	138,630	1,334	-	294,542
6,531	-	135,304	-	1,377,908
(4,322)	-	(107,530)	-	(493,193)
2,209	138,630	226,730	-	1,739,142
112,609	805,155	235,383	(987,048)	11,274,073
212,750	1,050,402	295,502	(998,813)	14,635,857
20,308	11,787	1,957	-	49,199
-	-	13,664	-	13,664
-	3,200	326	(3,200)	135,996
-	8,565	1,510	(8,565)	1,144,581
-	-	-	-	350,000
32,057	-	-	-	32,258
52,175	-	-	-	52,175
-	-	279	-	279
920	-	7,963	-	72,442
-	-	203	-	203
-	-	-	-	122,675
-	-	-	-	25,722
1,440	-	1,024	-	13,317
106,900	23,552	26,926	(11,765)	2,012,511
-	-	243	-	243
100,850	-	-	-	100,850
-	-	-	-	4,289
-	2,537	5,000	-	3,553,111
-	-	-	-	6,179
-	987,048	14,349	(987,048)	9,623,887
-	-	-	-	5,232
100,850	989,585	19,592	(987,048)	13,293,791
207,750	1,013,137	46,518	(998,813)	15,306,302
2,209	-	210,824	-	305,588
-	-	551	-	9,031
-	-	-	-	163,704
-	-	551	-	172,735
-	-	4,384	-	196,859
-	-	-	-	8,239
-	-	71	-	71
-	37,265	3,171	-	40,436
-	-	-	-	1,003,399
-	-	1,687	-	1,687
-	37,265	9,313	-	1,250,691
2,791	-	28,296	-	(2,399,459)
\$ 5,000	\$ 37,265	\$ 248,984	\$ -	\$ (670,445)

**State of Indiana  
Combining Statement of Activities  
Discretely Presented Component Units -  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2009**  
(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 (IFA)	\$ 322,505	\$ 453,322	\$ 31,617	\$ -	\$ 162,434	\$ -	\$ -
Indiana Bond Bank	124,032	1,033	124,930	-	-	1,931	-
Indiana Housing and Community Development Authority	388,683	73,939	297,380	-	-	-	(17,364)
Board for Depositories	16,414	-	10,036	-	-	-	-
Secondary Market for Educational Loans	48,188	-	65,038	-	-	-	-
State Lottery Commission	733,562	732,904	-	-	-	-	-
Indiana Stadium and Convention Building Authority (ISCBA)	132,883	-	12,043	4,171	-	-	-
Non-Major Proprietary	138,126	119,763	2,127	330	-	-	-
IFA & ISCBA Interfund Eliminations	(49,784)	(53,022)	-	-	-	-	-
<b>Total component units</b>	<b>\$ 1,854,609</b>	<b>\$ 1,327,939</b>	<b>\$ 543,171</b>	<b>\$ 4,501</b>	<b>\$ 162,434</b>	<b>\$ 1,931</b>	<b>\$ (17,364)</b>
General revenues:							
Investment earnings					108,355	472	74,928
Payments from State of Indiana					-	-	-
Other					-	-	-
Total general revenues					<u>108,355</u>	<u>472</u>	<u>74,928</u>
Change in net assets					270,789	2,403	57,564
Net assets - beginning, as restated					(1,900,184)	15,185	198,697
Net assets - ending					<u>\$ (1,629,395)</u>	<u>\$ 17,588</u>	<u>\$ 256,261</u>

continued on next page

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

**State of Indiana  
Combining Statement of Activities  
Discretely Presented Component Units -  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2008**  
(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	IFA & ISCBA Interfund Eliminations	Net (Expense) Revenue
Indiana Finance Authority (IFA)	\$ -	-	-	-	-	-	\$ 162,434
Indiana Bond Bank	-	-	-	-	-	-	1,931
Indiana Housing and Community Development Authority	-	-	-	-	-	-	(17,364)
Board for Depositories	(6,378)	-	-	-	-	-	(6,378)
Secondary Market for Educational Loans	-	16,850	-	-	-	-	16,850
State Lottery Commission	-	-	(658)	-	-	-	(658)
Indiana Stadium and Convention Building Authority (ISCBA)	-	-	-	(116,669)	-	-	(116,669)
Non-Major Proprietary	-	-	-	-	(15,906)	-	(15,906)
IFA and ISCBA Interfund Eliminations	-	-	-	-	-	(3,238)	(3,238)
<b>Total component units</b>	<b>(6,378)</b>	<b>16,850</b>	<b>(658)</b>	<b>(116,669)</b>	<b>(15,906)</b>	<b>(3,238)</b>	<b>21,002</b>
General revenues:							
Investment earnings	-	-	658	-	1,399	3,238	189,050
Payments from State of Indiana	-	-	-	-	9,926	-	9,926
Other	-	-	-	-	1,280	-	1,280
Total general revenues	-	-	658	-	12,605	3,238	200,256
Change in net assets	(6,378)	16,850	-	(116,669)	(3,301)	-	221,258
Net assets - beginning, as restated	314,601	68,779	5,000	153,934	252,285	-	(891,703)
Net assets - ending	<b>\$ 308,223</b>	<b>\$ 85,629</b>	<b>\$ 5,000</b>	<b>\$ 37,265</b>	<b>\$ 248,984</b>	<b>\$ -</b>	<b>\$ (670,445)</b>

**State of Indiana**  
**Combining Statement of Net Assets**  
**Discretely Presented Component Units -**  
**Colleges and Universities**  
**June 30, 2009**  
(amounts expressed in thousands)

	Indiana University	Purdue University	Non-Major Colleges and Universities	Totals
<b>Assets</b>				
Current assets:				
Cash, cash equivalents and investments	\$ 746,942	\$ 445,970	\$ 408,155	\$ 1,601,067
Securities lending collateral	169,680	137,937	-	307,617
Receivables (net)	121,242	124,710	131,621	377,573
Inventory	11,724	-	5,255	16,979
Prepaid expenses	-	-	21,630	21,630
Funds held in trust by others	-	-	78,029	78,029
Other postemployment benefits	-	-	7,442	7,442
Other current assets	27,686	36,248	2,299	66,233
<b>Total current assets</b>	<b>1,077,274</b>	<b>744,865</b>	<b>654,431</b>	<b>2,476,570</b>
Noncurrent assets:				
Cash, cash equivalents and investments - restricted	-	1,641,030	44,442	1,685,472
Other receivables	251,664	72,536	23,895	348,095
Investments - unrestricted	1,743,308	611,357	619,706	2,974,371
Bond issuance costs net of amortization	-	-	310	310
Other postemployment benefits	-	-	1,413	1,413
Other noncurrent assets	-	33,328	16,390	49,718
Capital assets:				
Land	53,057	23,256	114,191	190,504
Infrastructure	149,790	62,778	74,610	287,178
Construction in progress	224,840	237,727	177,566	640,133
Property, plant, and equipment	3,389,543	2,685,061	1,963,619	8,038,223
Less accumulated depreciation	(1,576,004)	(1,271,682)	(845,927)	(3,693,613)
Total capital assets, net of depreciation	2,241,226	1,737,140	1,484,059	5,462,425
<b>Total noncurrent assets</b>	<b>4,236,198</b>	<b>4,095,391</b>	<b>2,190,215</b>	<b>10,521,804</b>
<b>Total assets</b>	<b>5,313,472</b>	<b>4,840,256</b>	<b>2,844,646</b>	<b>12,998,374</b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	193,321	70,675	68,155	332,151
Interest payable	-	-	3,343	3,343
Current portion of long-term debt	51,172	260,981	46,288	358,441
Capital lease payable	1,242	-	19	1,261
Salaries, health, disability, and benefits payable	-	12,189	14,797	26,986
Deferred revenue	139,630	40,117	32,368	212,115
Accrued liability for compensated absences	34,154	24,658	8,822	67,634
Securities lending collateral	169,680	137,937	-	307,617
Deposits held in custody for others	-	25,000	16,732	41,732
Other current liabilities	-	33,080	20,475	53,555
<b>Total current liabilities</b>	<b>589,199</b>	<b>604,637</b>	<b>210,999</b>	<b>1,404,835</b>
Long-term liabilities:				
Accrued liability for compensated absences	20,127	28,464	17,588	66,179
Other postemployment benefits	8,657	12,138	6,762	27,557
Deferred revenue	40,097	-	438	40,535
Capital lease payable	2,730	-	-	2,730
Funds held in trust for others	80,718	50,702	15,299	146,719
Advances from federal government	-	19,918	8,871	28,789
Revenue bonds/notes payable	771,860	646,110	725,344	2,143,314
Other noncurrent liabilities	64,405	7,174	21,506	93,085
<b>Total long-term liabilities</b>	<b>988,594</b>	<b>764,506</b>	<b>795,808</b>	<b>2,548,908</b>
<b>Total liabilities</b>	<b>1,577,793</b>	<b>1,369,143</b>	<b>1,006,807</b>	<b>3,953,743</b>
<b>Net assets</b>				
Invested in capital assets net of related debt	1,475,395	964,652	756,289	3,196,336
Restricted-nonexpendable				
Permanent funds	19,088	-	-	19,088
Instruction and research	-	211,648	1,604	213,252
Student aid	-	162,723	34,758	197,481
Other purposes	-	23,654	4,832	28,486
Total restricted-nonexpendable	19,088	398,025	41,194	458,307
Restricted-expendable				
Instruction and research	92,627	261,193	90,269	444,089
Grants/constitutional restrictions	-	-	18,879	18,879
Endowments	-	260,448	36,432	296,880
Future debt service	5,162	-	3,215	8,377
Public safety programs	-	-	8,027	8,027
Student aid	24,239	477,810	99,624	601,673
Auxiliary enterprises	-	3,799	3,256	7,055
Capital projects	16,595	68,832	133,889	219,316
Other purposes	-	69,009	21,119	90,128
Total restricted-expendable	138,623	1,141,091	414,710	1,694,424
Unrestricted (deficit)	2,102,573	967,345	625,646	3,695,564
<b>Total net assets</b>	<b>\$ 3,735,679</b>	<b>\$ 3,471,113</b>	<b>\$ 1,837,839</b>	<b>\$ 9,044,631</b>

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, 2009**  
(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	\$ 2,557,094	\$ 1,427,347	\$ 586,422	\$ 30,228	\$ (513,097)	\$ -	\$ -	\$ (513,097)
Purdue University	1,738,718	857,764	314,473	27,943	-	(538,538)	-	(538,538)
Non-Major Colleges and Universities	1,304,642	516,924	104,710	1,990	-	-	(681,018)	(681,018)
Total component units	\$ 5,600,454	\$ 2,802,035	\$ 1,005,605	\$ 60,161	(513,097)	(538,538)	(681,018)	(1,732,653)
General revenues:								
Investment earnings					(313,795)	(316,330)	(36,410)	(666,535)
Payments from State of Indiana					572,578	393,250	512,289	1,478,117
Other					71,325	116,589	213,853	401,767
Total general revenues					330,108	193,509	689,732	1,213,349
Change in net assets					(182,989)	(345,029)	8,714	(519,304)
Net assets - beginning, as restated					3,918,668	3,816,142	1,829,125	9,563,935
Net assets - ending					\$ 3,735,679	\$ 3,471,113	\$ 1,837,839	\$ 9,044,631

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



# NOTES TO THE FINANCIAL STATEMENTS



STATE OF INDIANA

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June 30, 2009

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**STATE OF INDIANA**  
**Notes to the Financial Statements**  
**June 30, 2009**  
**(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, Ports of Indiana, Indiana State Fair Commission, Indiana Comprehensive Health Insurance Association, and the Indiana Political Subdivision Risk Management Commission have a December 31, 2008, fiscal year-end.

*Blended Component Unit*

The following component unit is reported under the blended method as the primary government appoints a voting majority of the board and is able to impose its will. This unit, although legally separate from the State, is reported as part of the State because it provides services entirely or almost entirely to the State. This component unit is audited by the State Board of Accounts.

The Bureau of Motor Vehicle Commission (BMVC) was established by state law to develop and update Bureau of Motor Vehicles (BMV) policy, establish standards for the operation and maintenance of license branches, and submit budget proposals for the BMVC, BMV, and license branches. The BMVC has significant interrelated operations with the BMV and license branches. The BMV is responsible for the accurate and timely distribution of the fees and taxes (excise and wheel) collected at the license branches for driver licenses, auto and watercraft registrations, and license plates.

The BMVC consists of four individuals appointed by the governor and the chairperson who is the

commissioner of the BMV. No more than three of the members may be of the same political party. The BMVC is reported as a non-major governmental fund.

*Discretely Presented Component Units*

The following are discretely presented component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. All proprietary component units are audited by outside auditors except for the State Fair Commission which is audited by the State Board of Accounts. 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 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 an 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 non-major proprietary fund.

The Ports of Indiana is created under Indiana Code 8-10-1-3 to construct, maintain, and operate public ports with terminal facilities and traffic exchange points for all forms of transportation on Lake Michigan and the Ohio and Wabash Rivers. The Commission consists of seven members appointed by the governor. The Commission is reported as a non-major proprietary fund.

The State Fair Commission was established per Indiana Code 15-13-2 as the trustee for and on behalf of the people of the State of Indiana to administer the State Fairgrounds as trust property of the State of Indiana. The Commission is responsible for holding the annual Indiana State Fair in August, as well as providing accessible, cost-effective, secure and modern facilities for the variety of events held at the Fairgrounds and other properties it owns. The Commission consists of eight members appointed by the governor. The Commission is reported as a non-major 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 a 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 non-major proprietary fund.

The Indiana Political Subdivision Risk Management Commission was created per Indiana Code 27-1-29 to administer the Political Subdivision Risk Management Fund (Basic fund) and the Political Subdivision Catastrophic Liability Fund (Catastrophic fund). These funds aid political subdivisions in protecting themselves against liabilities. The Commission consists of eleven members appointed by the governor. The Commission is reported as a non-major 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 and the director of the budget agency or the director's designee as an ex officio voting member of the board. 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 from 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 and the director of the budget agency or director's designee as an ex officio voting member of the board. 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. Indiana University and Purdue University are reported as a major discretely presented component unit.

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  
One North Capitol Ave., Suite 900  
Indianapolis, IN 46204

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

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

Indiana Stadium and Convention  
Building Authority  
425 W. South Street  
Indianapolis, IN 46225

Indiana Housing and Community  
Development Authority  
40 South Meridian, Suite 1000  
Indianapolis, IN 46204

Secondary Market for Education Loans, Inc.  
Capital Center, Suite 400  
251 N. Illinois  
Indianapolis, IN 46204

Indiana Board for Depositories  
One North Capitol Ave., Suite 444  
Indianapolis, IN 46204

Indiana White River State Park  
Development Commission  
801 West Washington Street  
Indianapolis, IN 46204

Indiana Comprehensive Health Insurance  
Association  
9465 Counselors Row, Suite 200  
Indianapolis, IN 46240

Ports of Indiana  
150 West Market Street, Suite 100  
Indianapolis, IN 46204

Indiana State Fair Commission  
1202 E. 38<sup>th</sup> Street  
Indianapolis, IN 46205

Indiana Political Subdivision Risk  
Management Commission  
c/o Indiana Department of Insurance  
311 W. Washington St., Suite 300  
Indianapolis, IN 46204

Ivy Tech Community College  
Assistant Treasurer  
50 West Fall Creek Parkway North Drive  
Indianapolis, IN 46208

University of Southern Indiana  
8600 University Boulevard  
Evansville, IN 47712

Indiana University  
Poplar's Room. 500, 107 S. Indiana Ave.  
Bloomington, IN 47405-1202

Ball State University  
Administration Bldg., 301  
2000 West University Avenue  
Muncie, IN 47306

Indiana State University  
Office of the Controller  
210 N. 7<sup>th</sup> Street  
Terre Haute, IN 47809

Vincennes University  
1002 North 1st Street  
Vincennes, IN 47591

Purdue University  
Accounting Services  
401 South Grant Street  
West Lafayette, IN 47907-2024

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

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

## B. Government-Wide and Fund Financial Statements

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

The statement of activities matches the State's direct functional expense with the functional program revenue to identify the relative financial burden of each of the State's functions. This format identifies the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees and intergovernmental aid. Certain indirect costs are included in the program expense reported for

individual functions of government. Program revenues derive directly from the program itself or from parties outside the State's taxpayers, as a whole. They reduce the net cost of the function to be financed from the general revenues. Program revenues include charges for services, program-specific operating grants and contributions, and program-specific capital grants and contributions. Revenues that do not meet the criteria of program revenues are general revenues. These include all taxes, even those levied for a specific purpose and are reported by type of tax. Investment income is also a general revenue.

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

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

### Measurement Focus and Basis of Accounting

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

For the government-wide financial statements and 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 to three working day delay, so the first several working days 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 and Children's Health Insurance programs.
- The *Major Moves Construction Fund* distributes money received from the Toll Road lease. This money is used for new construction 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 *ARRA of 2009 Fund* is used to account for funds received under the American Recovery and Reinvestment Act of 2009 which became law on February 17, 2009. These funds are

supplementing existing federal programs in areas such as Medicaid, education, transportation, housing, and employment services.

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. There are no major capital project 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 major enterprise fund:

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

*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, aviation, 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.

When both restricted and unrestricted resources are available for use, it is the primary government's policy to use restricted resources first, then unrestricted resources as they are needed.

**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, investment 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, and defined contribution pension plans. Pension and other employee benefits trust funds include the Public Employees' Retirement Fund, Teachers' Retirement Fund, State Police Pension Fund and the Retiree Health Benefit Trust 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 Abandoned Property Fund and the Private Purpose Trust Fund.

*Investment trust funds* are used to report the external portion of investment pools operated by a sponsoring government. The Treasurer of State, local units of government, and quasi-governmental units in Indiana have the opportunity to invest in a common pool of investments that preserves the principal of the public's funds, remains highly-liquid, and maximizes the return on the investment of public funds. The State's investment trust fund is TrustINDiana operated by the state treasurer. The amounts reported represent the external portion of the pool.

*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. Eliminating Internal Activity**

Interfund loans including those from cash overdrafts in funds, interfund services provided or used, and prepaid expenditures of internal service funds are eliminated as internal balances in the government-wide statement of net assets. This is to minimize the "grossing-up" effect on assets and liabilities within the governmental and business-type activities columns of the primary government. As a result, interfund loans and interfund services provided and/or used reported in the governmental funds balance sheet have been eliminated in the government-wide statement of net assets.

Eliminations were made in the statement of activities to remove the “doubling-up” effect of internal service fund activity. The effect of similar internal events that are, in effect, allocations of overhead expenses from one function to another or within the same function have also been eliminated, so that the allocated expenses are reported only by the function to which they were allocated. The effect of interfund services provided and used between functions has not been eliminated in the statement of activities since to do so would misstate both the expenses of the purchasing function and the program revenues of the selling function.

## **E. 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 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 (TRF) 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, banker's acceptances, limited liability partnerships, real estate securities, options, and swaps. The investments of TRF are subject to the provisions of IC 5-10.4-3-10.

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 investments of the State Police Retirement fund are subject to the provisions of IC 10-12-2-2.

The remaining six retirement systems and the Pension Relief Fund are administered by the Public Employees' Retirement Fund (PERF) Board of Trustees. The PERF Board of Trustees is required to diversify investments in accordance with the prudent investor standards. The investment policy statement adopted by the PERF Board of Trustees and the asset allocation approved by the PERF Board of Trustees contain limits and goals for each type of investment portfolio and specifies prohibited transactions. These guidelines authorize 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, collective trust funds, asset backed, commercial mortgage backed, international stocks, and real estate. The investments of PERF are subject to the provisions of IC 5-10.3-5-3.

### **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 20<sup>th</sup> day after the end of the month collected. Estimated payments are due from individuals by the 15<sup>th</sup> of the month

immediately following each quarter or the calendar year.

Corporate income tax - Due quarterly on the 20<sup>th</sup> day of April, June, September, and December with the last payment due on April 15<sup>th</sup> for a calendar year taxpayer.

Sales tax – Due by the 20<sup>th</sup> day after the end of the month collected.

Fuel tax – Gasoline tax is due the 20<sup>th</sup> day after the end of the month collected. Special fuel tax, depending on the status of the taxpayer, is due by the 15<sup>th</sup> day after the end of the month collected or the 15<sup>th</sup> 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 – same laws as corporate income taxes (see above) for making payments.

Alcohol and tobacco taxes – Cigarette distributors must 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 20<sup>th</sup> day after the end of the month collected.

Inheritance tax – except as otherwise provided in IC 6-4.1-6-6(b), the inheritance tax imposed as a result of a decedent's death is due twelve (12) months after the person'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 Administrative Services Revolving funds 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 Program Engineering Division 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.

INDOT projects are capitalized based on capitalization and preservation percentages assigned to three hundred sixty-two (364) work types. For example, the cost for constructing a new bridge would likely be 100% capitalized; whereas, the cost for adding travel lanes to a road would likely be assigned a work type code resulting in capitalization at 50% and preservation at 50%.

The State maintains an inventory of these infrastructure assets and performs periodic condition assessments to establish that the predetermined condition level is being maintained. Road pavement condition assessments are performed annually on all INDOT state routes, including interstates. Condition assessments of all bridges are determined on a bi-annual basis. Sufficiency ratings of all bridges are determined on an annual basis by the Federal Highway Administration based on annual submittal of bridge condition data.

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:

<u>Assets</u>	<u>Years</u>
Buildings including improvements to buildings	40
Structures other than buildings including improvements to structures other than buildings	20
Infrastructure (not using modified approach)	20
Furniture, machinery and equipment	5-14
Motor pool vehicles	10 ¢ / mile

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

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

The State's major collections are:

- The State Museum Collection, which is a part of the Indiana Department of Natural Resources, consists of historical buildings and furnishings; personal artifacts; tools and equipment; communication, transportation, recreational and societal artifacts; and art objects.
- The Commission on Public Records, State Archives Collection consists of historical and legal documents, that are generated on: paper or paper substitutes; photographic or chemically based media; magnetic or machine readable media; or any other materials, regardless of form or characteristics.
- The State Library has two collections, the Manuscript Collection and the Indiana History Collection. These collections include historical documents and works of art, most of it of Indiana origin.

Other collections include the Historical Bureau's Indiana Governors' Portrait Collection, the Department

of 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 as well as those of the Auditor of State 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 the government-wide, 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 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 Special Purposes* – established to recognize that money has been set aside for specific purposes as designated by the governmental entity or fund pursuant to its management's direction or in accordance with any rules, laws, or procedures.

*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 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 Long-Term Loans and Advances* – established to recognize short-term and long-term loans issued by various governmental activities' funds to entities outside this government and therefore, not currently available for expenditure. The majority of these loans are made from the Common School Fund to school corporations for construction and/or technology initiatives.

*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.

## 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. Deficit Fund Equity

At June 30, 2009, 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
<b>Governmental Funds</b>		
Medicaid Assistance	\$ -	\$ (19,363)
County Welfare Administration	-	(4,479)
Bureau of Motor Vehicles Commission	-	(18,575)
Federal Food Stamp Program	(7,973)	(286)

#### B. 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, 2009:

Unreserved Fund Balance				
	Designations of Unreserved Fund Balance			Total Unreserved Fund Balance
	Designated for Appropriations	Designated for Allotments	Undesignated	
<b>Governmental Funds</b>				
General Fund	\$ 449,822	\$ 427,903	\$ 581,892	\$ 1,459,617
Motor Vehicle Highway Fund	-	-	(19,621)	(19,621)
Medicaid Assistance	-	-	(39,406)	(39,406)
Major Moves Construction Fund	754,935	-	1,507,649	2,262,584
State Highway Department	-	-	(1,360,848)	(1,360,848)
ARRA of 2009	-	-	(208,216)	(208,216)
Non-Major Special Revenue Funds	712,290	627,959	215,315	1,555,564
Non-Major Capital Projects Funds	63,503	20,405	1,560	85,468
Non-Major Permanent Funds	424	120,051	541,029	661,504
Total Governmental Funds	\$ 1,980,974	\$ 1,196,318	\$ 1,219,354	\$ 4,396,646

## IV. DETAILED NOTES ON ALL FUNDS

### A. Deposits, Investments and Securities Lending

#### 1. Primary Government – Other than Major Moves Construction Fund and Next Generation Trust Fund, Investment Trust Funds, and Pension and Other Employee Benefit Trust Funds.

##### Investment Policy

Indiana Code, Title 5, Article 13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. However, the Major Moves Construction Fund and the Next Generation Trust Fund have separate investment authority as established under Indiana Code 8-14-14 and Indiana Code 8-14-15, respectively. The Treasurer of State shall invest these funds in the same manner as the public employees' retirement fund under Indiana Code 5-10.3-5 with the exception that monies may not be invested in equity securities. For more information, please see the PERF policy in note IV(A)3. There is

no formal investment policy for the investment of these funds other than compliance to State statute. State statute does not establish any parameters or guidelines related to the concentration of investment risk, investment credit risk, nor interest rate risk.

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. State statute does not establish any parameters or guidelines related to interest rate risk.

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2009:

Investment Type	Primary Government (Amounts in thousands)		
	Fair Value Totals	Investment Maturities (in Years)	
		Less than 1	1 - 5
U.S. Treasuries	\$ 373,785	\$ 373,785	\$ -
U.S. Agencies	596,563	528,859	67,704
Municipal Bonds	189,070	189,070	-
Local Govt Investment Pool	256,065	256,065	-
Non-U.S. Fixed Income	10,000	5,000	5,000
Certificate of Deposits	357,340	357,340	-
Money Market Mutual Funds	2,258,000	2,258,000	-
Total	\$ 4,040,823	\$ 3,968,119	\$ 72,704

##### 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, 2009, 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, or (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. The portfolio of the 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 numbers (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; or (2) Aaa, or its equivalent, by Moody's Investors Service, Inc. or its successor.

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:

<b>Primary Government (Amounts in thousands)</b>				
<b><u>Investment Type</u></b>	<b><u>S &amp; P</u></b>	<b><u>Moody's</u></b>		<b><u>Fair Value</u></b>
U.S. Treasuries	AAA	Aaa	\$	373,785
U.S. Agencies	AAA	Aaa		596,563
Certificate of Deposits	NR	NR		357,340
Municipal Bonds	NR	NR		189,070
Non-US Fixed Income Bonds	A	A		10,000
Local Govt Investment Pool	NR	NR		256,065
Money Market Mutual Funds	AAA	Aaa		2,258,000
Total			\$	<u>4,040,823</u>

**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. 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:

Federal Home Loan Bank: 7.06% \$341,672,885.03

**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. There was no foreign currency risk.

**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 government, a federal instrumentality, or a federal government sponsored enterprise in excess of the total market value of the loaned securities. 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, 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. 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

### **Major Moves Construction Fund/Next Generation Trust Funds**

#### *Investment Policy*

Indiana Code, Title 5, Article 13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. However, the Major Moves Construction Fund and the Next Generation Trust Fund have separate investment authority as established under Indiana Code 8-14-14 and Indiana Code 8-14-15, respectively. The Treasurer of State shall invest these funds in the same manner as the public employees' retirement fund under Indiana Code 5-10.3-5, except the funds may not be invested in equity securities. Investment Policy Statements for the investment of these two funds has been adopted by

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. Cash collateral is generally invested in securities of a longer term with the mismatch of maturities generally 0-35 days. The weighted average maturity gap at June 30, 2009 was 29 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.

the Treasurer of State. The Investment Policy Statements are written in conformity with the applicable investment statutes and in accordance with prudent investor standards. State statute does not establish any parameters or guidelines related to the concentration of investment risk, investment credit risk, nor interest rate risk. The Investment Policy Statements establish asset allocations for both Funds and set limits for the exposure in securities from any one issuer to not more than 5% of a Core Fixed Income Investment Manager's portfolio and not more than 10% of a Core Plus Fixed Income Investment Manager's portfolio.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest

rates will adversely affect the fair value of an investment. State statute does not establish any parameters or guidelines related to interest rate risk.

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2009:

Major Moves/Next Generation Funds (Amounts in thousands)		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
U.S. Treasuries	\$ 285,132	\$ 25,235	\$ 128,220	\$ 73,081	\$ 58,596
U.S. Agencies	383,367	1,266	24,691	38,568	318,842
Government Asset and Mortgage Backed Collateralized Mortgage Obligations	226,809	94	3,494	4,978	218,243
Government CMOs	35,787	-	-	7,991	27,796
Corp CMOs	96	-	-	-	96
Other Government Bonds	120,049	2,995	23,212	52,029	41,813
Corporate Bonds	1,171,814	34,477	392,301	491,427	253,609
Corporate Asset Backed	217,173	207	23,671	13,673	179,622
Private Placements	83,488	1,585	33,289	30,804	17,810
Municipal Bonds	23,830	2,586	4,951	9,331	6,962
Miscellaneous Other Fixed Income	1,569	-	860	-	709
Money Market Mutual Funds	409,217	409,217	-	-	-
	<u>\$ 2,958,331</u>	<u>\$ 477,662</u>	<u>\$ 634,689</u>	<u>\$ 721,882</u>	<u>\$ 1,124,098</u>

### 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, 2009, 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

its 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. The investment managers must adhere to the following guidelines:

#### Intermediate and Core Fixed Income Managers

- The average credit quality of each manager's portfolio shall not be lower than Aa3/AA-
- All securities at the time of purchase shall have a Moody's, S&P's and/or Fitch's credit quality rating of no less than BBB
- In the event a holding is downgraded to less than BBB, the manager will have the discretion over when to sell the security, generally, no later than 90 days following the downgrade.

#### Core Plus Fixed Income Managers

- At least 60% of the securities held in the portfolio shall have a credit rating of no less than BBB
- Investments in high-yield and non-US debt are permitted, but combined exposure to those sectors should not exceed 40%
- The average credit quality of each

manager's portfolio shall not be lower than single A

g. High-yield and non-US debt securities are permitted

h. Non US-dollar currency exposure is permitted

Hybrid Fixed Income Managers

The following is a summary of the Credit Risk Disclosure as of June 30, 2009:

<b>Major Moves/Next Generation Funds</b> (Amounts in thousands)					
Investment Type	<b>S &amp; P</b>		<b>Moody's</b>		
	Ratings	Fair Value	Ratings	Fair Value	
U.S. Treasuries	AAA	\$ 285,132	Aaa	\$ 285,132	
U.S. Agencies	AAA	383,367	Aaa	383,367	
Government Asset And Mortgage Backed	AAA	190,229	Aaa	167,790	
	AA	784	Aa	2,040	
	A	3,627	A	2,520	
	BBB	12,632	Baa	15,453	
	BB	5,766	Ba	8,485	
	B	4,890	B	6,744	
	CCC&Below	2,753	Caa&Below	7,158	
	NR	6,128	NR	16,619	
Collateralized Mortgage Obligations					
Government CMO's	AAA	35,108	Aaa	35,334	
Government CMO's	NR	679	NR	453	
Government CMO's	BBB	96	Baa	96	
Other Government Bonds					
	AAA	44,231	Aaa	48,529	
	AA	8,076	Aa	3,003	
	A	9,323	A	3,680	
	BBB	26,433	Baa	13,937	
	BB	18,702	Ba	38,595	
	B	379	B	3,187	
	CCC&Below	840	Caa&Below	-	
	NR	12,065	NR	9,118	
Corporate Bonds					
	AAA	77,002	Aaa	81,245	
	AA	71,554	Aa	85,064	
	A	331,972	A	296,583	
	BBB	369,131	Baa	377,879	
	BB	95,996	Ba	91,764	
	B	64,283	B	76,718	
	CCC&Below	56,818	Caa&Below	66,026	
	NR	105,058	NR	96,535	
Corporate Asset Backed					
	AAA	155,407	Aaa	148,547	
	AA	1,652	Aa	7,072	
	A	9,819	A	1,874	
	BBB	25,115	Baa	27,119	
	BB	1,929	Ba	9,363	
	B	2,461	B	5,232	
	CCC&Below	936	Caa&Below	5,417	
	NR	19,854	NR	12,549	
Private Placements					
	AAA	4,115	Aaa	3,758	
	AA	17,244	Aa	10,159	
	A	25,501	A	28,834	
	BBB	24,310	Baa	27,295	
	BB	5,367	Ba	5,602	
	CCC&Below	4,787	Caa&Below	4,787	
	NR	2,164	NR	3,053	
Municipal Bonds					
	AAA	1,561	Aaa	1,101	
	AA	4,219	Aa	3,884	
	A	7,760	A	6,512	
	BBB	6,479	Baa	4,508	
	BB	-	Ba	689	
	NR	3,811	NR	7,136	
Misc Other Fixed Income					
	AA	32	Aa	32	
	A	514	A	514	
	BBB	710	Baa	710	
	NR	313	NR	313	
Money Market Mutual Funds					
	AAA	324,104	Aaa	324,104	
	NR	85,113	NR	85,113	
<b>Total</b>		<b>\$ 2,958,331</b>		<b>\$ 2,958,331</b>	

*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 representing 5% or more of the total investments. The only exemptions from disclosures are US Government Debt, US Government Guaranteed Investments, Mutual Funds, or External Investment Pools. For Intermediate and Core Fixed Income Managers, securities in any one issuer should be limited to not more than 5% of the investment manager's portion of the Fund portfolio measured at market value. For Core Plus Fixed Income Managers, the exposure of each manager's portfolio should be limited to not more than 10% of the manager's portion of the Fund portfolio measured at market value.

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

FNMA: 12.55%, \$350,983,458

*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. There was no foreign currency risk.

*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

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2009:

<b>TrustINDiana - Local Government Investment Pool</b> (Amounts are in thousands)				
Investment Type	Amortized Cost	Investment Maturities (in Years)		
		Less than 1		1 - 5
U.S. Agencies	16,023	\$	10,682	\$ 5,341
Commercial Paper	18,669		18,669	-
Money Market Mutual Funds	81,403		81,403	-
<b>Total</b>	<b>\$ 116,095</b>	<b>\$</b>	<b>110,754</b>	<b>\$ 5,341</b>

any borrowers because the amount the State owes the borrowers exceeds the amounts the borrowers owe the State.

**TrustINDiana, Local Government Investment Pool (Investment Trust Funds)**

*Investment Policy*

Indiana Code, Title 5, Article 13, Chapter 9, Section 11 established the local government investment pool (TrustINDiana) within the office and custody of the Treasurer of State. The Treasurer of State shall invest the funds in TrustINDiana in the same manner, in the same type of instruments, and subject to the same limitations provided for the deposit and investment of state funds by the Treasurer of State under Indiana Code 5-13-10.5. State statute does not establish any parameters or guidelines related to the concentration of investment risk, investment credit risk, nor interest rate risk. However, pursuant to IC 5-13-9-11(g)(7), no less than fifty percent of funds available for investment shall be deposited in banks qualified to hold deposits of participating local government entities. Investment Criteria have been established to create the principles and procedures by which the funds of TrustINDiana shall be invested and to comply with state statute relating to the investment of public funds.

*Valuation of Investments*

Consistent with the provisions of a 2a-7 like pool as defined by GASB Statement No. 31, TrustINDiana securities are valued at amortized cost, which approximates market value.

*Interest Rate Risk*

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

**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, 2009, 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. TrustIndiana limits its investments in any one issuer to the highest rating category issued by one nationally recognized statistical rating organization.

The following table provides information on the credit quality ratings for investments in TrustIndiana:

TrustIndiana - Local Government Investment Pool (Amounts are in thousands)				
Investment Type	S & P		Moody's	
	Ratings	Fair Value	Ratings	Fair Value
U.S. Agencies	AAA	\$ 16,023	Aaa	\$ 16,023
Commercial Paper	A-1	18,669	P-1	18,669
Money Market Mutual Funds	AAA	81,403	Aaa	81,403
Total		<u>\$116,095</u>		<u>\$116,095</u>

**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 representing 5% or more of the total investments. As noted above, TrustIndiana is required to be comprised of no less than 50% of deposits in banks from an approved list maintained by the State of Indiana. In addition, TrustIndiana limits its investments in any one issuer to 40% of net assets if the issuer is rated A1+/P1 and 25% of net assets if the issuer is rated A1/P1. The only exemptions from disclosures are US Government Debt, US Government Guaranteed Investments, Mutual Funds, or External Investment Pools.

There were no investments in any one issuer that represent 5% or more of the total Pool investments.

**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 under an agreement which requires the loaned securities to be collateralized in the form of (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 an amount at least equal to 102% of the current market value of the loaned securities. The net income earned through securities lending is recorded as additional income to the Pool.

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.

**2. Pension and Other Employee Benefit 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 10-1-2-2(c), established the prudent investor standard as the primary statutory provision governing the investment of the Trust’s assets. IC 10-1-2-2 (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:

Investment Type	S & P		Moody's	
	Ratings	Fair Value	Ratings	Fair Value
State Police Pension (Amounts in thousands)				
U.S. Treasuries	AAA	\$ 11,985	Aaa	\$ 11,985
U.S. Agencies	AAA	22	Aaa	22
Government Assets and Mortgage Backed Securities	AAA	10,257	Aaa	10,257
Collateralized Mortgage Obligations				
Corporate CMO's	AAA	51	Aaa	51
Government CMOs	AAA	6,836	Aaa	6,836
Corporate Bonds	AA	2,387	Aa	3,038
	A	14,115	A	12,911
	BBB	10,790	Baa	9,763
	BB	1,408	Ba	3,834
	B	-	B	60
	CCC & Below	1,283	CCC & Below	1,283
	NR	906	NR	-
Corporate Asset Backed	AAA	16,388	Aaa	10,451
	AA	-	Aa	2,193
	A	3,185	A	2,493
	BBB	7,031	Baa	8,218
	BB	414	Ba	2,149
	B	507	B	4,536
	CCC & Below	875	CCC & Below	1,638
	NR	3,920	NR	642
Foreign Bonds	AA	37	Aa	-
	NR	-	NR	37
Private Placements	AAA	552	Aaa	33
	AA	1,540	Aa	1,616
	A	1,295	A	2,821
	BBB	4,669	Baa	3,513
	BB	-	Ba	73
	B	599	B	599
Municipal Bonds	AAA	1,011	Aaa	-
	AA	1,875	Aa	487
	NR	494	NR	2,893
Money Market Mutual Funds	AAA	10,253	Aaa	10,253
	NR	571	NR	571
Total		\$ 115,256		\$ 115,256

### *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, 2009, 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) custodian's 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 its 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 ten different investments 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 Managers:** equity holdings in any one company should not exceed 7.5% of the market value of the investment manager's portion of the Fund's portfolio. Equity holdings in any one industry should not exceed 25% of the market value of the investment manager's portion and equity holdings in any one sector should not exceed 35% of the investment manager's portfolio market value.

**Non-US Equity Investment Managers:** equity holdings

in any one international company shall not exceed 7.5% of the total value of all investments in international equity securities and equity holdings in any one country shall not exceed 35% of all investments in international equity securities.

**Domestic Core Fixed/ Domestic Core Plus/Hybrid Managers:** securities of any one issuer is limited to not more than 5% of the investment manager's portion of the portfolio measured at market value. 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%.

There were no investments in any one issuer that represents 5% or more of the total investments.

**Interest Rate Risk –** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The Fund's policy for controlling its exposure to interest rate fluctuations should be viewed with the appropriate perspective. A long-term strategy was employed to achieve the Fund's objectives, but there was consideration given to the short-term liquidity needs to meet disbursements required by the Fund. The asset allocation and investment manager structure was designed to tolerate some interim fluctuations in market value while maintaining a long-term return objective to exceed the actuarial assumed interest rate of 7%.

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

<b>State Police Pension</b> (Amounts in thousands)					
<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in Years)</b>			
		<b>Less than 1</b>	<b>1 - 5</b>	<b>6- 10</b>	<b>More than 10</b>
U.S. Treasuries	\$ 11,985	\$ 2,092	\$ 7,764	\$ 1,771	\$ 358
U.S. Agencies	17,115	6	394	660	16,055
Collateralized Mortgage Obligations					
Corporate CMO's	51	-	-	51	-
Corporate Bonds	30,889	-	5,699	15,497	9,693
Corporate Asset Backed	32,320	-	1,911	992	29,417
Foreign Bonds	37	-	37	-	-
Private Placements	8,655	45	3,370	1,402	3,838
Municipal Bonds	3,380	-	-	427	2,953
Money Market Mutual Funds	10,824	10,824	-	-	-
<b>Total Fixed Income Securities</b>	<b>\$ 115,256</b>	<b>\$ 12,967</b>	<b>\$ 19,175</b>	<b>\$ 20,800</b>	<b>\$ 62,314</b>

**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. There was no foreign currency risk.

**Securities Lending Credit Risk -** The Treasurer of

State is authorized by Indiana Cod 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, and agency of the

United States, an agency of the United States, 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 Police Pension Trust had no securities on loan and thus no credit risk exposure.

*State Employee Retiree Health Benefit Trust Fund*

Investment Policy – Indiana Code, Title 5, Article 13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. However, the Retiree Health Benefit Trust Fund has separate investment authority as established under Indiana Code 5-10-8-8.5 (b). The Treasurer of State shall invest the money in the trust fund not currently needed to meet the obligations of the trust fund in the same manner as other public money may be invested. There is no formal investment policy for the investment of these funds other than compliance to State statute. State statute does not establish any parameters or guidelines related to the concentration of investment risk, investment credit risk, nor interest rate risk.

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:

State Employee Retiree Health Benefit Trust Fund (Amounts are in thousands)				
Investment Type	S & P		Moody's	
	Ratings	Fair Value	Ratings	Fair Value
U.S. Agencies	AAA	\$ 76,885	Aaa	\$ 76,885
Total		\$ 76,885		\$ 76,885

*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, 2009, 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 its 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 representing 5% or more of the total investments. The only exemptions from disclosures are US Government Debt, US Government Guaranteed Investments, Mutual Funds, or External Investment Pools.

There were no investments in any one issuer that represent 5% or more of the total Trust Fund that would require disclosure.

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. There was no foreign currency risk.

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.

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, 2009:

State Retiree Health Benefit Trust (Amounts in thousands)		
Investment Type	Fair Value	Investment Maturities (in Years)
		Less than 1
U.S. Treasuries	\$ 76,885	\$ 76,885
Total Fixed Income Securities	\$ 76,885	\$ 76,885

### 3. Pension Trust Funds – Discrete Component Units

#### Public Employees' Retirement System

Investment Guidelines and Limitations – The Indiana General Assembly enacted the prudent investor standard to apply to the PERF Board of Trustees and govern all its investments. Under the statute (IC 5-10.3-5-3(a)), the PERF Board of Trustees 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 PERF Board of Trustees also is required to diversify such investments in accordance with the prudent investor standard.

Within these governing statutes, the PERF Board of Trustees has broad authority to invest the assets of the plans. The PERF Board of Trustees 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 accounts, mutual funds or other structures acceptable to the PERF Board of Trustees.

The PERF Board of Trustees approved a new asset allocation for the Consolidated Retirement Investment Fund (CRIF) on October 17, 2008 as follows:

Asset Classes	Target Norm - %	Allowable Ranges - %
Equities - Domestic	15	10 - 20
Equities - International	15	10 - 20
Equities - Global	10	5 - 15
Fixed Income - Core & Core-Opportunistic	20	15 - 25
Fixed Income - TIPS	10	5 - 15
Alternatives – Private Equity	10	5 - 15
Alternatives – Real Assets	10	5 - 15
Alternatives – Absolute Return	10	5 - 15

Investments in the PERF annuity savings accounts and Legislators' Defined Contribution plan 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 investment types, unless otherwise approved by the PERF Board of Trustees, are prohibited by the PERF investment policy statement IPS (IPS):

- Short sales of any kind.
- Repurchase agreements that may create any kind of leverage in the portfolio.
- Repurchase agreements as non cash equivalents.
- Purchases of letter or restricted stock.
- Buying or selling on the margin.
- Purchases of futures and options.
- Entrance into swap agreements.
- Purchases of derivative securities which have any of the following characteristics: leverage, indexed principal payment, or links to indices representing investments.
- Purchases of interest only or principal only collateralized mortgage obligations.
- Any transaction that would be a “prohibited transaction” under the Internal Revenue Code Section 503.
- Purchases of inverse floaters.

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 two demand deposit accounts are carried at cost and are insured up to \$250,000 each. Deposits in the demand accounts held in excess of \$250,000 are not collateralized. Deposits with the Indiana Treasurer of State are entirely insured. Deposits held with the investment custodian are insured up to \$250,000.

Cash Deposits (dollars in thousands)	Total	JP Morgan Chase	National City Bank	Bank of New York Mellon
Demand deposit account – carrying value	\$919.1	\$795.5	\$61.9	\$61.7
Demand deposit account – bank balance	85,070.6	77,103.3	83.1	7,884.2
Held with Treasurer of State	54,657.9	-	-	-
Held with investment Cash	32,248.8	-	-	-

Credit Risk – PERF's IPS sets credit quality rating guidelines and benchmark indices for each of its sub-asset classes and is outlined in each portfolio manager contract. The guidelines and benchmarks are as follows: the Enhanced Index and Core fixed income portfolio (excluding TIPS) must maintain an

average credit quality rating of at least A1 (Moody's) or the equivalent; securities must be rated at least Baa3 (Moody's) or the equivalent at the time of purchase unless specifically approved by the PERF Board of Trustees. The Core-Opportunistic fixed income portfolio must maintain an average credit quality rating of at least investment grade by Moody's or the equivalent. The benchmark for the fixed income portfolio is the Barclays Capital Aggregate Bond Index and Barclays Capital Universal Bond Index; and the Treasury Inflation Protection Securities (TIPS) portfolio must substantially match the quality of its benchmark, the Barclays Capital US TIPS Index. 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, 2009 is as follows:

Quality Rating (dollars in millions)	Fair Value	Percent of Portfolio
AAA	\$2,692.1	54.4
AA	88.3	1.8
A	347.7	7.0
A-1	109.8	2.2
BBB	457.4	9.3
BB	79.0	1.6
B	49.5	1.0
CCC	21.3	0.4
CC	5.4	0.1
C	0.7	0.0
D	0.2	0.0
Not Rated	1,097.6	22.2
Total	\$4,949.0	100

The credit risk schedule includes debt securities, short-term money market funds, bond mutual funds and bond commingled funds. Of the total fair value reported, approximately \$2.3 billion (46.2 percent) is AAA rated US Treasury, US Agency or US Agency Mortgage Backed Securities. The remaining balance of approximately \$2.6 billion (53.8 percent) consists of corporate debt, short-term custodial money market funds, commingled or mutual funds, municipal securities, asset-backed, mortgage-backed securities, and emerging markets debt of various credit quality ratings.

The \$1.1 billion not rated by Standard & Poor's is primarily in money market funds, mutual funds, or commingled funds.

**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 or the counterparty trust department's agent, but not in PERF's name.

There was no custodial credit risk for investments including investments related to securities-lending collateral as of June 30, 2009. Per IC 5-10.3-5-4(a) and IC 5-10.3-5-5, securities held for the fund are held by banks under custodial agreements in the fund's name. While PERF's Investment Policy Statement does not specify custodial risk, statutes provide certain custodial requirements.

**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. PERF's IPS limits the purchase of securities of any one issuer (with the exception of the US Government and its agencies) to an initial cost of 5 percent or two times the benchmark weight of the market value of an investment manager's portfolio, whichever is greater. Through capital appreciation, no such holding should exceed 10 percent of the market value of the total holdings of such investment manager's portfolio, unless the Board approves an exception.

For investment managers contracted to manage concentrated portfolios, exposure to the securities issued by a single issuer (with the exception of the U.S. Government and its agencies) is limited to 7.5 percent or two times the benchmark weight of the investment manager's portfolio, whichever is greater. Through capital appreciation, no such holdings should exceed 15 percent of the market value of the total holdings of the investment manager's portfolio, unless the Board approves an exception.

At June 30, 2009, there was no concentration of credit risk for the CRIF.

**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 100 basis point change in interest rates.

PERF's IPS sets duration guidelines for the fixed income investment portfolio. The Indexed and Enhanced Index fixed income portfolios must substantially match the duration characteristics of the

benchmark index. The Core fixed income portfolio limits the duration of the portfolio to not vary more than 20 percent above or below the duration of the applicable benchmark index. The duration of the Core-Opportunistic portfolio may not vary more than 5 years above or below the duration of the benchmark index.

Duration information is provided below:

Investment Type (dollars in millions)	Net Asset Fair Value	% of Net Asset Fair Value	Duration
Short-term Investment Fund	\$879.6	15.9	0.00
Government & Agency Obligations	1,285.7	23.2	4.35
Residential & Commercial Mortgage-Backed Securities	1,367.1	24.7	2.52
Corporate Bonds	1,050.4	18.9	5.46
Asset-backed	117.6	2.1	0.92
Municipal Securities	21.6	0.4	7.90
Other <sup>1</sup>	822.0	14.8	1.17
<b>Total Net Asset Fair Value</b>	<b>\$5,544.0</b>	<b>100</b>	<b>2.89</b>

<sup>1</sup> Includes mutual funds, collective trusts, and derivatives

PERF investments are directly, or indirectly, sensitive to changes in the interest rate environment. Some derivative products, identified in the derivatives financial instruments section, are also sensitive to interest rate risk. 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.

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 focused primarily 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 IPS 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. 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 30 percent of market value to be held in emerging markets. PERF has exposure to foreign currency fluctuation as follows:

Currency (dollars in millions)	Total Fair Value	% of Foreign Currency
Euro	\$663.8	31.7
Japanese Yen	401.2	19.1
Pound Sterling	336.5	16.0
Australian Dollar	135.2	6.5
Hong Kong Dollar	117.7	5.6
Swiss Franc	80.1	3.8
Other	362.5	17.3
<b>Total</b>	<b>\$2,097.0</b>	<b>100.0</b>

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 PERF Board of Trustees requires that collateral securities and cash be initially pledged at 102 percent of the market value of the securities lent. No more than 40 percent of the CRIF’s total assets may be lent at one time. The custodian bank and/or its securities lending subagents provide 100 percent indemnification to the PERF Board of Trustees and the CRIF against borrower default, overnight market risk, and failure to return loaned securities. Securities received as collateral cannot be pledged or sold by the PERF Board of Trustees unless the borrower defaults. PERF retains the market value risk with respect to the investment of the cash collateral. During the reporting period through June 30, 2009, PERF experienced a credit event that negatively impacted the value of the collateral pool. Given PERF’s high liquidity profile, this event did not materially impact the liquidity of the securities lending portfolio. PERF will inject capital into the pool during fiscal year 2010 to bring the value of the collateral pool back to 102% of the market value of securities lent.

Cash collateral investments are subject to the investment guidelines specified by PERF's IPS. It states that the maximum weighted average days to maturity may not exceed 60. The average term to maturity of the cash collateral portfolio was approximately 17 days at June 30, 2009. The securities lending agent match the maturities of the cash collateral investments with stated securities loans' 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, 2009, was:

<b>Investment Type (dollars in millions)</b>	<b>Loan Value</b>
Government Obligation	\$903.8
Corporate Bonds	75.6
Equities	1,336.8
<b>Total Fair Value</b>	<b>\$2,316.2</b>

The credit quality of the cash collateral investments as described by Standard and Poor's at June 30, 2009, was:

<b>Cash Collateral Investments Quality Rating (dollars in millions)</b>	<b>Fair Value</b>	<b>Percent of Portfolio</b>
AAA	\$ 83.3	3.5
AA	80.0	3.4
A-1 and A-1+	2,118.8	89.5
A2	25.0	1.1
Not Rated	60.1	2.5
<b>Total</b>	<b>\$ 2,367.2</b>	<b>100</b>

The majority of A-1 and A-1+ collateral investments are commercial paper. The majority of the Not Rated collateral investments are money market funds.

At June 30, 2009, PERF had loaned approximately \$36.2 million US Treasury and government agency obligations for securities collateral. The securities collateral value was approximately \$36.9 million which represented 102 percent coverage.

Derivative Financial Instruments – PERF's IPS authorizes the use of derivative instruments as a meaningful component of the strategies within the absolute return and commodities allocations. The fair value of total investments in the absolute return portfolio was \$716 million and the fair value of total investments in the commodities portfolio was \$349 million at June 30, 2009. PERF's directly held 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 buy 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 PERF Board of Trustees, 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 but were not limited to, foreign currency forward contracts, SWAPS, options, and futures.

Foreign currency forward contracts are used to hedge against the currency risk in PERF's foreign equity 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, 2009, PERF's investments included the following currency forwards balances (dollars in millions):

Forward Currency Contract Receivables	\$451.8
Forward Currency Contract Payables	\$452.5

PERF's investment managers use financial futures to replicate an underlying security or index they wish to hold or sell in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security. 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. Futures contracts may be used for the purpose of investing cash flows or modifying duration but in no

event may leverage be created by any individual security or combination of securities. At June 30, 2009, PERF's notional value in these futures totaled approximately \$1.4 billion.

Long Term Commitments for Alternative Investments – PERF had entered into long term commitments for funding alternative investments in private equity and private real estate of approximately \$2.9 billion as of June 30, 2009. The fund has disbursed approximately \$1.0 billion toward the commitments as of June 30, 2009. The expected investment term of these commitments extend through 2028. These amounts include five Euro-denominated and one Norwegian Kroner-denominated commitments to limited liability partnerships converted to United States dollars at the closing exchange rate as of June 30, 2009.

*State Teachers' Retirement Fund (TRF)*

Investment Policy - The Fund was established in 1915 to pay retirement, disability, death, and survivor benefits to public school teachers and administrators, regularly employed teachers at certain state universities and other educational institutions, and certain other educational employees. Pursuant to Indiana law and the Internal Revenue Code, TRF must be operated for the exclusive benefit of, and solely in the interest of, members and their beneficiaries. TRF 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, TRF 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 5-10-4.

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 5-10.4-3-10.”

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.

The strategic asset allocation for employer assets effective on June 30, 2009 is as follows:

Domestic Equities	29%
International Equities	20%
Private Equity	10%
Real Estate	8%
Absolute Return	7%
Commodities	1%
Fixed Income	25%
Total	100%

The asset allocation for the guaranteed fund, which are employee assets in the member's Annuity Savings Accounts, is 90% fixed income securities and 10% equity securities.

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 credit risk of investments policy is set on a manager by manager basis.

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.

Rating	Fair Value	Percentage of Portfolio
Aaa	\$ 918,527	23.9%
US Government Guaranteed	912,148	23.8%
Aa	134,994	3.5%
A	380,524	9.9%
Baa	472,897	12.3%
Ba	121,427	3.2%
B	12,362	0.3%
Caa	49,173	1.3%
Ca	20,824	0.5%
C	642	0.0%
Unrated	816,085	21.3%
Total	\$ 3,839,603	100.0%

**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 5-10.4-3-13, all fund investments are held by banks under custodial agreements and all custodians must be domiciled in the United States.

**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 \$250,000 each. Deposits in the demand accounts held in excess of \$250,000 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.

<b>Assets Exposed (dollars in thousands):</b>	
Demand Deposit Account – Bank Balance	\$15,956
Margin Deposits with Brokers	22,946
Cash Collateral with Counterparty	6,390
Cash Held with Custodian	5,842
<b>Total Exposed</b>	<b>51,134</b>

**Concentration of Credit Risk** – As of June 30, 2009, 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 Barclays Capital Aggregate Index as the benchmark for performance measurement of domestic fixed income managers and various other indices for international fixed income managers.

As of June 30, 2009, the Fund had the following duration information (dollars in thousands):

<b>Investment Type:</b>	<b>Net Asset Fair Value</b>	<b>% of Net Asset Fair Value</b>	<b>Effective Duration</b>
Short Term Investment Funds	\$ 413,505	10.8%	0.00
Short Term Bills and Notes	94,064	2.5%	0.39
Commercial Paper	2,800	0.1%	0.00
Asset-Backed Securities	44,388	1.2%	2.40
Commercial Mortgage-Backed Securities	217,391	5.7%	4.93
Corporate Bonds	1,152,989	30.1%	5.05
Corporate Bonds	114,099	3.0%	N/A
Index Linked Government Bonds	29,503	0.8%	4.09
Guaranteed Fixed Income	23,768	0.6%	1.38
Government Agencies	203,673	5.3%	4.60
Government Bonds	632,980	16.5%	4.20
Government Mortgage Backed Securities	731,637	19.1%	3.36
Bank Loans	58,998	1.5%	N/A
Municipal/Provincial Bonds	8,061	0.2%	6.97
Collateralized Mortgage Obligations	26,149	0.7%	1.39
Duration Not Available	73,803	1.9%	N/A
<b>Total</b>	<b>\$ 3,827,808</b>	<b>100%</b>	

**Foreign Currency Risk** – As of June 30, 2009, 12.8% of the Fund's investments were in foreign currencies. The Fund does not have a formal policy relating to foreign currency risk. The table below breaks down the Fund's exposure to each foreign currency (in thousands of dollars):

<b>Currency</b>	<b>Total Fair Value</b>	<b>Percent of Total Fund Fair Value</b>
Euro Currency Unit	\$ 330,289	4.6%
Japanese Yen	198,757	2.8%
British Pound Sterling	129,471	1.8%
Australian Dollar	60,634	0.9%
Swiss Franc	37,591	0.5%
Hong Kong Dollar	29,484	0.4%
Canadian Dollar	24,967	0.4%
Norwegian Krone	22,965	0.3%
Swedish Krona	16,435	0.2%
Other	67,110	0.9%
<b>Totals</b>	<b>\$ 917,703</b>	<b>12.8%</b>

**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 \$152 million is invested in a pooled fund. As of June 30, 2009, TRF had an \$11.8 million liability allocated to the TRF's Investment portfolio relating to a difference in the book value of the assets of the pooled fund over the market value of the assets in that fund.

As of June 30, 2009, the Fund had the following securities on loan (in thousands):

Security Type	Market Value of Loaned Securities Collateralized by Cash	Market Value of Loaned Securities Collateralized by Noncash	Total Securities Loaned
Global Equities	\$ 13,118	\$ 1,310	\$ 14,428
U.S. Agencies	1,255	-	1,255
U.S. Corporate Fixed	9,341	-	9,341
U.S. Equities	53,213	30	53,243
U.S. Gov't Fixed	70,896	-	70,896
Total	\$ 147,823	\$ 1,340	\$ 149,163

Outstanding Short Sales – Short sales occur when investments have been sold which are not yet owned by the fund. Prior to settlement of the sale, the investments will be procured. For the investments directly held by the fund within the custody accounts, the outstanding short sales are included as accounts receivable from sales of investments and as negative investments. A schedule of the negative investments as of June 30, 2009 is listed below. These investments reduced the debt securities investments shown on the balance sheet. These transactions involve market risk as the asset to be delivered may become more costly to procure and then losses would be realized.

A schedule of the outstanding short sales at June 30, 2009 follows (dollars in thousands):

Type of Investment	Total Short Sales
U.S. Treasuries	\$ 13,219
Government Mortgage Backed	13,277
Total	\$ 26,496

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. 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, 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.

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 portfolio's 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, 2009, the total offset was \$354.8 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.

Cash and cash equivalent futures are used to manage exposure at the front end of the yield curve. These include swaps with a duration of one year or less, and Eurodollar, Euribor and other futures based on short-term interest rates. At June 30, 2009, TRF had no notional value in these instruments.

Equity derivatives–futures 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, 2009, TRF's equity derivatives position had a

notional value of \$284.4 million and an offset of an equal value of \$284.4 million.

Fixed income derivatives—futures are used to manage interest rate fluctuations. At June 30, 2009, TRF's fixed income futures had a notional value of \$40.6 million and an offset of an equal value of \$40.6 million. Commodity futures are used to gain exposure to a particular commodity. At June 30, 2009, TRF's commodity futures had a notional value of \$29.8 million and an offset of an equal value of \$29.8 million.

Stock rights/warrants give the holder the right to buy a stock at a certain price until a certain date. At June 30, 2009, the carrying value of TRF's stock rights and warrants totaled \$0.1 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, 2009, the market value of TRF's swaps was \$10.9 million and swap liabilities totaled \$10.1 million.

Foreign currency contracts are used to hedge against currency risk and to purchase investments in non-dollar currencies. A foreign currency contract is an agreement to buy and sell a specific amount of foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency contracts are marked to market on a daily basis. At June 30, 2009, TRF had Pending Foreign Exchange purchases of \$122.8 million and Pending Foreign Exchange sales of \$123.3 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, 2009, the carrying value of TRF's CMO holdings totaled \$60.9 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, 2009, TRF had \$106.6 million in TIPS holdings.

TRF has two investment accounts that use absolute return strategies. One account uses a Pure Alpha strategy, where value is added through a broadly diversified active portfolio of global fixed income, currency, equity, inflation-indexed bond, EMD, EMFX, and Option markets. As of June 30, 2009, TRF had \$72.3 million invested in this strategy. The other account is based on the concept of mean reversion. This strategy uses both top-down and bottom-up valuation methodologies to value asset classes, countries and individual securities in order to allocate assets to undervalued countries, currencies and securities. As of June 30, 2009, TRF had \$113.1 million invested in this strategy.

Partnership Investments – The Board of Trustees had approved commitments and TRF had entered into agreements to fund limited liability partnerships of \$1,111.8 million as of June 30, 2009. The Fund had a net asset value of \$428.4 million as of June 30, 2009, invested in these partnerships. The funding period for the amounts that TRF has already committed is from April 2002 to approximately June 2018. The outstanding commitments at June 30, 2009, totaled \$519.9 million.

## **B. Interfund Transactions**

### **Interfund Loans**

Interfund loans of \$39.9 million represents amounts owed by the Bureau of Motor Vehicles Commission Fund to the Motor Vehicle Highway Fund.

As explained in Note III(A) above, temporary cash overdrafts in various funds are reported as interfund loans from the General Fund. As of June 30, 2009,

the following funds had temporary cash overdrafts covered by loans from the General Fund: Welfare Medicaid Administration Fund, \$0.6 million, the Federal Food Stamp Program Fund, \$8.0 million, and the Major Construction Army National Guard Fund, a non-major capital projects fund, \$4.9 million.

The following is a summary of the Interfund Loans as of June 30, 2009:

<b>Interfund Loans - Current</b>		
	Loans To Governmental Funds	Loans From Governmental Funds
<b>Governmental Funds</b>		
General Fund	\$ 13,558	\$ -
Motor Vehicle Highway Fund	39,913	-
Nonmajor Governmental Funds	-	53,471
<b>Total Governmental Funds</b>	<u>53,471</u>	<u>53,471</u>
<b>Total Interfund Loans</b>	<u>\$ 53,471</u>	<u>\$ 53,471</u>

**Interfund Services Provided/Used**

Interfund Services Provided of \$10.5 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, 2009:

<b>Interfund Services Provided/Used</b>		
	Interfund Services Provided To Governmental Funds	Interfund Services Used By Governmental Funds
<b>Governmental Funds</b>		
General Fund	\$ -	\$ 3,579
Motor Vehicle Highway Fund	-	322
State Highway Department	-	423
Nonmajor Governmental Funds	-	6,165
<b>Total Governmental Funds</b>	<u>-</u>	<u>10,489</u>
<b>Proprietary Funds</b>		
Internal Service Funds	10,489	-
<b>Total Proprietary Funds</b>	<u>10,489</u>	<u>-</u>
<b>Total Interfund Services Provided/Used</b>	<u>\$ 10,489</u>	<u>\$ 10,489</u>

**Due From/Due Tos**

*Current* – Interfund balance of \$32.1 million represents the accrued distribution amount from the State Lottery Commission to the Build Indiana Fund. The Indiana Finance Authority owed \$201 thousand to the General Fund.

*Non-current* – The interfund balance of \$50.0 million represents funds the General Fund borrowed in June 2004, 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. This non-current interfund balance appears on the government-wide statements, but not the General Fund statements.

The following are current and non-current schedules of Due From/Due Tos of Component Units, as of June 30, 2009:

<b>Component Units - Current</b>		
	Due From Component Units	Due To Primary Government
<b>Governmental Funds</b>		
General Fund	\$ 201	\$ -
Nonmajor Governmental Funds	32,057	-
Total Governmental Funds	<u>32,258</u>	<u>-</u>
<b>Component Units</b>		
Indiana Finance Authority	-	201
State Lottery Commission	-	32,057
Total Component Units	<u>-</u>	<u>32,258</u>
<b>Total Due From/To</b>	<b><u>\$ 32,258</u></b>	<b><u>\$ 32,258</u></b>

<b>Component Units - Non-current</b>		
	Due From Primary Government	Due To Component Units
<b>Governmental Funds</b>		
General Fund	\$ -	\$ 50,000
Total Governmental Funds	<u>-</u>	<u>50,000</u>
<b>Component Units</b>		
Board for Depositories	50,000	-
Total Component Units	<u>50,000</u>	<u>-</u>
<b>Total Due From/To</b>	<b><u>\$ 50,000</u></b>	<b><u>\$ 50,000</u></b>

Effective July 1, 2008, members who have at least one year of service in both the Public Employees' Retirement Fund (PERF) and the State Teachers' Retirement Fund (TRF) have the option of choosing from which of these funds they would like to retire. The fund that the employee chooses pays the retirement benefits to the employee. The employee's pension is computed and vested status determined on the basis of the combined creditable service in both funds. The annuity, if any, is computed on the basis of amounts credited to the employee in the annuity savings accounts in both funds.

The fund in which the employee was a member must pay to the fund responsible for paying the employee's benefits:

- (1) the amount credited to the employee in the employee's annuity savings account, minus any amount withdrawn by the employee; and
- (2) the proportionate actuarial cost of the employee's pension.

At the time the retirement benefit is calculated, PERF and TRF will set up a receivable (Due from component unit) or payable (Due to component unit) in their respective Statements of Fiduciary Net Assets based on which retirement fund will pay benefits to the member.

The following is a schedule of Due From/ Due Tos within Component Units, as of June 30, 2009:

<b>Within Component Units</b>		
	Due From Component Units	Due To Component Units
<b>Discretely Presented Component Units Pension Trust:</b>		
Pension Trust		
Public Employees' Retirement Fund	\$ 1,633	\$ 618
State Teachers' Retirement Fund	618	1,633
Total Discretely Presented Component Units Pension Trust	<u>2,251</u>	<u>2,251</u>
<b>Total Due From /To</b>	<b><u>\$ 2,251</u></b>	<b><u>\$ 2,251</u></b>

## 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 are 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: \$848.2 million was transferred in to reimburse the General Fund for the Property Tax Replacement Fund's (PTRF's share of tuition support per legislation. Another \$9.6 million came from the PTRF as intercept payments for Marion County's juvenile detention charges. \$419.7 million was transferred in from the State Gaming Fund representing wagering tax from riverboats and slot machine wagering tax from horse racetracks. The General Fund's Motor Vehicle Excise Tax Replacement Account received \$236.2 million in transfers in from the Build Indiana Fund per IC 4-30-17-3.5. An additional \$44.0 million was transferred in from the Build Indiana Fund's lottery and gaming surplus account at fiscal year end. \$259.1 million was transferred in from individual, corporate, and sales taxes collected in the Department of Revenue's Collection Fund. The Public Welfare-Medicaid Assistance Fund received transfers in totaling \$229.2 million of which \$161.4 million represented reductions to Medicaid's state appropriations, \$34.4 million was for quality assessment fees collected throughout the fiscal year which can only be used for the state's share of Medicaid services under Title XIX of the Social Security Act, and \$33.4 million was received by the State's psychiatric hospitals for the disproportionate share hospital program. The Mental Institutions Fund transferred in \$99.2 million to reimburse the General Fund for the federal share of revenue accruing to the state development centers under IC 12-15 based on the federal Medicaid assistance percentage from the hospital's fiscal year 2009 revenues. The General Fund received transfers in of \$54.3 million for financial institutions tax collected per IC 6-5.5. \$38.6 million was transferred in from the Tobacco Settlement Fund for various health and welfare purposes. Nearly \$27.0 million was received from the Abandoned Property Fund primarily to transfer the balance in excess of \$500,000 to the General Fund pursuant to state law. \$20.8 million

was transferred in from the Skills 2016 Training Fund to a Department of Workforce Development administration account. \$20.4 million was transferred in from the Welfare-Work Incentive Fund for state hospital and FSSA operations as well as for statewide cost allocation plan recoveries to the General Fund. The Fire and Building Services Fund transferred in \$13.4 million for Department of Homeland Security administration and operations. The Motor Vehicle Commission Fund transferred in \$13.1 million mostly for a surplus adjustment, but also for its share of indirect costs and state retiree health plan costs. \$12.8 was transferred into the General Fund for excess riverboat admissions tax collected under IC 4-33-12-7

The following were transfers out from the General Fund: \$1.8 billion was transferred to the Property Tax Replacement Fund (PTRF) of which \$279.8 million was from adjusted gross income taxes and the balance of \$1.5 billion was to terminate the PTRF effective January 1, 2009 pursuant to PL 146-2008, Section 852 (2007-2009 Biennial Budget Bill). The Public Welfare Medicaid Assistance Fund received \$1.6 billion in transfers for Medicaid current obligations for the purpose of enabling the Office of Medicaid Policy and Planning to carry out all services under IC 12-8-6. These services include, but may not be limited to the provision of care and treatment for individuals with mental illness, developmental disability, long term care needs, and family and child services needs. The State Tuition Reserve Fund received transfers in totaling \$941.7 million which is for tuition support distributions under IC 20-43 whenever the budget director determines the state general fund cash balances or state revenues available for deposit in the General Fund will be insufficient to cover or fully fund such distributions. \$178.0 million was transferred to the Welfare, Child Service Fund administered by the Department of Child Services for family and children services including the Indiana Child Welfare Information System. The State Student Assistance Commission received transfers in totaling \$187.1 million for the Frank O'Bannon Grant program which provides need-based tuition and regularly assessed fees support for Hoosier students to attend eligible postsecondary institutions. The Department of Child Services Local Office Administration fund received transfers in totaling \$101.2 million for administration of children's services in the counties including the addition of 400 new caseworker positions over the biennium ending June 30, 2009. The Mental Health Centers Fund received transfers in totaling \$100.7 million for services to adults who are seriously mentally ill in comprehensive community mental health centers and for administration by the Department of Mental Health. The County Welfare Administration Fund received

transfers in of \$84.5 million for local office family and children administration and for the Indiana Client Eligibility System (ICES). The General Fund transferred \$80.3 million to the Welfare – State and Federal Assistance Fund for child care services and temporary assistance to needy families (TANF) to enable the FSSA's Division of Family Resources to carry out all services as provided in IC 12-14 and for adoption assistance services provided through the Department of Child Services. \$79.6 million was transferred to the Returned Check Revolving Fund as a result of checks received by the Department of Revenue that were unable to be cashed. Nearly \$64.0 million was transferred from the General Fund to the Motor Vehicle Highway Fund primarily for State Police administration and pensions. \$20.6 million was transferred to the Indiana Horse Racing Commission and the Indiana State Fair Commission from riverboat admissions taxes per IC 4-33-12. The Enterprise Common Processing and Analytics System (ENCOMPASS) project received \$12.0 million for development of the State's new statewide financial management system.

**Motor Vehicle Highway Fund** – The Motor Vehicle Highway Fund received a transfer in of \$64.2 million from the International Registration Plan Fund and represents Indiana's share of carrier registration fees collected under this plan. \$55.5 million was transferred in from the General Fund for State Police administration, pensions, and benefits. \$30.2 million was transferred in from the International Fuel Tax Agreement (IFTA)/Motor Carrier Clearing Account. The Gasoline and Special Fuel Tax Fund transferred in \$30.0 million for distribution to counties, cities, and towns per IC 6-6-1.1-801.5(c). \$5.5 million was transferred in from the Motor Carrier Regulation Fund.

The Motor Vehicle Highway Fund transferred out \$270.6 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. \$30.4 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. \$13.7 million was motor carrier surtaxes transferred out to the Road and Street Primary Highway Fund. The State Police Retirement Pension Fund received \$13.4 million from the MVH Fund representing retirement contributions.

**Medicaid Assistance Fund** – The Medicaid Assistance Fund had a transfer in of \$1.6 billion from the General Fund to support the state Medicaid program administered through the Office of Medicaid

Policy and Planning and. \$88.5 million was transferred in from the Mental Health Center Fund for funds collected from providers of services to the seriously mentally ill for the local/State set-aside match. \$55.7 million was transferred in from the Medicaid Indigent Care Trust Fund for reimbursement of hospital care for the indigent supplement payments made from the Medicaid Assistance Fund. There was also a transfer in of \$32.5 million from the Tobacco Settlement Fund for the Children's Health Insurance Program (CHIP Assistance).

Transfers out included \$229.2 million to the General Fund of which \$161.4 million was a reduction or reversal of the State Medicaid program's state appropriations, \$34.4 million went to the State Budget Agency for qualifying assessment fees that can only be used for the state's share of Medicaid services under Title XIX of the Social Security Act, and \$33.4 million was paid to the state psychiatric hospitals for disproportionate share hospital (DSH) payments. The Mental Institutions Fund received \$60.1 million for Medicaid DSH providers. \$22.7 million was transferred out to the Medicaid Indigent Care Trust Fund for additional payments to health care facilities up to the Medicare Upper Payment Limit. \$9.0 million was transferred to the Medicaid Administration Fund to support administration of the program.

**Major Moves Construction Funds** – The Major Moves Construction Fund had a transfer out of \$399.0 million to the State Highway Department for construction and maintenance of the State's highways, roads, and bridges.

**State Highway Department Fund** – The State Highway Department had the following major transfers in: \$270.6 million was transferred in from the Motor Vehicle Highway Fund for use by the Indiana Department of Transportation for maintenance services, access road construction, and the research and highway extension program. This is a legislative transfer as described above under the Motor Vehicle Highway Fund. \$135.5 million was transferred in from the Road and Street Primary Highway Fund's collection of motor fuel taxes, motor carrier surtaxes, and vehicle registration fees. \$399.0 million was transferred in from the Major Moves Construction Fund as described above for construction and maintenance of the State's highways, roads, and bridges. \$20.0 million was transferred in from the Gasoline and Special Fuel Tax Fund for highway maintenance services. The State Highway Department Fund also received transfers in totaling \$13.3 million from the Oversize/Overweight Holding Account for special permits issued to allow vehicles to travel on Indiana highways.

The State Highway Department had the following major transfers out: \$7.8 million was transferred to

the General Fund to provide funding for State Highway Department employees' portion of the Retiree Medical Benefits Plan that provides a Healthcare reimbursement arrangement for eligible state employee retirees. \$5.9 million was transferred to the Highway Construction Improvement Fund for use in the leasing of the state's highway infrastructure assets. \$2.2 million was transferred to the Indiana Department of Environmental Management's Underground Petroleum Storage Tank Excess Liability Trust Fund.

**Property Tax Replacement Fund** – The Property Tax Replacement Fund (PTRF) received the following transfers in: \$1.8 billion from the General Fund of which \$1.5 billion was transferred pursuant to PL 146-2008, Section 852 effective January 1, 2009 and \$279.8 million was received in individual income taxes

from the General Fund. \$188.6 million in riverboat wagering taxes was received from the State Gaming Fund.

The PTRF had the following transfers out: \$848.2 million to the General Fund for the PTRC's share of tuition support per PL 146-2008. \$121.4 million of riverboat wagering taxes to the Lottery and Gaming Surplus account (Build Indiana Fund) per IC 4-33-13-5. \$9.6 million to the General Fund for payment of Marion County's juvenile incarceration charges.

**ARRA of 2009 Fund** – The American Recovery and Reinvestment Act of 2009 Fund did not have any significant transfers in and out.

**Proprietary Funds**

**Non-Major Enterprise Funds**

**The Inns and Concessions Fund** – This fund had transfers in of \$2.1 million, representing cash contributions from the Department of Natural Resources (DNR) in the General Fund for capital projects at the DNR Inns.

Fund from the Institutional Industries Fund. This was transferred at the end of the current fiscal year per legislation.

**Internal Service Funds**

\$14.1 million was transferred from the General Fund to the Institutional Industries Fund, an Internal Service Fund. This transfer represents a return of funds which were previously transferred to the General Fund per legislation at the end of the prior fiscal year. \$10.1 million was transferred at year end to the General

\$12.6 million was transferred from the State Employee Health Insurance Fund, an Internal Service Fund. Of the \$12.6 million, \$8.4 million was rebated to state agencies for premiums due to excess reserves in the Health Insurance Fund, and the remaining \$4.2 million was transferred to the general fund to repay monies given to the Fund in 1999.

A summary of interfund transfers for the year ended June 30, 2009 is as follows:

	Operating transfers in	Operating transfers (out)	Net transfers
<b>Governmental Funds</b>			
General Fund	\$ 2,550,671	\$ (5,672,367)	\$ (3,121,696)
Motor Vehicle Highway Fund	202,329	(327,207)	(124,878)
Medicaid Assistance	1,820,551	(329,435)	1,491,116
Major Moves Construction Fund	-	(399,000)	(399,000)
State Highway Department	839,846	(19,473)	820,373
Property Tax Replacement Fund	2,019,620	(999,486)	1,020,134
ARRA of 2009	-	(6)	(6)
Nonmajor Governmental Fund	3,143,376	(2,822,931)	320,445
<b>Proprietary Funds</b>			
Inns and Concessions	2,113	-	2,113
Internal Service Funds	14,129	(22,730)	(8,601)
Total	<u>\$ 10,592,635</u>	<u>\$ (10,592,635)</u>	<u>\$ -</u>

### 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			Total Primary Government
	General Fund	Special Revenue Funds	Capital Projects Funds	
Income taxes	\$ 1,053,464	\$ 15,042	\$ -	\$ 1,068,506
Sales taxes	868,754	17,614	-	886,368
Fuel taxes	-	111,402	-	111,402
Gaming taxes	1,272	12,626	-	13,898
Inheritance taxes	37,293	-	-	37,293
Alcohol and tobacco taxes	33,249	18,501	1,830	53,580
Insurance taxes	3,759	25	-	3,784
Financial institutions taxes	-	30,242	-	30,242
Other taxes	24,464	36,415	-	60,879
Total taxes receivable	2,022,255	241,867	1,830	2,265,952
Less allowance for uncollectible accounts	(374,567)	(32,852)	(4)	(407,423)
Net taxes receivable	<u>\$ 1,647,688</u>	<u>\$ 209,015</u>	<u>\$ 1,826</u>	<u>\$ 1,858,529</u>
Tax refunds payable	<u>\$ 78,885</u>	<u>\$ 4,154</u>	<u>\$ -</u>	<u>\$ 83,039</u>

### D. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2009, was as follows:

#### Primary Government – Governmental Activities

	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,318,325	\$ 79,027	\$ (693)	\$ 1,396,659
Infrastructure	7,748,691	170,599	(30,796)	7,888,494
Construction in progress	749,097	783,015	(250,577)	1,281,535
Total capital assets, not being depreciated	<u>9,816,113</u>	<u>1,032,641</u>	<u>(282,066)</u>	<u>10,566,688</u>
Capital assets, being depreciated:				
Buildings and improvements	1,460,836	37,923	(25,155)	1,473,604
Furniture, machinery, and equipment	402,211	25,412	(27,547)	400,076
Infrastructure	14,235	-	-	14,235
Total capital assets, being depreciated	<u>1,877,282</u>	<u>63,335</u>	<u>(52,702)</u>	<u>1,887,915</u>
Less accumulated depreciation for:				
Buildings and improvements	(735,988)	(34,878)	16,539	(754,327)
Furniture, machinery, and equipment	(241,402)	(32,145)	21,414	(252,133)
Infrastructure	(13,121)	(180)	-	(13,301)
Total accumulated depreciation	<u>(990,511)</u>	<u>(67,203)</u>	<u>37,953</u>	<u>(1,019,761)</u>
Total capital assets being depreciated, net	<u>886,771</u>	<u>(3,868)</u>	<u>(14,749)</u>	<u>868,154</u>
Governmental activities capital assets, net	<u>\$ 10,702,884</u>	<u>\$ 1,028,773</u>	<u>\$ (296,815)</u>	<u>\$ 11,434,842</u>

## Primary Government – Business-Type Activities

	<u>Balance July 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30</u>
<b>Business-Type Activities:</b>				
Capital assets, not being depreciated:				
Construction in progress	3,056	-	(3,056)	-
Total capital assets, not being depreciated	<u>3,056</u>	<u>-</u>	<u>(3,056)</u>	<u>-</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 21,991	\$ 4,543	\$ -	\$ 26,534
Furniture, machinery, and equipment	811	-	(533)	278
Total capital assets, being depreciated	<u>22,802</u>	<u>4,543</u>	<u>(533)</u>	<u>26,812</u>
Less accumulated depreciation for:				
Buildings and improvements	(11,429)	(613)	-	(12,042)
Furniture, machinery, and equipment	(756)	(22)	533	(245)
Total accumulated depreciation	<u>(12,185)</u>	<u>(635)</u>	<u>533</u>	<u>(12,287)</u>
Total capital assets being depreciated, net	<u>10,617</u>	<u>3,908</u>	<u>-</u>	<u>14,525</u>
Business-type activities capital assets, net	<u>\$ 13,673</u>	<u>\$ 3,908</u>	<u>\$ (3,056)</u>	<u>\$ 14,525</u>

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

<b>Governmental activities:</b>	
General government	\$ 4,766
Public safety	26,124
Health	1,748
Welfare	6,988
Conservation, culture and development	8,466
Education	1,246
Transportation	17,865
Total depreciation expense - governmental activities	<u>\$ 67,203</u>
<b>Business-type activities:</b>	
Inns and Concessions	\$ 635
Total depreciation expense - business-type activities	<u>\$ 635</u>

## E. Leases

The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2009 and the assets acquired through capital leases are as follows:

<b>Future minimum lease payments</b>		
<b>Year ending June 30,</b>	<b>Operating leases</b>	<b>Capital leases Governmental Activities</b>
2010	\$ 19,064	\$ 105,258
2011	14,604	105,041
2012	9,004	103,384
2013	6,423	101,238
2014	4,174	101,391
2015-2019	2,149	504,733
2020-2024	675	501,819
2025-2029	-	501,189
2030-2034	-	3,630
2035-2039	-	-
<b>Total minimum lease payments (excluding executory costs)</b>	<b>\$ 56,093</b>	<b>2,027,683</b>
Less:		
Remaining premium(discount)		(26,521)
Amount representing interest		(715,055)
Present value of future minimum lease payments		<b>\$ 1,286,107</b>
<b>Assets acquired through capital lease</b>		
Land		\$ -
Infrastructure		37,376
Building		2,613
Machinery and equipment		1,271,270
less accumulated depreciation		(26,410)
		<b>\$ 1,284,849</b>

### *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 \$27.2 million for the year ended June 30, 2009. 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, 2009 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
<b>Governmental activities:</b>						
Compensated absences	\$ 148,385	\$ 2,120	\$ (3,233)	\$ 147,272	\$ 80,186	\$ 67,086
Due to component unit	84,561	-	(34,561)	50,000	-	50,000
Net pension obligation	964,367	1,639	(8,507)	957,499	-	957,499
Other postemployment benefits	35,745	36,086	-	71,831	-	71,831
Pollution remediation	-	66,677	-	66,677	14,609	52,068
Intergovernmental payable	212,957	-	(37,922)	175,035	125,035	50,000
Capital leases	1,322,176	5,658	(41,727)	1,286,107	43,209	1,242,898
	<u>\$ 2,768,191</u>	<u>\$ 112,180</u>	<u>\$ (125,950)</u>	<u>\$ 2,754,421</u>	<u>\$ 263,039</u>	<u>\$ 2,491,382</u>
<b>Business-type activities:</b>						
Compensated absences	\$ 423	\$ 271	\$ (186)	\$ 508	\$ 198	\$ 310
Claims liability	49,711	243	(4,250)	45,704	3,221	42,483
	<u>\$ 50,134</u>	<u>\$ 514</u>	<u>\$ (4,436)</u>	<u>\$ 46,212</u>	<u>\$ 3,419</u>	<u>\$ 42,793</u>

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), other postemployment benefits, pollution remediation, amounts due to component units, amounts due the federal government and compensated absence obligations. The General Fund typically has been used to liquidate any other long-term liabilities.

Long-term obligations of the business-type activities consist 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, 2009, 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 \$55.6 million in fund balance/net assets due to the creation of the new State Employee Retiree Health Benefit Trust Fund.

In the fund statements for the General fund, Special Revenue funds, and the government-wide statements, there is a decrease of \$187.1 million in fund balance/net assets for the removal of the IEDC from the reporting entity.

For the government-wide statements, there is a decrease of \$1.1 billion in net assets of which the majority is for recording the net pension obligation of the Teachers' Retirement Fund's pre-1996 retirement account.

For the government-wide statements, there is a decrease of \$48.7 million in net assets for the full accrual Medicaid payables and receivables not included in 2008.

For the government-wide statements, there is a decrease of \$18.5 million in net assets to eliminate duplicate taxes receivable in the Department of Revenue's July 2008 collections.

For the government-wide statements, there is an increase of \$25.1 million in net assets for Department of Administration (DoA) work in process. This was the

result of not capitalizing projects by June 30, 2008 that had been initiated prior to this date per DoA's work in process records.

For the government-wide statements, there was an increase of \$16.5 million in net assets for capital assets. This was the result of not capitalizing capital assets by June 30, 2008 that were acquired prior to this date and for corrections to acquisition cost by state agencies.

For the government-wide statements, there is a decrease of \$582.2 thousand in net assets for an Indiana Office of Technology lease that started in 2008 that it did not previously classify as a lease.

The net assets for business type activities increased by \$36.0 million as accounts receivable for the Unemployment Compensation Fund was understated by this amount for fiscal year 2008.

For the Internal Service funds and the government-wide statements, there is an increase of \$1.4 million in net assets for the Administrative Services Revolving fund as a result of the Motor Pool's 2008 ending balance for gasoline inventory being improperly reported and understated by this total.

For the fiduciary funds, beginning net assets increased by \$55.6 million due to the creation of the

new Retiree Health Benefit Trust Fund.

For the discrete component units, there was an increase of \$140.5 million due to adding three new component units. These three new discrete component units and their July 1, 2008 balances are: 1) Ports of Indiana, \$91.7 million; 2) State Fair Commission, \$39.9 million; and 3) Indiana Political Subdivision Risk Management Commission, \$8.9 million.

There was a decrease of \$38.4 million in beginning net assets for the correction of errors by Indiana University and Ivy Tech Community College.

Indiana University's beginning net assets decreased by \$46.5 million for a correction of an error. Total liabilities were increased by this amount to recognize interest expense not previously recorded. It was determined that capital appreciation bonds' unpaid interest on the outstanding debt should be accrued over the life of the bonds based on the total accreted value matured at year end.

Ivy Tech Community College's beginning net assets increased by \$8.1 million for the subsequent recognition land and buildings reduced by associated depreciation expense.

The following schedule reconciles June 30, 2008 net assets as previously reported, to beginning net assets, as restated:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Fiduciary Funds</u>	<u>Discretely Presented Component Units (Non Fiduciary)</u>
June 30, 2008, fund balance/retained earnings/net assets as reported	\$ 18,946,918	\$ 289,255	\$ 24,890,729	\$ 8,570,124
Correction of errors	(1,089,676)	36,041	-	(38,392)
Reclassifications of funds	<u>(242,718)</u>	<u>-</u>	<u>55,625</u>	<u>140,500</u>
Balance July 1, 2008 as restated	<u>\$ 17,614,524</u>	<u>\$ 325,296</u>	<u>\$ 24,946,354</u>	<u>\$ 8,672,232</u>

## 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 purchases commercial insurance related to certain employee health benefits

and also some insurance coverage exists for DNR Inns properties. 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
<b><u>2009</u></b>				
Unpaid Claims, July 1	\$ 2,883	\$ 30,138	\$ 4,281	\$ 37,302
Incurred Claims and Changes in Estimate	25,877	293,397	23,696	342,970
Claims Paid	<u>(25,723)</u>	<u>(291,414)</u>	<u>(23,840)</u>	<u>(340,977)</u>
Unpaid Claims, June 30	<u>\$ 3,037</u>	<u>\$ 32,121</u>	<u>\$ 4,137</u>	<u>\$ 39,295</u>
<b><u>2008</u></b>				
Unpaid Claims, July 1	\$ 2,050	\$ 18,209	\$ 3,631	\$ 23,890
Incurred Claims and Changes in Estimate	25,044	223,677	23,816	272,537
Claims Paid	<u>(24,211)</u>	<u>(211,748)</u>	<u>(23,166)</u>	<u>(259,125)</u>
Unpaid Claims, June 30	<u>\$ 2,883</u>	<u>\$ 30,138</u>	<u>\$ 4,281</u>	<u>\$ 37,302</u>

## B. Contingencies and Commitments

### *Litigation*

The State does not establish reserves for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from the State's unappropriated balances and reserves, if any.

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 to or death of one person in any one occurrence and \$5 million for injury to or death of all persons in that occurrence.

The Indiana Attorney General's office estimates a total

payment for liabilities and litigation expenses of \$8 million to be made from the Tort Claim Fund during the next fiscal year. During the fiscal year ending June 30, 2009, the State paid \$5.1 million for settlements, judgments, claims and litigation expenses from the Tort Claim Fund.

The following is a summary of certain significant litigation and claims currently pending against the State involving amounts exceeding \$5 million individually or in the aggregate. This summary is not exhaustive, either as to the description of the specific litigation or claims described or as to all of the litigation or claims currently pending or threatened against the State.

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

In 1968, in United States of America, et al v. Board of School Commissioners, et al, a lawsuit seeking to desegregate the Indianapolis Public Schools was filed

in the United States District Court for the Southern District of Indiana. Since 1978, the State has paid several million dollars per year for inter-district busing that is expected to continue through 2016. The District Court entered its final judgment in 1981 holding the State responsible for most of the costs of its desegregation plan, and those costs have been part of the State's budget since then. In June 1998 the parties negotiated an 18-year phase out of the desegregation plan that was approved by the Court for some school corporations and a 13-year phase out of the desegregation plan for the school corporations that had already began the desegregation plan. State expenditures will be gradually reduced as the plan is phased out.

In 1993 Plaintiffs filed a breach of employment contract lawsuit in a state trial court alleging that the State has failed to pay certain similarly classified state employees at an equal rate of pay from 1973 to 1993. The Court certified Plaintiffs' class and class notification was completed. Plaintiffs seek to recover damages as well as attorney fees and costs. Mediation was unsuccessful. A claims-made basis class action settlement was preliminarily approved in August 2008 with an \$8.5 million settlement cap, inclusive of fees and costs. If the State's purported total liability for claims, attorney fees and expenses exceed \$8.5 million, the State may exercise its option to terminate the Settlement Agreement and proceed to trial. In October 2008 the Court conducted a fairness hearing for the purpose of considering any timely written objections that may have been filed and determining, pursuant to Ind. Trial Rule 23(E), whether the Court should approve the agreed settlement as fair, reasonable, and adequate. The Court approved the settlement subject to the State's option to terminate the settlement agreement. In November 2008 the State filed a Notice Regarding Settlement Agreement in which they gave notice that the conditions for terminating the settlement agreement have been met, and the State elected to exercise its option to terminate the settlement pursuant to the settlement agreement. Trial was reset for March 2009. The Court ordered the parties to return for a second mediation session in February 2009. Mediation was unsuccessful. A four-day bench trial was conducted in March. The Court took the matter under advisement and gave the parties until March 31 to submit proposed findings of fact and conclusions of law. Findings of fact and conclusions of law were submitted. Settlement discussions continued but the parties were unable to reach an agreement. In July the Court entered judgment against the State in the total amount of \$43 million (\$21 million awarded to merit, overtime eligible employees; \$17 million awarded to non-merit, overtime eligible employees; \$3 million awarded to merit, overtime exempt employees; \$2 million

awarded to non-merit, overtime exempt employees). The State filed a Notice of Appeal and Motion to Stay Judgment Pending Appeal. In August the trial court granted the Motion to Stay Judgment Pending Appeal and the State's Case Summary and Notices of Appearance were filed in the Court of Appeals. In September Plaintiffs filed Notices of Appearance and a Motion for Pre-appeal Conference and Appellate Alternative Dispute Resolution. In October the State filed a response and the Court of Appeals denied Appellees' motion. The case is on appeal and the Court Reporter's deadline to file transcript is on or before January 18, 2010.

In May 2000 Plaintiffs along the Fawn River in northeastern Indiana, brought action against the State alleging violations of the Clean Water Act, unconstitutional takings of property and federal civil rights violations. Plaintiffs are seeking in excess of \$38 million in damages, costs and attorney fees. The federal trial court granted summary judgment in favor of the State and Plaintiffs appealed. A federal appeals court remanded the case to the trial court on one issue under the federal Clean Water Act. The parties have completed discovery on that issue and prepared briefs in support of new motions for summary judgment for consideration of the trial court. An order denying the State's motion for summary judgment and entering summary judgment in favor of the Plaintiffs (on liability) was issued. The parties have to file a joint status report, following a teleconference with the Court, as to how this case will proceed. An independent surveyor is assessing the Fawn River, which may take a year to conduct. In the interim, Plaintiffs filed a Motion for Attorney Fees, which was denied. This matter has been reassigned to outside counsel. The Plaintiffs renewed their request for attorney fees. In a July 2008 order, the District Court ruled in favor of the Plaintiffs and awarded nearly \$1 million interim fees and costs. The State filed a Motion to Alter or Amend the Order, which motion the Court denied. Plaintiffs filed a Motion for Order to Pay Judgment, which the Court granted. The State paid the interim award of \$1 million in attorney fees and costs directly to Plaintiffs' counsel and other parties. The parties are waiting on a final report from the technical consultant on options and costs for removal of sediment from Fawn River. The parties have received a draft report from the technical consultant; however, the parties are waiting on a cost estimate to be used during negotiations. The parties intend to meet for a settlement conference in December to attempt to resolve this matter. If a settlement cannot be reached the parties will prepare for a final hearing.

In December 2000 Plaintiffs filed an action against the Indiana Department of Environmental Management (IDEM), including the Office of Environmental Adjudication (OEA), claiming that denial of a permit for

a landfill use was an unconstitutional taking of property and a denial of due process under the United States Constitution, as well as a violation of the Indiana Constitution. Plaintiffs are seeking in excess of \$30 million in damages plus costs and attorney fees. Federal claims against OEA were dismissed by the federal court. Remaining federal claims are expected to be taken up after the state court acts. In 2005 Plaintiffs negotiated a settlement that would grant them the right to pursue a landfill permit application. In 2008, toward the end of the permit process, the enactment of SB 43 required Plaintiffs to submit a new application with the approval of the County Executive. In June 2008 IDEM sent a letter to Plaintiffs asking for the re-submission of the permit with evidence of approval by the County Executive. In August 2008 Plaintiffs filed a Motion for Judgment Finding Total Breach of Settlement Agreement and a Motion For Civil Contempt, Attorney Fees and Declaratory Judgment. A hearing was held on Plaintiffs' motions in October. In November the Court held that IDEM had breached the 2005 Settlement Agreement and set a two day trial for damages. A Motion to Certify for Appeal was filed in December. In January 2009 the Court certified the Order to Facilitate Interlocutory Appeal and vacated the trial date. The State filed a Motion for Interlocutory Appeal in February. In August the State was notified that the court reporter filed the transcript with the Court on August 7 and the Appellant's Brief on behalf of the State was filed October 7.

#### *Other Loss Contingencies*

The Auditor of State's Office surveyed state agencies to identify other loss contingencies. State agencies were requested to provide information on each other loss contingency to include a brief description, amount or range of loss, if known, the likelihood (probable, reasonably possible, or remote) of loss and the fund from which payment would be made. State agencies were instructed to provide this information on their other loss contingencies for amounts exceeding \$5 million individually or in the aggregate. Information for these other loss contingencies is as follows:

Family and Social Services Administration (FSSA): \$45 million has been accrued as an expense and payable in the government-wide financial statements to resolve U.S. Office of Inspector General (USOIG) audits requesting repayments for Indiana's Medicaid Assistance Program. FSSA settled USOIG audit findings by reducing Medicaid draws as follows: 1) \$21 million on September 30, 2009 for a Community Mental Health Centers audit; 2) \$17 million on September 30, 2009 for the audit of Institutions for Mental Disease's DSH and Medicaid payments; and 3) \$7 million planned to be settled on December 30, 2009 for a Medicaid Rehabilitation Option (MRO)

payments finding.

#### **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 to the State General 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 2009 was \$365.2 million. Total outstanding loans were \$22.1 million, resulting in total assets of \$387.3 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).

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

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 banks. The custodian banks maintain records of the detailed holdings and accounts that comprise the net asset value. At fiscal year end, the accounting records and financial statements recognize investment receivables and payables using investment unit trust accounting. Investments of defined benefit plans are reported at fair value. Short-term investments are reported at market value when available, or at cost, which approximates fair value.

Securities traded on a national or international exchange are valued at the official closing price at current exchange rates. Collective trust funds' fair values are determined by the fair value per share of the pool's underlying portfolio as provided by the trustee. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Values for limited partnership interests are those estimates most recently provided by the general manager, plus or minus cash flows transacted since the valuation date. Investments that do not have an established market are reported at estimated fair value.

*The State sponsors the following defined benefit single-employer plans:*

State Police Retirement Fund (Presented as a pension fund)

Plan Description The State Police Retirement Fund (SPRF) is a defined benefit, single-employer PERS, and is administered by the 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.

The State Police Retirement Fund does not issue a stand-alone financial report. The SPRF's financial statements are included in the State of Indiana's CAFR as part of the statements presented with fiduciary funds.

Funding Policy The pre-1987 plan required employee contributions of five percent of the salary of a sixth-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 cost actuarial 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 being funded over a thirty-year closed period which commenced July 1, 2007. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level dollar 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.

Funded Status and Funding Progress As of June 30, 2009, the most recent actuarial valuation date, the plan was 79 percent funded. The actuarial accrued liability for benefits was \$453.7 million, and the actuarial value of assets was \$356.1 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$97.6 million. The covered payroll (annual payroll of active employees covered by the plan) was \$68.3 million, and the ratio of the UAAL to the covered payroll was 143 percent.

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

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

Plan Description The State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan (ECRP) is a single employer defined benefit plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The retirement fund is for certain employees of the Indiana Department of Natural Resources, the Indiana Alcohol and Tobacco Commission, and any State excise police officer, Indiana state conservation enforcement officer, gaming agent or any gaming control officer who is 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, 143 West Market Street, 5<sup>th</sup> Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, [www.in.gov/perf](http://www.in.gov/perf).

Funding Policy Members are required by statute to contribute 4 percent of the member's annual salary to the Plan. The State of Indiana, as employer, is required by statute to contribute the remaining amount necessary to actuarially fund the benefits. The funding policy for employer contributions of the State Excise Police, Gaming Agent, Gaming Control Officer, 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.

Funded Status and Funding Progress As of July 1, 2008, the most recent actuarial valuation date, the plan was 85 percent funded. The actuarial accrued liability for benefits was \$77.2 million, and the actuarial value of assets was \$65.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$11.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$21.3 million, and the ratio of the UAAL to the covered payroll was -55 percent.

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

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, and survivor benefits for individuals who serve as a prosecuting attorney, chief deputy prosecuting attorney, or certain other deputy prosecuting attorneys paid by the state of Indiana.

These individuals' salaries are paid from the General Fund of the State of Indiana. Indiana Code 33-39-7 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, 143 West Market Street, 5<sup>th</sup> Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, [www.in.gov/perf](http://www.in.gov/perf).

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.

Funded Status and Funding Progress As of July 1, 2008, the most recent actuarial valuation date, the plan was 69 percent funded. The actuarial accrued liability for benefits was \$38.1 million, and the actuarial value of assets was \$26.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$11.7 million. The covered payroll (annual payroll of active employees covered by the plan) was \$20.6 million, and the ratio of the UAAL to the covered payroll was -57 percent.

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

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 single-employer defined benefit plan, applies to each member of the Indiana General Assembly who was serving on April 30, 1989 and filed 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. That report may be obtained by writing the Public Employees Retirement Fund, 143 West Market Street, 5<sup>th</sup> Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, [www.in.gov/perf](http://www.in.gov/perf).

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 the actuary, is to be appropriated from the State's General Fund.

Funded Status and Funding Progress As of July 1, 2008, the most recent actuarial valuation date, the plan was 102 percent funded. The actuarial accrued liability for benefits was \$5.0 million, and the actuarial value of assets was \$5.1 million, resulting in a funding excess of \$0.1 million. The benefit formula is determined based on service rather than compensation. The funding excess per active participant was \$2,378 per active participant as of the most recent actuarial valuation.

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

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, and is governed by IC 33-38-6, 33-38-7, and IC 33-38-8. The Judges' Retirement System provides retirement, disability, 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; or county courts including Circuit, Superior, Criminal, Probate, Juvenile, and Municipal Courts. The system consists of two plans: the 1977 system and the 1985 system. IC 33-38-7 applies to judges who began service before September 1, 1985. IC 33-38-8 applies to judges beginning service after August 31, 1985. 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, 143 West Market Street, 5<sup>th</sup> Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, [www.in.gov/perf](http://www.in.gov/perf).

Funding Policy Member contributions are established by statute at six percent of total statutory compensation paid by the state of Indiana, deducted from the member's salary and remitted by the Auditor of State. However, no contribution is required and no

such amounts shall be paid by the member for more than 22 years of service.

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.

Funded Status and Funding Progress As of July 1, 2008, the most recent actuarial valuation date, the plan was 69 percent funded. The actuarial accrued liability for benefits was \$338.7 million, and the actuarial value of assets was \$234.9 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$103.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$33.7 million, and the ratio of the UAAL to the covered payroll was -308 percent.

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

*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 for units of state and local governments administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability, 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. That report may be obtained by writing the Public Employees Retirement Fund, 143 West Market Street, 5<sup>th</sup> Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, [www.in.gov/perf](http://www.in.gov/perf).

At June 30, 2009, the number of participating political subdivisions was 1,200.

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 contributions are determined by

the PERF Board of Trustees based on actuarial investigation and valuation. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension portion of the retirement benefit (normal cost) and the amortization of unfunded liabilities.

Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of compensation. These contributions are credited to the member's annuity savings account that is a separate benefit from the defined pension benefit. The State is required to contribute for State employees at an actuarially determined rate; the current rate is 6.5% of covered payroll.

Funded Status and Funding Progress Funded status and funding progress information is being disclosed for the State of Indiana employee portion of the plan.

The funded status and funding progress information presented is for non-retired assets.

State of Indiana Employees: As of July 1, 2008, the most recent actuarial valuation date, the state employees portion of the plan was 98 percent funded.

The actuarial accrued liability for benefits was \$2.51 billion, and the actuarial value of assets was \$2.47 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.04 billion. The covered payroll (annual payroll of active employees covered by the plan) was \$1.66 billion, and the ratio of the UALL to the covered payroll was 2.7 percent.

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

**Annual Pension Cost and Net Pension Obligation** The annual pension cost and net pension obligations, the significant actuarial assumptions, and three-year 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 Units-----						TRF - Pre-1996 Account
	SPRF	PERF -State	ECRF	JRS	PARF	LRS		
<b>Annual Pension Cost and Net Pension Obligation (Asset)</b>								
Annual required contribution	\$ 10,361.6	\$ 99,134.7	\$ 3,675.8	\$ 10,028.4	\$ 1,040.4	\$ 66.0	\$ 678,050.0	
Interest on net pension obligation	579.4	(3,868.0)	(40.5)	(1,131.0)	185.3	(11.0)	71,515.0	
Adjustment to annual required contribution	(674.2)	4,408.0	46.2	1,302.0	(211.2)	16.9	(82,390.0)	
Annual pension cost	10,266.8	99,674.7	3,681.5	10,199.4	1,014.5	71.9	667,175.0	
Contributions made	(9,472.5)	(106,867.3)	(4,854.2)	(15,920.3)	(170.0)	(100.0)	(675,682.0)	
Increase (decrease) in net pension obligation	794.3	(7,192.6)	(1,172.7)	(5,720.9)	844.5	(28.1)	(8,507.0)	
Net pension obligation, beginning of year	8,277.6	(53,348.3)	(559.1)	(15,599.7)	2,555.6	(151.6)	953,534.0	
Net pension obligation, end of year	\$ 9,071.9	\$ (60,540.9)	\$ (1,731.8)	\$ (21,320.6)	\$ 3,400.1	\$ (179.7)	\$ 945,027.0	
<b>Significant Actuarial Assumptions</b>								
Investment rate of return	7.00%	7.25%	7.25%	N/A	7.25%	7.25%	7.50%	
Projected future salary increases:								
Total	3.50 - 9.00%	4.00%	4.50%	4.00%	4.00%	3.00%	3.50 - 12.50%	
Attributed to inflation	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.25%	
Cost of living adjustments	N/A	1.50%	1.50%	N/A	N/A	1.50%	1.50%	
Contribution rates:								
State	20.80%	6.50%	20.75%	pay-as-you-go	6.50%	Flat Dollar Amount ***	N/A	
Plan members	5.00% - 6.00%	3.00%	4.00%	6.00%	6.00%	0.00%	3.0%	
Actuarial valuation date	7/1/2009	7/1/2008	7/1/2008	7/1/2008	7/1/2008	7/1/2008	6/30/2008	
Actuarial cost method	entry age normal cost	entry age normal cost	entry age normal cost	pay-as-you-go	entry age normal cost	accrued benefit (unit credit)	entry age normal cost	
Amortization method	level dollar	level dollar	level dollar	N/A	level dollar	level dollar	level dollar	
Amortization period	40 years ****	30 years	30 years	N/A	30 years	30 years	30 years	
Amortization period (from date)	7/1/1997	7/1/2002	7/1/2002	N/A	N/A	7/1/1992	N/A	
Amortization period (open or closed)	closed	closed	closed	N/A	closed	closed	N/A	
Asset valuation method	smoothed basis	smoothed market value	smoothed market value	N/A	smoothed market value	smoothed market value	4-year smoothed market value with corridor	
<b>Historical Trend Information</b>								
<u>Year ended June 30, 2009</u>								
Annual pension cost (APC)	\$ 10,266.8	*	*	*	*	*	*	
Percentage of APC contributed	92.3%	*	*	*	*	*	*	
Net pension obligation (asset)	9,071.9	*	*	*	*	*	*	
<u>Year ended June 30, 2008</u>								
Annual pension cost (APC)	\$ 9,082.8	99,674.7	3,681.5	10,199.4	1,014.5	71.9	667,175.0	
Percentage of APC contributed	103.6%	107.2%	131.9%	156.1%	16.8%	139.1%	101.3%	
Net pension obligation (asset)	\$ 8,277.6	(60,540.9)	(1,731.8)	(21,320.6)	3,400.1	(179.7)	945,027.0	
<u>Year ended June 30, 2007</u>								
Annual pension cost (APC)	\$ 9,361.2	\$ 97,043.2	\$ 3,130.9	\$ 12,384.3	\$ 1,026.1	\$ 125.6	\$ 592,436.0	
Percentage of APC contributed	129.4%	92.5%	107.3%	118.4%	18.5%	79.6%	107.4%	
Net pension obligation (asset)	\$ 8,607.0	\$ (53,348.3)	\$ (559.1)	\$ (15,599.7)	\$ 2,555.6	\$ (151.6) **	\$ 953,534.0	
<u>Year ended June 30, 2006</u>								
Annual pension cost (APC)	\$ 12,609.0	\$ 88,720.0	\$ 2,715.0	\$ 15,058.1	\$ 942.2	\$ 96.3	\$ 546,285.0	
Percentage of APC contributed	59.8%	82.2%	92.0%	89.9%	18.0%	103.8%	110.1%	
Net pension obligation (asset)	\$ 11,359.4	\$ (60,591.0)	\$ (331.3)	\$ (10,985.7)	\$ 1,719.5	\$ (177.9)	\$ 997,137.0	
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)								
TRF - Teachers' Retirement Fund								
N/A - not applicable								
* - information not available.								
** - net pension obligation for LRS for the year ended June 30, 2007 was restated.								
*** - \$44,613 based on July 1, 2008 actuarial valuation.								
**** - 30 year amortization commended with July 1, 2007 actuarial valuation. 40 year period was permitted for 10 years after the effective date (July 1, 1997 for Indiana) of GASB 27.								

*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 5-10.4-2 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, by calling 317-232-3860, or at STRF's website, [www.in.gov/trf](http://www.in.gov/trf).

At June 30, 2009, the number of participating employers was 390.

Funding Policy Each member is required to contribute 3% of his/her compensation to the plan. The Indiana State Teachers' Retirement Fund is funded on a "pay as you go" basis for employees hired prior to July 1, 1995, and who have maintained continuous employment with the same school corporation or covered institution since that date. State appropriations are made for the amount of estimated pension benefit payouts for each fiscal year. If the actual pension benefit payout for the fiscal year exceeds the amount appropriated, the difference is paid from the Pension Stabilization Fund. For employees hired on or after July 1, 1995; or hired before July 1, 1995, and prior to June 30, 2005, were either hired by another school corporation or institution covered by the Fund or were re-hired by a covered prior employer; the individual employer will make annual contributions. These contributions are set as a percentage of the employee's salary at a rate recommended by the Fund's actuaries and approved by the Fund's Board of Trustees.

As of June 30, 2008, TRF was 48.2% funded. Members in the Pre-1996 Account are funded on a "pay as you go" method for the employer portion of the pension and members in the 1996 Account are funded with employer contributions as they work. TRF accounts for these two classes of members as "Pre-

1996 Account" and "1996 Account", respectively. The Pre-1996 Account is 37.7% funded and the 1996 Account is 104.1% funded.

The funded ratio of the Fund has increased from 44% at June 30, 2003, to the ratio of 48% at June 30, 2008. The actuarial value of the Fund's assets as of the June 30, 2008 valuation was \$9.0 billion and the actuarial accrued liability was \$18.7 billion. The difference is the Fund's unfunded actuarial accrued liability of \$9.7 billion. The annual covered payroll as of the June 30, 2008, actuarial valuation was \$4.3 billion and the ratio of the unfunded actuarial liability to the annual covered payroll was 223%.

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. Indiana Code 36-8-8 governs the requirements of the Fund that provides retirement, disability, and survivor benefits. 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, 143 West Market Street, 5<sup>th</sup> Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, [www.in.gov/perf](http://www.in.gov/perf).

At June 30, 2009, the number of participating employer units totaled 163 (which include 257 police and fire departments).

Funding Policy A participant is required by statute to contribute six percent of a first class officer's or firefighter's salary for the term of their employment up to 32 years. Employer contributions are determined actuarially and the current rate is 19.5 percent of the salary of a first-class officer or firefighter. 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 three-year historical trend information, for the cost sharing, multiple-employer plans are as follows:

	Discretely Presented Component Units	
	STRF	PFPF *
<b>Historical Trend Information (dollars in thousands)</b>		
<u>Year ended June 30, 2009</u>		
Annual required contribution	n/a	n/a
Percentage contributed	n/a	n/a
<u>Year ended June 30, 2008</u>		
Annual required contribution	\$ 678,050.0	\$ 89,673.7 **
Percentage contributed	100%	137% **
<u>Year ended June 30, 2007</u>		
Annual required contribution	\$ 602,904.0	\$ 102,964.2
Percentage contributed**	105%	139%
<u>Year ended June 30, 2006</u>		
Annual required contribution	\$ 556,460.0	\$ 97,286.4
Percentage contributed**	108%	112%
STRF - State Teachers' Retirement Fund - Pre-1996 Account		
PFPF - 1977 Police Officers and Firefighters' Retirement Fund (Administered by PERF)		
* - year ended December 31		
** - Amount and percentage corrected from prior year's annual CAFR report.		
n/a - not available		

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, 143 West Market Street, 5<sup>th</sup> Floor, Indianapolis, IN 46204, by calling 317-233-4162, or by visiting PERF's website, [www.in.gov/perf](http://www.in.gov/perf).

Funding Policy For the Legislators' Defined Contribution Plan, each participant is required to contribute 5 percent of annual salary. In addition, the state of Indiana is required to contribute a percentage of the member's annual salary on behalf of the participant as determined by PERF and confirmed by the State Budget Agency each year. Effective January 1, 2009 the rate was established at 9.3 percent. For the LDB Plan, the amount required to actuarially fund participants' retirement benefits, as determined by the

PERF Board of Trustees on the recommendation of the actuary, is to be appropriated from the state of Indiana General Fund.

**F. Other Postemployment Benefits**

***Defined Benefit Plans***

Plan Descriptions The State of Indiana sponsors and contributes to four single-employer defined benefit healthcare plans: State Personnel Plan (SPP); Legislature Plan (LP); Indiana State Police Plan (ISPP); and the Conservation and Excise Police Plan (CEPP). The SPP and LP are administered by the State Personnel Department. The Indiana State Police administer the ISPP. The CEPP is administered by the Indiana State Excise Police and Indiana Conservation Officers Health Insurance Committee. All four plans provide medical plan health care benefits to eligible State employee retirees and beneficiaries. The medical benefits provided to retirees are the same benefit options afforded active employees. Benefit provisions for each plan are established and may be amended by Indiana Code 5-10-8 *et seq.* Separate financial reports are not issued for these plans.

Funding Policy and Annual OPEB Cost The contribution funding policy for each of the four plans is on a pay-as-you-go cash basis. The State of Indiana's annual other postemployment benefit (OPEB) cost (expense) for each plan is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in

accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial

liabilities (or funding excess) over a period not to exceed thirty years.

The State of Indiana's annual OPEB cost for the current year and the related information for each plan are as follows (dollar amounts in thousands):

	<b>State Personnel Healthcare Plan</b>	<b>Legislature's Healthcare Plan</b>	<b>Indiana State Police Healthcare Plan</b>	<b>Conservation and Excise Police Health Care Plan</b>
Contribution rates:				
State of Indiana	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go
Plan members (monthly premium)	See next chart	See next chart	See next chart	See next chart
Annual required contribution	\$ 7,716	\$ 497	\$ 35,271	\$ 4,178
Interest on net OPEB obligation	252	10	1,209	138
Amortization adjustment to ARC	(344)	(13)	(1,650)	(189)
Annual OPEB Cost	7,624	494	34,830	4,127
Contributions made	(1,796)	(301)	(7,910)	(982)
Change in net OPEB obligation	5,828	193	26,920	3,145
Net OPEB obligation - beginning of year	5,595	216	26,867	3,067
Net OPEB obligation - end of year	<u>\$ 11,423</u>	<u>\$ 409</u>	<u>\$ 53,787</u>	<u>\$ 6,212</u>

The plan administrators (see plan descriptions above) establish the contribution requirements of plan members. Plan members (retirees and eligible dependents) who participate in these healthcare plans must pay the full monthly premiums (except for grandfathered LP current retirees). The following chart shows actual 2009 premium rates which are projected 2009 rates based on the plans actual claims

experience before reserve adjustment for the SP and LP plans. The premiums shown for the ISPP and CEPP plans are the 2008 monthly premiums.

Contribution rates:	<b>State Personnel Healthcare Plan (SP)</b>		<b>Legislature's Healthcare Plan (LP)</b>		<b>Indiana State Police Healthcare Plan (ISPP)</b>		<b>Conservation and Excise Police Health Care Plan (CEPP)</b>	
	Single	Family	Single	Family	Retiree Only	Retiree plus One Dependent	Retiree Only	Retiree and Spouse
Plan members (monthly premium)								
High Deductible Health Plan #1	\$ 277.48	\$ 790.83	\$ 277.48	\$ 790.83	N/A	N/A	N/A	N/A
High Deductible Health Plan #2	357.12	1,017.80	357.12	1,017.80	N/A	N/A	N/A	N/A
Anthem Traditional II	536.38	1,528.68	536.38	1,528.68	N/A	N/A	N/A	N/A
Wellborn HMO	450.39	1,239.88	450.39	1,239.88	N/A	N/A	N/A	N/A
Medical (Pre-Medicare)	N/A	N/A	N/A	N/A	\$ 197.13	\$ 241.21	\$ 64.88	\$ 87.92
Medical (Post-Medicare)	N/A	N/A	N/A	N/A	89.02	87.24	-	-

The State of Indiana's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for June 30, 2009 (the second

year of OPEB reporting) and June 30, 2008 (first year of OPEB reporting) for each of the plans were as follows (dollar amounts in thousands):

	<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
State Personnel Healthcare Plan	6/30/2009	\$ 7,624	23.6%	\$ 11,423
	6/30/2008	\$ 7,231	22.6%	\$ 5,595
Legislature's Healthcare Plan	6/30/2009	493	61.0%	409
	6/30/2008	492	56.1%	216
Indiana State Police Healthcare Plan	6/30/2009	34,831	22.7%	53,787
	6/30/2008	34,275	21.6%	26,867
Conservation and Excise Police Health Care Plan	6/30/2009	4,128	23.8%	6,212
	6/30/2008	3,965	22.7%	3,067

A third year is not presented since this is only the second year for OPEB reporting.

Funded Status and Funding Progress The funded status of the plans as of June 30, 2009, was as follows (dollar amounts in thousands):

	<u>State Personnel Healthcare Plan</u>	<u>Legislature's Healthcare Plan</u>	<u>Indiana State Police Healthcare Plan</u>	<u>Conservation and Excise Police Health Care Plan</u>
Actuarial accrued liability (a)	\$ 67,405	\$ 8,009	\$ 341,923	\$ 45,308
Actuarial value of plan assets (b)	-	-	-	-
Unfunded actuarial accrued liability (funding excess) (a) - (b)	\$ 67,405	\$ 8,009	\$ 341,923	\$ 45,308
Funded ratio (b)/(a)	0.0%	0.0%	0.0%	0.0%
Covered payroll (c)	\$ 1,130,900	N/A	N/A	\$ 12,900
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll $\frac{[(a)-(b)]}{(c)}$	5.5%	N/A	N/A	332.1%

GASB 45 regulations permit employers to use the most recent available actuarial information up to two years prior to the current period. The State elected to use the actuarial results for the period ending June 30, 2007 projected to June 30, 2008 with adjustments for known experience for the period ending June 30, 2009. However, the covered payroll and unfunded actuarial accrued liability as a percentage of covered payroll in the above chart is that from the June 30, 2007 actuarial results.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The required schedule of

funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Significant methods and assumptions were as follows:

	State Personnel Healthcare Plan	Legislature's Healthcare Plan	Indiana State Police Healthcare Plan	Conservation and Excise Police Health Care Plan
Actuarial valuation date *	6/30/2008	6/30/2008	6/30/2008	6/30/2008
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level dollar amount, open	Level dollar amount, open	Level dollar amount, open	Level dollar amount, open
Remaining amortization period	30 years	30 years	30 years	30 years
Asset valuation method	N/A	N/A	N/A	N/A
Actuarial assumptions:				
Investment rate of return	4.5%	4.5%	4.5%	4.5%
Projected salary increases	4.0%	4.0%	4.0%	4.0%
Healthcare inflation rate *	8.7% pre-65 & 9.5% post-65	8.7% pre-65 & 9.5% post-65	6.8% pre-65 & 7.4% post-65	8.7% pre-65 & 9.5% post-65

\* Most recent actuarial valuation is for the period ending June 30, 2007, but this data has been updated for the projection to June 30, 2008.

GASB 45 regulations permit employers to use the most recent available actuarial information up to two years prior to the current period. The State elected to use the actuarial results for the period ending June 30, 2007 projected to June 30, 2008 with adjustments for known experience for the period ending June 30, 2009. There have been no material changes in the retiree health benefits or contribution requirements from the most recent available actuarial valuation for the period ending June 30, 2007. However, the actuarial valuation date and the healthcare inflation rates were updated for the actuarial results projected to June 30, 2008.

### **Defined Contribution Plan**

Plan Description The State of Indiana sponsors one single employer defined contribution OPEB plan established as a trust fund, the Retiree Health Benefit Trust Fund, in IC 5-10-8-8.5. The State established this trust fund to provide funding for the retiree health benefit plan developed under IC 5-10-8.5. The plan is a benefit to employees who retire and are eligible for and have received a normal, unreduced or disability retirement benefit (as determined by statutes and codes governing a State public employee retirement fund). Qualified retirees of the State are eligible to receive retirement medical benefits from this Plan. Retirees' and/or covered dependents' qualifying health insurance and medical costs are eligible for reimbursement from their reimbursement account, subject to Plan conditions and limitations.

Plan Provisions Benefit provisions for this plan are established or may be amended by the State legislature. The State Budget Agency of the State of Indiana is the administrator of the plan pursuant to

Indiana Code 5-10-8-8.5. The plan establishes a retirement medical benefits account for elected officers, appointed officers, and employees of the executive, legislative, and judicial branches of state government to pay for participants' medical insurance after retirement. Benefits are entitled to be received from this account for a participant who: a) is eligible for and has applied to receive a normal, unreduced or disability retirement benefit under the Public Employees' Retirement Fund; or b) has completed at least 10 years of service as an elected or appointed officer; or c) has completed at least 15 years of service with the state for an employee. A surviving spouse or IRS dependent of a retired participant is allowed to receive the benefit from this account. Amounts credited to a retired participant are forfeited if the participant dies without a surviving spouse or IRS dependent.

The new trust meets the requirements of a qualified OPEB trust. The trust is qualified under section 115 of the Internal Revenue Code.

Contributions The State is required to make annual contributions to the account based on the following schedule:

Employee's Age	Annual State Contributions
Less than 30	\$500
At least 30, but less than 40	\$800
At least 40, but less than 50	\$1,100
At least 50	\$1,400

An additional bonus contribution is to be made upon a participant's retirement with normal unreduced

benefits if the retirement occurs between July 1, 2007 and July 1, 2017, and the retiree on the last day of service has completed at least 15 years of service or 10 years of service as an elected or appointed officer. The additional bonus contribution amount is one thousand dollars (\$1,000) multiplied by the participant's years of service (rounded down to the nearest whole year).

At June 30, 2009, the plan participants consisted of:

Description	Number
Active participants with accounts, not yet retired	33,518
Retired participants with accounts	1,977
<b>Total</b>	<b>35,495</b>

At June 30, 2009, plan participants' retirement medical plan account balances totaled \$119.9 million which consisted of \$70.2 million in unretired active participants' accounts and \$49.7 million in retired participants' accounts.

This plan is a defined contribution individual account for GASB 45 purposes. The employer subsidy is defined in terms of an annual contribution to an individual account. Plan assets are maintained in the Retiree Health Benefit Trust Fund created by the State as a dedicated trust fund.

The trust fund consists of cigarette tax revenues deposited in the fund under IC 6-7-1-28.1(7) and other appropriations, revenues, or transfers to the trust fund under IC 4-12-1. The plan benefits satisfy the condition of being a defined contribution OPEB benefit and by definition, there is no unfunded liability.

For the fiscal year ending June 30, 2009, the State contributed \$32.5 million to the State Retiree Health Fund. Another \$36.2 million was contributed by state agencies that are funded by federal or dedicated funds for their portion of funding. The total contribution for the fiscal year was \$68.7 million. The retiree contribution includes the bonus contributions of \$1,000 per year of service to employees retiring after July 1, 2007 who also met certain minimum age and service requirements. The annual required contribution for the year is \$68.7 million.

## G. Pollution Remediation Obligations

Nature and source of pollution remediation obligations: Five state agencies have identified themselves as responsible or potentially responsible parties to remediate seventy-seven pollution sites pursuant to the State's implementation of GASB 49, Accounting and Financial Reporting for Pollution Remediation Obligations effective July 1, 2008. Obligating events for the cleanup of these sites

include the federal Superfund law, being named by a regulator to remediate hazardous wastes and contamination, violation of the Resource Recovery and Conservation Act, being named in a lawsuit, and voluntarily assuming responsibility because of imminent threats to human health and the environment.

Amount of the estimated liability, methods and assumptions used for the estimate, and the potential for changes: The State's total estimated liability is \$66.7 million of which \$14.6 million is estimated to be payable within one year and \$52.1 million estimated to be payable in more than one year. State agencies calculated their estimated liabilities using various approaches including existing agreements, contractor bids, records of decisions from regulators, matching requirements under the Superfund law, previous actual costs to cleanup similar sites, investigation activities, well known and recognized estimation methods, court established fee structure, and through the sampling and knowing the size and volume of existing contamination at a site. Superfund site estimated liabilities also applied a rolling thirty year liability as this was the number of years determined to be reasonably estimable. The estimated liabilities of state agencies are subject to annual review and adjustment for changes in agreements, laws, regulations, court decisions, price increases or decreases for goods and services used in cleanup, and other relevant changes that come to light.

Estimated recoveries reducing the liability: The estimated recoveries total \$7.1 million. Of this total, \$1.9 million is unrealizable or has not yet been realized and has been applied to reduce the State's total estimated liability. Estimated recoveries include the proceeds from the sale of stock from a bankruptcy court settlement, coverage of allowable costs by the State's Excess Liability Trust Fund (ELTF), a credit received for work performed on another Superfund site, and a court order. The ELTF state law states that if insufficient funds exist to pay claims neither the State nor the Fund are liable for unpaid claims

# REQUIRED SUPPLEMENTARY INFORMATION



## Schedule of Funding Progress Employee Retirement Systems and Plans

(amounts expressed in thousands)	Primary Government	-----Discretely Presented Component Units-----					
	SPRF	PERF - State	ECRF	JRS	PARF	LRS	TRF - Pre-1996 Account
<b>Valuation Date: July 1, 2009</b>							
Actuarial value of assets	\$ 356,056	*	*	*	*	*	*
Actuarial accrued liability (AAL)	453,688	*	*	*	*	*	*
Excess of assets over (unfunded) AAL	(97,632)	*	*	*	*	*	*
Funded ratio	78%	*	*	*	*	*	*
Covered payroll	68,283	*	*	*	*	*	*
Excess (unfunded) AAL as a percentage of covered payroll	-143%	*	*	*	*	*	*
<b>Valuation Date: July 1, 2008</b>							
Actuarial value of assets	\$ 386,873	\$ 2,469,432	\$ 65,375	\$ 234,881	\$ 26,350	\$ 5,120	\$ 5,953,991
Actuarial accrued liability (AAL)	438,460	2,513,791	77,177	338,749	38,069	5,039	15,792,305
Excess of assets over (unfunded) AAL	(51,587)	(44,359)	(11,802)	(103,868)	(11,719)	81	(9,838,314)
Funded ratio	88%	98%	85%	69%	69%	102%	38%
Covered payroll	65,421	1,661,248	21,333	33,729	20,617	**	2,295,816
Excess (unfunded) AAL as a percentage of covered payroll	-79%	-3%	-55%	-308%	-57%	**	-429%
<b>Valuation Date: July 1, 2007</b>							
Actuarial value of assets	\$ 371,918	\$ 2,350,652	\$ 57,414	\$ 211,747	\$ 23,815	\$ 5,035	\$ 5,763,508
Actuarial accrued liability (AAL)	413,969	2,335,082	74,451	283,995	32,052	5,169	15,988,259
Excess of assets over (unfunded) AAL	(42,051)	15,570	(17,037)	(72,248)	(8,237)	(134)	(10,224,751)
Funded ratio	90%	101%	77%	75%	74%	97%	36%
Covered payroll	59,863	1,573,566	17,715	29,712	18,092	**	2,376,390
Excess (unfunded) AAL as a percentage of covered payroll	-70%	1%	-96%	-243%	-46%	**	-430%
<b>Valuation Date: July 1, 2006</b>							
Actuarial value of assets	\$ 339,122	\$ 2,169,619	\$ 48,496	\$ 178,276	\$ 20,053	\$ 4,721	\$ 5,477,221
Actuarial accrued liability (AAL)	392,810	2,210,377	64,765	272,997	29,184	5,232	15,002,471
Excess of assets over (unfunded) AAL	(53,688)	(40,758)	(16,269)	(94,721)	(9,131)	(511)	(9,525,250)
Funded ratio	86%	98%	75%	65%	69%	90%	37%
Covered payroll	54,156	1,592,207	14,892	34,065	19,225	**	2,237,380
Excess (unfunded) AAL as a percentage of covered payroll	-99%	-3%	-109%	-278%	-47%	**	-426%
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) TRF - Teachers' Retirement Fund							
* Information not available							
** The benefit formula is determined based on service rather than compensation. July 1, 2008: The unfunded liability is expressed per active participant and there were 34 active participants. The funding excess per active participant was (\$2,378); July 1, 2007: The unfunded liability is expressed per active participant and there were 43 active participants. The unfunded liability per active participant was \$3,117; July 1, 2006: The unfunded liability is expressed per active participant and there were 46 active participants. The unfunded liability per active participant was \$11,106.							

## Schedule of Funding Progress Other Postemployment Benefits

(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b- a)/c)
<b>State Personnel Healthcare Plan</b>						
6/30/2008 *	\$ -	\$ 67,405	\$ 67,405	0.0%	N/A	N/A
6/30/2007 *	\$ -	\$ 62,190	\$ 62,190	0.0%	\$ 1,130,900	5.5%
<b>Legislature's Healthcare Plan</b>						
6/30/2008 *	\$ -	\$ 8,009	\$ 8,009	0.0%	N/A	N/A
6/30/2007 *	\$ -	\$ 7,950	\$ 7,950	0.0%	N/A	N/A
<b>Indiana State Police Healthcare Plan</b>						
6/30/2008 *	\$ -	\$ 341,923	\$ 341,923	0.0%	N/A	N/A
6/30/2007 *	\$ -	\$ 329,292	\$ 329,292	0.0%	N/A	N/A
<b>Conservation and Excise Police Healthcare Plan</b>						
6/30/2008 *	\$ -	\$ 45,308	\$ 45,308	0.0%	N/A	N/A
6/30/2007 *	\$ -	\$ 42,836	\$ 42,836	0.0%	\$ 12,900	332.1%

\* The standard requires three years of information for this schedule. An additional year of information will be added next year and then it will be the current and two preceding years going forward.

## Schedule of Employer Contributions Other Postemployment Benefits

(dollar amounts in thousands)

Year Ended June 30	State Personnel Healthcare Plan		Legislature's Healthcare Plan		Indiana State Police Healthcare Plan		Conservation and Excise Police Healthcare Plan		Retiree Health Benefit Trust Fund	
	Required Contribution	Percentage Contributed	Required Contribution	Percentage Contributed	Required Contribution	Percentage Contributed	Required Contribution	Percentage Contributed	Required Contribution	Percentage Contributed
2009	\$ 7,716	23.3%	497	60.6%	\$ 35,271	22.4%	\$ 4,178	23.5%	\$ 67,213	100.0%
2008	7,231	22.6%	492	56.1%	34,275	21.6%	3,965	22.7%	56,113	100.0%

## **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.

**State of Indiana**  
**Combining Schedule of Revenues, Expenditures and**  
**Changes in Fund Balances - Budget and Actual**  
**(Budgetary Basis)**  
**For the Year Ended June 30, 2009**  
(amounts expressed in thousands)

	General Fund			Variance to Final Budget
	Budget		Actual	
	Original	Final		
<b>Revenues:</b>				
Taxes:				
Income	\$ 5,190,007	\$ 5,190,007	\$ 5,130,651	\$ (59,356)
Sales	2,889,816	2,889,816	6,083,032	3,193,216
Fuels	-	-	-	-
Gaming	5	5	82,507	82,502
Inheritance	147,500	147,500	185,661	38,161
Alcohol and tobacco	323,574	323,574	335,379	11,805
Insurance	177,200	177,200	187,410	10,210
Other	15	15	228,934	228,919
Total taxes	8,728,117	8,728,117	12,233,574	3,505,457
Current service charges	171,798	171,798	181,155	9,357
Investment income	130,600	130,600	76,696	(53,904)
Sales/rents	3,395	3,395	1,804	(1,591)
Grants	-	-	11,242	11,242
Other	36,523	36,523	39,312	2,789
Total revenues	9,070,433	9,070,433	12,543,783	3,473,350
<b>Expenditures:</b>				
Current:				
General government	2,507,243	2,038,911	2,016,846	22,065
Public safety	724,573	708,447	705,937	2,510
Health	92,096	68,975	68,671	304
Welfare	2,900,392	310,811	302,992	7,819
Conservation, culture and development	116,450	117,082	88,990	28,092
Education	8,072,892	7,232,226	7,223,360	8,866
Transportation	500	3,285	2,166	1,119
Other	-	3	3	-
Total expenditures	14,414,146	10,479,740	10,408,965	70,775
Excess of revenues over (under) expenditures	(5,343,713)	(1,409,307)	2,134,818	(3,544,125)
<b>Other financing sources (uses):</b>				
Total other financing sources (uses)	(3,121,696)	(3,121,696)	(3,121,696)	-
<b>Net change in fund balances</b>	<u>\$ (8,465,409)</u>	<u>\$ (4,531,003)</u>	<u>\$ (986,878)</u>	<u>\$ 3,544,125</u>
<b>Fund balances July 1, as restated</b>			<u>\$ 1,999,480</u>	
<b>Fund balances June 30</b>			<u>\$ 1,012,602</u>	

Motor Vehicle Highway Fund				Medicaid Assistance			
Budget		Actual	Variance to Final Budget	Budget		Actual	Variance to Final Budget
Original	Final			Original	Final		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
313,313	313,313	444,588	131,275	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
173,846	173,846	-	(173,846)	-	-	-	-
487,159	487,159	444,588	(42,571)	-	-	-	-
135,092	135,092	122,032	(13,060)	-	-	-	-
-	-	-	-	86	86	-	(86)
5	5	7	2	-	-	-	-
12,883	12,883	17,494	4,611	4,099,270	4,099,270	3,655,521	(443,749)
35,152	35,152	30,070	(5,082)	554,292	554,292	143,397	(410,895)
670,291	670,291	614,191	(56,100)	4,653,648	4,653,648	3,798,918	(854,730)
12,847	278,565	278,565	-	-	23	-	23
210,826	214,888	214,888	-	-	-	-	-
-	110	110	-	-	-	-	-
-	-	-	-	-	5,702,380	5,280,154	422,226
-	-	-	-	-	-	-	-
273	266	266	-	-	-	-	-
-	2,291	2,291	-	-	-	-	-
-	-	-	-	-	-	-	-
223,946	496,120	496,120	-	-	5,702,403	5,280,154	422,249
446,345	174,171	118,071	56,100	4,653,648	(1,048,755)	(1,481,236)	432,481
(124,878)	(124,878)	(124,878)	-	1,491,116	1,491,116	1,491,116	-
<u>\$ 321,467</u>	<u>\$ 49,293</u>	<u>\$ (6,807)</u>	<u>\$ (56,100)</u>	<u>\$ 6,144,764</u>	<u>\$ 442,361</u>	<u>\$ 9,880</u>	<u>\$ (432,481)</u>
		50,872				\$ 70,883	
		<u>\$ 44,065</u>				<u>\$ 80,763</u>	

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**State of Indiana**  
**Combining Schedule of Revenues, Expenditures and**  
**Changes in Fund Balances - Budget and Actual**  
**(Budgetary Basis)**  
**For the Year Ended June 30, 2009**  
(amounts expressed in thousands)

	<b>Major Moves Construction Fund</b>			<b>Variance to Final Budget</b>
	<b>Budget</b>		<b>Actual</b>	
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Taxes:				
Income	\$ -	\$ -	\$ -	\$ -
Sales	-	-	-	-
Fuels	-	-	-	-
Gaming	-	-	-	-
Inheritance	-	-	-	-
Alcohol and tobacco	-	-	-	-
Insurance	-	-	-	-
Other	-	-	-	-
Total taxes	-	-	-	-
Current service charges	-	-	-	-
Investment income	150,784	150,784	108,843	(41,941)
Sales/rents	-	-	-	-
Grants	-	-	-	-
Other	-	-	-	-
<b>Total revenues</b>	<b>150,784</b>	<b>150,784</b>	<b>108,843</b>	<b>(41,941)</b>
<b>Expenditures:</b>				
Current:				
General government	611,000	43	-	43
Public safety	-	-	-	-
Health	-	-	-	-
Welfare	-	-	-	-
Conservation, culture and development	-	-	-	-
Education	-	-	-	-
Transportation	-	10,209	10,209	-
Other	-	-	-	-
<b>Total expenditures</b>	<b>611,000</b>	<b>10,252</b>	<b>10,209</b>	<b>43</b>
Excess of revenues over (under) expenditures	(460,216)	140,532	98,634	41,898
<b>Other financing sources (uses):</b>				
Total other financing sources (uses)	(399,000)	(399,000)	(399,000)	-
<b>Net change in fund balances</b>	<b>\$ (859,216)</b>	<b>\$ (258,468)</b>	<b>\$ (300,366)</b>	<b>\$ (41,898)</b>
<b>Fund balances July 1, as restated</b>			<b>\$ 2,609,326</b>	
<b>Fund balances June 30</b>			<b>\$ 2,308,960</b>	

State Highway Department				Property Tax Replacement Fund			
Budget		Actual	Variance to Final Budget	Budget		Actual	Variance to Final Budget
Original	Final			Original	Final		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	2,298,424	2,298,424	-	(2,298,424)
1	1	3	2	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1	1	3	2	2,298,424	2,298,424	-	(2,298,424)
5,710	5,710	1,421	(4,289)	-	-	-	-
379	379	201	(178)	-	-	-	-
1,532	1,532	2,239	707	-	-	-	-
683,227	683,227	945,876	262,649	-	-	-	-
85,766	85,766	89,212	3,446	-	-	-	-
776,615	776,615	1,038,952	262,337	2,298,424	2,298,424	-	(2,298,424)
-	1,053	1,053	-	-	1,020,134	1,020,134	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
2,057,776	1,997,678	1,844,218	153,460	-	-	-	-
-	-	-	-	-	-	-	-
2,057,776	1,998,731	1,845,271	153,460	-	1,020,134	1,020,134	-
(1,281,161)	(1,222,116)	(806,319)	(415,797)	2,298,424	1,278,290	(1,020,134)	2,298,424
820,373	820,373	820,373	-	1,020,134	1,020,134	1,020,134	-
<u>\$ (460,788)</u>	<u>\$ (401,743)</u>	\$ 14,054	<u>\$ 415,797</u>	<u>\$ 3,318,558</u>	<u>\$ 2,298,424</u>	\$ -	<u>\$ (2,298,424)</u>
		\$ 170,241				\$ -	
		<u>\$ 184,295</u>				<u>\$ -</u>	

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**State of Indiana**  
**Combining Schedule of Revenues, Expenditures and**  
**Changes in Fund Balances - Budget and Actual**  
**(Budgetary Basis)**  
**For the Year Ended June 30, 2009**  
(amounts expressed in thousands)

	ARRA of 2009 Fund			
	Budget		Actual	Variance to Final Budget
	Original	Final		
<b>Revenues:</b>				
Taxes:				
Income	\$ -	\$ -	\$ -	\$ -
Sales	-	-	-	-
Fuels	-	-	-	-
Gaming	-	-	-	-
Inheritance	-	-	-	-
Alcohol and tobacco	-	-	-	-
Insurance	-	-	-	-
Other	-	-	-	-
Total taxes	-	-	-	-
Current service charges	-	-	-	-
Investment income	-	-	-	-
Sales/rents	-	-	-	-
Grants	-	-	955,414	955,414
Other	-	-	-	-
Total revenues	-	-	955,414	955,414
<b>Expenditures:</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Health	-	-	-	-
Welfare	-	392,831	392,831	-
Conservation, culture and development	-	1,629	2,390	(761)
Education	-	543,959	543,959	-
Transportation	-	9,521	9,521	-
Other	-	-	-	-
Total expenditures	-	947,940	948,701	(761)
Excess of revenues over (under) expenditures	-	(947,940)	6,713	(954,653)
<b>Other financing sources (uses):</b>				
Total other financing sources (uses)	(6)	(6)	(6)	-
<b>Net change in fund balances</b>	<u>\$ (6)</u>	<u>\$ (947,946)</u>	<u>\$ 6,707</u>	<u>\$ 954,653</u>
<b>Fund balances July 1, as restated</b>			<u>\$ -</u>	
<b>Fund balances June 30</b>			<u><b>\$ 6,707</b></u>	

## 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 FUND	MAJOR MOVES CONSTRUCTION FUND	STATE HIGHWAY DEPARTMENT	PROPERTY TAX RELIEF FUND	ARRA OF 2009 FUND	Total
Net change in fund balances (budgetary basis)	\$ (986,878)	\$ (6,807)	\$ 9,880	\$ (300,366)	\$ 14,054	\$ -	\$ 6,707	\$ (1,263,411)
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)	(138,598)	496	56,788	(6,963)	24,926	-	41,200	(22,152)
Expenditures are recorded when the liability is incurred (GAAP) as opposed to when payment is made (budgetary)	(141,547)	8,675	(82,609)	(4,496)	(8,237)	(0)	(36,343)	(264,558)
<b>Net change in fund balances (GAAP basis)</b>	<b>\$ (1,267,023)</b>	<b>\$ 2,363</b>	<b>\$ (15,942)</b>	<b>\$ (311,825)</b>	<b>\$ 30,742</b>	<b>\$ (0)</b>	<b>\$ 11,564</b>	<b>\$ (1,550,121)</b>

## Infrastructure - Modified Reporting

### Condition Rating of the State's Highways and Bridges

<b>Roads</b>	<b>Average Pavement Quality Index (PQI)</b>		
	<u><b>2009</b></u>	<u><b>2008</b></u>	<u><b>2007</b></u>
Interstate Roads (including Rest Areas and Weigh Stations)	85%	84%	83%
NHS Roads - Non-Interstate (including Rest Areas and Weigh Stations)	88%	83%	82%
Non-NHS Roads	84%	79%	79%

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 criteria by the end of the fiscal year.

<b>Bridges</b>	<b>Average Sufficiency Rating</b>		
	<u><b>2009</b></u>	<u><b>2008</b></u>	<u><b>2007</b></u>
Interstate Bridges	90.6%	88.9%	90.4%
NHS Bridges - Non-Interstate	90.6%	89.6%	90.4%
Non-NHS Bridges	88.7%	87.4%	88.3%

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)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Roads</b>					
Interstate Roads (including Rest Areas and Weigh Stations):					
Needed	\$ 263,764	\$ 120,147	\$ 212,485	\$ 105,267	\$ 151,999
Actual	246,089	256,482	248,803	126,361	140,667
NHS and Non-NHS Roads - Non-Interstate (including Rest Areas and Weigh Stations)					
Needed	391,641	419,001	145,720	234,789	230,453
Actual	571,000	374,770	297,223	413,557	376,969
Roads at State Institutions and Properties					
Needed	1,734	1,225	2,529	1,173	2,903
Actual	4,884	3,146	3,069	4,496	5,595
Total					
Needed	657,139	540,373	360,734	341,229	385,355
Actual	821,973	634,398	549,095	544,414	523,231
<b>Bridges</b>					
Interstate Bridges					
Needed	\$ 82,668	\$ 34,723	\$ 37,157	\$ 5,749	\$ 39,166
Actual	37,931	43,904	37,070	29,520	23,863
NHS Bridges - Non-Interstate					
Needed	24,438	4,695	10,220	31,943	2,021
Actual	7,794	13,568	14,154	11,459	1,282
Non-NHS Bridges					
Needed	48,214	26,694	31,549	44,859	32,597
Actual	39,707	34,138	35,118	31,145	61,271
Bridges at State Institutions and Properties					
Needed	-	-	-	-	164
Actual	253	3	-	-	796
Total					
Needed	155,320	66,112	78,926	82,551	73,948
Actual	85,685	91,613	86,342	72,124	87,212

Data provided by Comparative Report of Preservation Costs



SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE STATE OF INDIANA

Compliance

We have audited the compliance of the State of Indiana with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. 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 of Indiana'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 Finance Authority, and Indiana Housing and Community Development Authority which expended a total of \$1,150,606,509 in federal awards that are not included in the schedule for the year ended June 30, 2009. 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 provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Indiana's compliance with those requirements.

As described in Findings 2009-ING-1, 2008-FSSA-3, 2007-FSSA-1, and 2007-IDHS-1, in the accompanying Schedule of Findings and Questioned Costs and Summary Schedule of Prior Audit Findings, the State of Indiana did not comply with requirements regarding Allowable Costs, Cost Principles, and Reporting that are applicable to the Medicaid Program, State Children's Health Insurance Program, National Guard Military Operations and Maintenance Projects Program, and the Homeland Security Cluster. Compliance with such requirements is necessary, in our opinion, for the State of Indiana to comply with requirements applicable to that program.

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

In our opinion, except for the noncompliance described 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 other major federal programs for the year ended June 30, 2009. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 96-FSSA(DCS)-33, 2000-FSSA(DCS)-1, 2000-FSSA(DCS)-3, 2000-FSSA(DCS)-5, 2003-FSSA-16, 2005-FSSA-18, 2005-FSSA-30, 2008-FSSA-1, 2008-FSSA-2, 2008-FSSA-5, 2009-IDHS-1, 2009-IDOE-1, 2009-IDOE-2, 2009-IDOE-7, 2009-IDOE-10, 2009-INDOT-1, 2009-IDWD-1, and 2009-IDWD-2.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Indiana's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in the State of Indiana's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in 2009-FSSA-1, 2009-FSSA-2, 2009-FSSA-3, 2009-FSSA-4, 2009-FSSA-5, 2009-FSSA-6, 2009-FSSA-7, 2009-FSSA-8, 2009-DCS-1, 2009-IDOE-1, 2009-IDOE-2, 2009-IDOE-3, 2009-IDOE-4, 2009-IDOE-5, 2009-IDOE-6, 2009-IDOE-8, 2009-IDOE-9, 2009-IDOE-11, 2009-IDHS-1, 2009-ING-1, 2009-IDWD-1, and 2009-IDWD-2 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies. Significant deficiencies per the prior audit that are still considered significant deficiencies are Findings 99-FSSA(DCS)-7, 2000-FSSA(DCS)-1, 2000-FSSA(DCS)-2, 2000-FSSA(DCS)-3, 2000-FSSA(DCS)-5, 2003-FSSA(DCS)-1, 2003-FSSA-16, 2004-FSSA-5, 2004-FSSA-6, 2004-FSSA-8, 2005-FSSA-1, 2005-FSSA(DCS)-4, 2005-FSSA(DCS)-5, 2005-FSSA-10, 2005-FSSA-15, 2005-FSSA-16, 2005-FSSA-17, 2005-FSSA-18, 2005-FSSA-19, 2005-FSSA-20, 2005-FSSA-21, 2005-FSSA-23, 2005-FSSA-30, 2006-FSSA-2, 2006-FSSA-3, 2006-FSSA-5, 2006-FSSA-8, 2006-FSSA-9, 2006-FSSA-11, 2006-FSSA-12, 2006-FSSA-13, 2006-FSSA-14, 2007-FSSA-1, 2007-FSSA-2, 2007-FSSA-6, 2007-IDHS-1, 2008-FSSA-1, 2008-FSSA-2, 2008-FSSA-3, 2008-FSSA-4, 2008-FSSA-5, 2008-FSSA-7, 2008-FSSA-8, 2008-FSSA-9, and 2008-FSSA-10.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider Findings 99-FSSA(DCS)-7, 2000-FSSA(DCS)-3, 2000-FSSA(DCS)-5, 2005-FSSA(DCS)-5, 2005-FSSA-30, 2007-FSSA-1, 2007-IDHS-1, 2008-FSSA-2, 2008-FSSA-3, 2008-FSSA-5, 2009-ING-1, 2009-IDWD-1, 2009-FSSA-4, 2009-FSSA-5 2009-IDOE-7, 2009-IDOE-10, and 2009-INDOT-1 to be material weaknesses.

The State of Indiana's response to the findings identified in our audit is described in the accompanying Official Response section of the report. We did not audit the State of Indiana's response and, accordingly, we express no opinion on it.

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 and should not be used by anyone other than these 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 and of the office examined.

Subsequent to the release of our report on March 31, 2010, we classified four cluster programs, Special Education, Title I, Highway Planning and Construction, and Workforce Investment Act, as major programs for the 2009 audit period. We have audited these clusters and the following are the audit findings for these programs as dated March 9, 2011; 2009-INDOT-1, 2009-IDWD-2, 2009-IDOE-3, 2009-IDOE-4, 2009-IDOE-5, 2009-IDOE-6, 2009-IDOE-7, 2009-IDOE-8, 2009-IDOE-9, 2009-IDOE-10, and 2009-IDOE-11. In addition, there were changes in the Schedule of Federal Financial Assistance in the Highway Planning and Construction Cluster, the Special Education Cluster, and the Title I Cluster.

STATE BOARD OF ACCOUNTS

March 11, 2010, except for the Special Education Cluster, Title I Cluster, Highway Planning and Construction Cluster, and Workforce Investment Act Cluster Programs, as to which the date is March 9, 2011

STATE OF INDIANA  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
July 1, 2008 to June 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<b>U.S. DEPARTMENT OF AGRICULTURE</b>					
Supplemental Nutrition Assistance Program (SNAP) Cluster					
Supplemental Nutrition Assistance Program (SNAP)	10.551	FSSA	N/A	\$ 971,391,545	\$ -
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561				
Food Stamp		FSSA	2006 IS 2514 42	325,871	-
Food Stamp		FSSA	2007 IS 2514 42	1,666,430	-
Food Stamp		FSSA	2008 IS 2514 42	29,410,685	-
Food Stamp		FSSA	2009 IS 2514 42	29,345,323	-
FS IMPACT		FSSA	2007 IE 2518 42	(383,178)	-
FS IMPACT		FSSA	2008 IE 2518 42	400,839	-
FS IMPACT		FSSA	2006 IS 2519 42	(1,037,933)	-
FS IMPACT		FSSA	2007 IS 2519 42	353,659	-
FS IMPACT		FSSA	2008 IS 2519 42	2,505,187	-
FS IMPACT		FSSA	2009 IS 2519 42	863,763	-
FS IMPACT		FSSA	2006 IS 2520 42	(544)	-
FS IMPACT		FSSA	2007 IS 2520 42	(340)	-
FS IMPACT		FSSA	2008 IS 2520 42	49,300	-
FS IMPACT		FSSA	2009 IS 2520 42	43,006	-
FS IMPACT		FSSA	2009 IS 650342	871,164	-
Program Integrity		FSSA	2008 IS 8026 42	2,090	-
Program Integrity		FSSA	2007 IS 8036 42	162	-
Program Integrity		FSSA	2008 IS 8036 42	4,212	-
Program Integrity		FSSA	2009 IS 8036 42	3,853	-
ARRA - SNAP Recovery Act - ARRA		FSSA	2009 ID 250342	7,085	-
Total for Program				<u>64,430,633</u>	<u>-</u>
Total for Cluster				<u>1,035,822,178</u>	<u>-</u>
Child Nutrition Cluster					
School Breakfast Program (SBP)	10.553				
School Breakfast Program		IDOE	2008IN109942	9,739,986	9,739,986
School Breakfast Program		IDOE	2009IN109942	37,135,673	37,135,673
Total for Program				<u>46,875,659</u>	<u>46,875,659</u>
National School Lunch Program (NSLP)	10.555				
National School Lunch Program		IDOE	2008IN109942	36,525,484	36,525,484
National School Lunch Program		IDOE	2009IN109942	143,503,484	143,503,484
Food Commodities		IDOE	n/a	26,329,840	-
Total for Program				<u>206,358,808</u>	<u>180,028,968</u>
Special Milk Program for Children (SMP)	10.556				
Special Milk Program		IDOE	2008IN109942	105,053	105,053
Special Milk Program		IDOE	2009IN109942	158,645	158,645
Total for Program				<u>263,698</u>	<u>263,698</u>
Summer Food Service Program for Children (SFSPC)	10.559				
Summer Food Service Program		IDOE	2008IN109942	5,558,416	5,558,416
Summer Food Service Program		IDOE	2009IN109942	459,330	459,330
Summer Food Service SAE		IDOE	2008IN109942	2,277	-
Summer Food Service SAE		IDOE	2009IN109942	2,480	-
Total for Program				<u>6,022,503</u>	<u>6,017,746</u>
Total for Cluster				<u>259,520,668</u>	<u>233,186,071</u>
Emergency Food Assistance Cluster					
Emergency Food Assistance Program (Administrative Costs)	10.568	ISDOH	2IN810001	567,587	-
Emergency Food Assistance Program (Food Commodities)	10.569	LTGOV	2008IY810542	774,764	638,864
Total for Cluster				<u>1,342,351</u>	<u>638,864</u>
Plant and Animal Disease, Pest Control, and Animal Care	10.025				
Johne's 2008		BOAH	08-9618-0159-CA	29,025	-
National Animal ID 2008		BOAH	08-9118-0723-CA	117,516	-
National Animal ID 2009		BOAH	09-9118-0723-CA	746	-
Viral Hemorrhagic Septicemia Disease (VHS) 2008		BOAH	08-9618-0880-CA	49,857	-
Emerald Ash Borer Education, Outreach, & Surveys		DNR	300EP1EABAP6001	14,163	-

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

STATE OF INDIANA  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
July 1, 2008 to June 30, 2009  
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF AGRICULTURE (continued)</u>					
Plant and Animal Disease, Pest Control, and Animal Care (continued)					
Emerald Ash Borer Education, Outreach, & Surveys		DNR	300EP1EABAP8001	183,767	-
Emerald Ash Borer Education, Outreach, & Surveys		DNR	300EP1EABAP9001	8,727	-
Gypsy Moth Eradication		DNR	300EP1GYME08001	10,463	-
Indiana Cooperative Agricultural Pest Survey Program		DNR	300EP1CAPS08000	133,171	-
Indiana Cooperative Agricultural Pest Survey Program		DNR	300EP1CAPS09001	29,628	-
Chronic Wasting Disease Surveillance & Management		DNR	300FW1WCWD07000	(10,871)	-
Chronic Wasting Disease Surveillance & Management		DNR	300FW1WCWD08000	52,600	-
Noxious Weed Surveys		DNR	300NP1NW0800001	8,500	-
Noxious Weed Surveys		DNR	390NP1NW0900001	425	-
Total for Program				<u>627,717</u>	<u>-</u>
Wildlife Services					
Avian Influenza Monitoring in Waterfowl	10.028	DNR	300FW1A01F02000	6,298	-
Avian Influenza Monitoring in Waterfowl		DNR	300FW1A01F03000	27,269	-
Total for Program				<u>33,567</u>	<u>-</u>
Conservation Reserve Program					
CRP Sign up 31-33	10.069	DNR	300FR108CRP8000	6,042	-
NRCS - Environmental Quality Incentives		DNR	300FR107EQIP000	4,617	-
Total for Program				<u>10,659</u>	<u>-</u>
Wetlands Reserve Program					
USDA NRCS Tern Bar Slough	10.072	DNR	300FW1NRCS08000	83,802	-
Restoration Activities Limberlost Swamp & Loblolly Marsh		DNR	300NP1W50024001	25,697	-
Total for Program				<u>109,499</u>	<u>-</u>
Agricultural and Rural Economic Research					
Scrapie 2007	10.250	BOAH	07-9618-0039-CA	(20)	-
Scrapie 2008		BOAH	08-9618-0039-CA	47,540	-
Total for Program				<u>47,520</u>	<u>-</u>
Cooperative Agreements with States for Intrastate Meat & Poultry Inspection					
2001	10.475	BOAH	318-B-1-983	26,993	-
2002		BOAH	318-B-1-983	15,406	-
2003		BOAH	318-B-1-983	13,000	-
2005		BOAH	318-B-1-983	12,466	-
2007		BOAH	318-B-1-983	2,231	-
2008		BOAH	318-B-1-983	1,008,770	-
2009		BOAH	318-B-1-983	2,887,850	-
Total for Program				<u>3,966,716</u>	<u>-</u>
Food Safety Cooperative Agreements					
Food Emergency Response Network - 2008	10.479	ISDOH	FSIS-C-45-2005/03	44,331	-
Food Emergency Response Network - 2009		ISDOH	FSIS-C-45-2005/04	139,985	-
Total for Program				<u>184,316</u>	<u>-</u>
Food Distributions					
	10.550	EPCC	06-02-82-9550	26,177	-
Special Supplemental Nutrition Program for Women, Infants and Children					
USDA WIC Program - 2008	10.557	ISDOH	MWSSHP2-3:WFM2	27,262,455	9,759,125
USDA WIC Program - 2009		ISDOH	MWSSHP2-3:WFM2	76,042,079	12,822,778
WIC Peer Counselor Grant FY08		ISDOH	MWSSNP 2-3: WFM6	130,836	130,835
WIC Peer Counselor Grant FY09		ISDOH	MWSSNP 2-3: WFM6	94,523	94,523
USDA WIC Farmers' Market Program - 2008		ISDOH	MWSSNP 2-1:WC 15-3	227,315	-
USDA WIC Farmers' Market Program - 2009		ISDOH	MWSSNP 2-1:WC 15-3	3,077	-
USDA WIC Senior Farmers' Market Program - 2008		ISDOH	MWSSNP 2-1:SFMNP 4	58,519	-
USDA WIC Senior Farmers' Market Program - 2009		ISDOH	MWSSNP 2-1:SFMNP 4	1,460	-
Total for Program				<u>103,820,264</u>	<u>22,807,262</u>

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

STATE OF INDIANA  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
July 1, 2008 to June 30, 2009  
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF AGRICULTURE (continued)</u>					
Child and Adult Care Food Program	10.558				
		IDOE	2008IN109942	13,699,932	13,699,932
		IDOE	2009IN109942	28,006,881	28,006,881
		IDOE	2008IN109942	64,189	-
		IDOE	2009IN109942	210,670	-
Total for Program				<u>41,981,672</u>	<u>41,706,813</u>
State Administrative Expenses for Child Nutrition	10.560				
		IDOE	2008IN253342	412,192	-
		IDOE	2009IN253342	1,759,951	-
Total for Program				<u>2,172,143</u>	<u>-</u>
Commodity Supplemental Food Program	10.565				
Commodity & Supplemental Food Program - 2009		LTGOV ISDOH	2008IY800542 2IN810001	97,470 <u>158,366</u>	86,318 <u>-</u>
Total for Program				<u>255,836</u>	<u>86,318</u>
Team Nutrition Grants	10.574	IDOE	2007IN350330	<u>48,584</u>	<u>47,527</u>
Fresh Fruit and Vegetable Program	10.582				
Fresh Fruit and Vegetable Program		IDOE	2008IL160330	242,817	242,817
Fresh Fruit and Vegetable Program		IDOE	2009IL160330	<u>648,759</u>	<u>648,759</u>
Total for Program				<u>891,576</u>	<u>891,576</u>
Forestry Research	10.652				
Forest Inventory & Analysis 2008		DNR	300FR108FIA8000	<u>148,724</u>	<u>-</u>
Cooperative Forestry Assistance	10.664				
Consolidated Grant - 2004 Spatial Analysis		DNR	300FR104SAG5	7,601	-
Invasive Species - 2004		DNR	300FR104INV4	43,181	-
Emerald Ash Borer Restoration - 2004		DNR	300FR104PAM4	26,885	-
Persistent Forestry Issues - 2004		DNR	300FR104PFI4	33,881	-
Watershed - 2004		DNR	300FR104WAT4	10,748	-
Consolidated Grant - 2005 EAB		DNR	300FR105BUG5	78,229	-
Consolidated Grant - 2005 Conservation Ed		DNR	300FR105CUF5	19,394	-
Consolidated Grant - 2005 Fire Assistance		DNR	300FR105SFA5	39,803	-
Volunteer Fire Assistance - 2005		DNR	300FR105VFA5	-	56,601
Consolidated Payment - 2006 #2		DNR	300FR106EAB6	1,056	-
WUI Hazard Mitigation and Community Ed		DNR	300FR106HMF6	53,733	-
WUI Hazard Mitigation and Community Ed		DNR	300FR106HMF6	21,256	-
2006 GM Survey on Hoosier For		DNR	300FR106HOO6	262	-
2006 Consolidated Grant		DNR	300FR106MAN6	14,850	-
2006 Consolidated Grant		DNR	300FR106SFA6	40,070	-
Consolidated Payment - 2006 Sirex Survey		DNR	300FR106SIR6	1,535	-
Consolidated Payment - 2006 Sirex Survey		DNR	300FR106SIR6	5,523	-
Sudden Oak Death Detection Survey		DNR	300FR106SOD6	869	-
Volunteer Fire Asst - 2006		DNR	300FR106VFA6	4,841	5,371
2007 Forest Health Management		DNR	300FR107MAN7000	38,388	-
2007 Forest Health Monitoring		DNR	300FR107MON7000	4,880	-
2007 Nurseries		DNR	300FR107NUR7000	11,389	-
2007 Sirex Survey		DNR	300FR107SIR7000	5,855	-
2007 State Fire Assistance		DNR	300FR107SFA7000	50,205	-
2007 Slow the Spread		DNR	300FR107STS7000	51,027	-
VOLUNTEER FIRE ASSISTANCE 2007		DNR	300FR107VFA7	16,236	257,583
Forest Health Management - 08 cons pmt		DNR	300FR108FHM8000	55,059	-
Forest Stewardship - 08 cons pmt		DNR	300FR108STE8000	192,556	-
State Fire Assistance - 08 cons pmt		DNR	300FR108SFA8000	24,735	-
Volunteer Fire Assistance 2008		DNR	300FR108VFA8000	196,395	67,337
GM Slow the Spread 2008		DNR	300FR108STS8000	163,408	-
Lick Creek		DNR	300MU105LCSF	<u>(2,927)</u>	<u>-</u>
Total for Program				<u>1,210,922</u>	<u>386,892</u>

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF AGRICULTURE (continued)</u>					
Urban and Community Forestry Program	10.675				
2006 Consolidated Grant - CUF		DNR	300FR106CUF6	96,725	-
2007 Urban & Community Forest		DNR	300FR107CUF7000	102,133	-
Community & Urban Forestry - 08cons pmt		DNR	300FR108CUF8000	<u>93,888</u>	-
Total for Program				<u>292,747</u>	-
Forestry Legacy Program	10.676				
Forest Legacy Administration - 2004		DNR	300FR104LEGA	(1,297)	-
Forest Legacy Administration - 2005		DNR	300FR105LEGA	11,810	-
2006 Forest Legacy Acquisition		DNR	300FR106LEG6	281,625	-
Forest Legacy - 2006		DNR	300FR106LEGA	5,870	-
2007 Legacy Administration		DNR	300FR107LEGA000	<u>3,011</u>	-
Total for Program				<u>301,018</u>	-
Forest Land Enhancement Program	10.677				
Forest Land Enhancement Program		DNR	300FR104FLEP	3,583	-
Forest Land Enhancement Program		DNR	300FR105FLEP	45,452	-
Forest Land Enhancement 2006		DNR	300FR106FLEP	<u>7,568</u>	-
Total for Program				<u>56,604</u>	-
Environmental Quality Incentives Program	10.912	DNR	300FW1NRCS07000	<u>(194)</u>	-
Wildlife Habitat Incentive Program	10.914				
Wildlife Habitat Incentives Program - Posey Co Flatwoods		DNR	300NP1W4A101002	2,767	-
Wildlife Habitat Incentives Program - Posey Co Flatwoods		DNR	300NP1W4A101003	69	-
Wildlife Habitat Incentives Program - Prairie Cr Barrens		DNR	300NP1W4A149001	<u>(3,300)</u>	-
Total for Program				<u>(464)</u>	-
Other Assistance					
Plant Surveys Hoosier National Forest	10.000	DNR	300NP1PSHN05001	<u>1,907</u>	-
Total for Other Assistance				<u>1,907</u>	-
Total U.S. Department of Agriculture				<u>1,452,872,707</u>	<u>299,751,322</u>
<u>U.S. DEPARTMENT OF COMMERCE</u>					
Economic Adjustment Assistance	11.307	LTGOV	06-69-05330	<u>19,607</u>	<u>16,952</u>
Coastal Zone Management Administration Awards	11.419				
Indiana Lake Michigan Coastal Program		DNR	300NP1CZM061001	183,537	183,537
Indiana Lake Michigan Coastal Program		DNR	300NP1CZM661306	401,472	319,211
Indiana Lake Michigan Coastal Program		DNR	300NP1CZM661309	69,172	67,150
Indiana Lake Michigan Coastal Program		DNR	300NP1CZM661310	40,697	32,300
Indiana Lake Michigan Coastal Program		DNR	300NP1CZM767306	404,505	415,860
Indiana Lake Michigan Coastal Program		DNR	300NP1CZM767309	3,894	3,894
Indiana Lake Michigan Coastal Program		DNR	300NP1CZM820306	<u>362,250</u>	-
Total for Program				<u>1,465,527</u>	<u>1,021,952</u>
Public Safety Interoperable Communications Grant Program					
2007 PSIC	11.555	IDHS	2007-GS-H7-0041	<u>12,417,150</u>	<u>12,350,116</u>
Manufacturing Extension Partnership	11.611	IEDC	70NANB5H1177	<u>671,287</u>	<u>671,287</u>
Total U.S. Department of Commerce				<u>14,573,572</u>	<u>14,060,307</u>

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<b>U.S. DEPARTMENT OF DEFENSE</b>					
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113				
FUDS		IDEM	IN 06-1	8,004	-
FUDS MAP		IDEM	IN 06-1	163	-
FUDS MMRP		IDEM	IN 06-1	2,252	-
BRAC 95 Navy		IDEM	IN 06-1	353	-
Air Force IR		IDEM	IN 06-1	14,098	-
BRAC 91 Air Force		IDEM	IN 06-1	6,168	-
BRAC 88 Army		IDEM	IN 06-1	8,229	-
DNSC-IR		IDEM	IN 06-1	2,490	-
DERA		IDEM	IN 06-1	15,305	-
BRAC 88 Army		IDEM	IN 08-1	14,727	-
Navy BRAC 95		IDEM	IN 08-1	380	-
Air Force IR		IDEM	IN 08-1	14,145	-
AF BRAC 91		IDEM	IN 08-1	542	-
FUDS		IDEM	IN 08-1	12,023	-
FUDS MAP		IDEM	IN 08-1	1,904	-
DNSC-IR		IDEM	IN 08-1	1,550	-
1300000 Misc DERA		IDEM	IN 08-1	49,642	-
				(169)	-
Newport Army Chemical Demilitarization		IDEM		96,829	-
Newport Army Non-Stockpile		IDEM		1,151	-
		IDEM		4	-
Newport Stockpile Environmental Per		IDEM		18,290	-
Total for Program				<u>268,080</u>	-
Military Construction, National Guard	12.400				
ADRS Projects		MD		72,403	-
Fire Fighting Facility - ARFTA		MD	W912L9-04-2-2001	615,214	-
Limited Army Aviation Support Facility - Gary		MD	W912L9-05-2-2001	370,567	-
MOUT Shoot House & Breach Facility - ARFTA		MD	W912L9-05-2-2003	143,460	-
MOUT Urban Assault Training Course		MD	W912L9-06-2-2001	87,028	-
Readiness Center Gary Regional Airport		MD	W912L9-06-2-2002	3,534,758	-
Lafayette Readiness Center		MD	W912L9-07-2-2001	6,752,801	-
Johnson County Readiness Center		MD	W912L9-08-2-2001	2,952,638	-
DPW Facilities at Camp Atterbury		MD	W912L9-09-2-2001	876,255	-
Total for Program				<u>15,405,124</u>	-
National Guard Military Operations and Maintenance (O&M) Projects	12.401				
Real Property Operations and Maintenance		MD	W912L9-09-2-1001	18,039,460	-
ARNG Environmental		MD	W912L9-09-2-1002	784,270	-
ARNG Security Personnel		MD	W912L9-09-2-1003	2,703,875	-
ARNG Electronic Security		MD	W912L9-09-2-1004	79,330	-
ARNG Telecommunications		MD	W912L9-09-2-1005	2,339,036	-
Ranges and Training Land Program		MD	W912L9-09-2-1007	1,848,530	-
ARNG Anti-Terrorism Program		MD	W912L9-09-2-1010	86,894	-
ANG Real Property Operations and Maintenance (Baer Field)		MD	W912L9-09-2-1021F	703,772	-
ANG Real Property Operations and Maintenance (Hulman Field)		MD	W912L9-09-2-1021T	717,416	-
ANG Security Guard Activities (Baer Field)		MD	W912L9-09-2-1023F	792,865	-
ANG Security Guard Activities (Hulman Field)		MD	W912L9-09-2-1023T	632,123	-
ANG Fire Protection Activities (Baer Field)		MD	W912L9-09-2-1024F	836,358	-
ANG Fire Protection Activities (Hulman Field)		MD	W912L9-08-2-1024T	13,880	-
Total for Program				<u>29,577,809</u>	-
National Guard Civilian Youth Opportunities	12.404				
Hoosier Youth Challenge Academy		MD	W912L9-08-2-4000	1,679,481	-
Hoosier Youth Challenge Academy Travel		MD	W912L9-09-2-4003	27,314	-
Total for Program				<u>1,706,795</u>	-
Community Economic Adjustment Planning Assistance for Joint Land Use Studies	12.610	LTGOV	EN0718-08-01	119,580	119,580
Other Assistance					
Inventory & Status Update Assessment-Endangered Species	12	DNR	300NP9NSAG04001	(7,303)	-
Total U.S. Department of Defense				<u>47,070,085</u>	<u>119,580</u>

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<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>					
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228				
		LTGOV	B-98-DC-180001	90,000	90,000
		LTGOV	B-02-DC-180001	151,982	151,982
		LTGOV	B-03-DC-180001	41,326	41,326
		LTGOV	B-04-DC-180001	679,735	679,735
		LTGOV	B-05-DC-180001	718,971	718,971
		LTGOV	B-06-DC-180001	3,035,688	2,910,436
		LTGOV	B-07-DC-180001	21,437,438	20,731,546
		LTGOV	B-08-DC-180001	6,386,907	6,373,852
CDBG 2008 Midwest Floods Recovery Assistance		LTGOV	B-08-DF-18-0001	33,407	-
Disaster Recovery Assistance		LTGOV	B-08-DI-18-0001	6,852	-
Total for Program				<u>32,582,307</u>	<u>31,697,848</u>
Fair Housing Assistance Program - State and Local Cooperative Agreement	14.401	ICRC	FF205K085008	35,720	-
Total U.S. Department of Housing and Urban Development				<u>32,618,027</u>	<u>31,697,848</u>
<b>U.S. DEPARTMENT OF INTERIORS</b>					
Fish and Wildlife Cluster					
Sport Fish Restoration Program	15.605				
Statewide Public Access (Fishing and Boating)		DNR	300FW1A21D42000	774,532	-
Statewide Fisheries Management		DNR	300FW1F10D41000	1,116,348	-
Statewide Fisheries Management		DNR	300FW1F10D42000	305,348	-
Statewide Fisheries Management		DNR	300FW1F10D42PMI	26,172	-
Statewide Hatchery Operations		DNR	300FW1F21D18000	785,462	41,167
Statewide Hatchery Operations		DNR	300FW1F21D19000	653,584	8,761
Statewide Hatchery Operations		DNR	300FW1F21D19PMI	28,233	-
Indiana Aquatic Resources Education Program		DNR	300FW1F24E13000	162,664	-
Lake Michigan Yellow Perch Dynamics		DNR	300FW1F27R01000	152,241	152,241
Lake Michigan Yellow Perch Dynamics		DNR	300FW1F27R02000	23,337	23,337
Total for Program				<u>4,027,920</u>	<u>225,506</u>
Wildlife Restoration	15.611				
St. Joe Valley Conservation Club Phase IV		DNR	300FW1W32S15000	2,368	2,368
Total for Cluster				<u>4,030,288</u>	<u>227,874</u>
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250				
Indiana Administration and Enforcement (A&E) Grant		DNR	300RC1188000001	614,608	-
Indiana Administration and Enforcement (A&E) Grant		DNR	300RC1188000001	(4,898)	-
Total for Program				<u>609,711</u>	<u>-</u>
Abandoned Mine Land Reclamation Program	15.252				
Indiana Abandoned Mine Land (AML) Grant		DNR	300RC1186030001	912	-
Indiana Abandoned Mine Land (AML) Grant		DNR	300RC1185030001	358,237	-
Indiana Abandoned Mine Land (AML) Grant		DNR	300RC1186030001	872,398	-
Indiana Abandoned Mine Land (AML) Grant		DNR	300RC1186050001	(81,348)	-
Indiana Abandoned Mine Land (AML) Grant		DNR	300RC1187010001	379,154	-
Indiana Abandoned Mine Land (AML) Grant		DNR	300RC1187020001	(4,893)	-
Indiana Abandoned Mine Land (AML) Grant		DNR	300RC1187030001	669,638	-
Indiana Abandoned Mine Land (AML) Grant		DNR	300RC1188010001	1,269,239	-
Indiana Abandoned Mine Land (AML) Grant		DNR	300RC1188020001	57,866	-
Indiana Abandoned Mine Land (AML) Grant		DNR	300RC1188030001	2,558,308	-
Indiana Abandoned Mine Land (AML) Grant		DNR	300RC1188050001	193,023	-
Indiana Abandoned Mine Land (AML) Grant		DNR	300RC1188070001	1,193,929	-
Indiana Abandoned Mine Land (AML) Grant		DNR	300RC1188120001	60,000	-
Total for Program				<u>7,526,462</u>	<u>-</u>
Fish and Wildlife Management Assistance	15.608				
Aquatic Nuisance Species Management Plan Implementation		DNR	300FW1AISM05000	35,886	-
Aquatic Nuisance Species Management Plan Implementation		DNR	300FW1AISM05000	28,532	-
Aquatic Nuisance Species Management Plan Implementation		DNR	300FW1AISM05000	13,394	-
Total for Program				<u>77,811</u>	<u>-</u>

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<b>U.S. DEPARTMENT OF INTERIORS (continued)</b>					
Cooperative Endangered Species Conservation Fund	15.615				
Endangered Species Program		DNR	300FW1E01S15000	21,493	14,265
Mitchell's Satyr Habitat Conservation Plan		DNR	300FW1E5HP01000	32,776	30,400
Acquisition of Two Bat Hibernacula		DNR	300FW1E6HL01000	593,325	-
Conservation Strategy Federally Listed Plant Species		DNR	300FW1E08R01000	19,830	-
NiSource Gas Transmission Line HCP		DNR	300FW1E9HP01000	309,922	309,922
Overwinter Weight Loss in IN Bats		DNR	300FW1E10R01000	6,394	6,394
Total for Program				<u>983,739</u>	<u>360,980</u>
Clean Vessel Act	15.616				
Clean Vessel Pumpout		IDEM	CV-1-7	10,306	-
Clean Vessel Pumpout		IDEM	CV-1-7	5,843	-
Clean Vessel Pumpout		IDEM	CV-1-8	9,779	-
Clean Vessel Pumpout		IDEM	CV-1-9	37,459	-
Clean Vessel Pumpout		IDEM	CV-1-10	1,045	-
		IDEM	CV-1-10	39	-
Clean Vessel Pumpout		IDEM	CV-1-11	16,653	-
Clean Vessel Pumpout		IDEM	CV-1-12	36,882	-
Clean Vessel Pumpout		IDEM	CV-1-13	1,603	-
Tier 1		IDEM	Y-5-B-1	55,367	-
Tier 1		IDEM	Y-7-B-1	55,615	-
Total for Program				<u>230,591</u>	<u>-</u>
Firearm and Bow Hunter Education and Safety Program	15.626	DNR	300FW1W33E01000	29,680	-
Landowner Incentive Program	15.633				
Landowner Incentive Program for IN Species at Risk Prvt Lands		DNR	300FW1I02T01000	64,772	-
Conversion of Brome & Fescue Stands to Wildlife Friendly Grasses, etc.		DNR	300FW1I04T01000	49,150	-
Total for Program				<u>113,922</u>	<u>-</u>
State Wildlife Grant	15.634				
Wildlife Diversity Survey & Monitoring		DNR	300FW1T03S04000	31,676	-
Wildlife Diversity Survey & Monitoring		DNR	300FW1T03S05000	52,210	-
Population Genetics Allegheny Woodrat in IN		DNR	300FW1T07R02000	48,423	44,099
Assessment of Eastern Hellbender Population Status		DNR	300FW1T07R03000	73,185	73,185
Assessment of the Role of Interstate Highways as Barriers to Gene Flow		DNR	300FW1T07R04000	171,868	171,868
DNA Sex Determination in Lake Sturgeon Using Roche 454		DNR	300FW1T07R05000	1,377	1,377
Redside Dace Population Research		DNR	300FW1T07R06000	2,333	2,333
Crawfish Frogs Population Research		DNR	300FW1T07R07000	32,310	32,310
Timber Rattlesnake Investigations		DNR	300FW1T07R08000	15,317	15,317
Box Turtle Investigations		DNR	300FW1T07R09000	6,060	6,060
Tern Bar Slough Habitat Development and Management		DNR	300FW1T08D02000	3,683	-
State Wildlife Grant Project Coordination		DNR	300FW1T09C03000	55,657	-
State Wildlife Grant Project Coordination		DNR	300FW1T09C04000	98,398	-
Total for Program				<u>592,498</u>	<u>346,549</u>
Migratory Bird Conservation	15.647	DNR	300FW1P01F01000	4,800	-
Historic Preservation Fund Grants-In-Aid	15.904				
Historic Preservation Fund		DNR	300HP1HPF220001	432,481	-
Historic Preservation Fund		DNR	300HP1HP0821719	277,776	349,165
Total for Program				<u>710,257</u>	<u>349,165</u>
Outdoor Recreation - Acquisition, Development and Planning	15.916				
Lakewood Park Phase II - 1800523		DNR	300OR1180523	65,059	65,059
State Planning		DNR	300OR1180531	(73,018)	(73,018)
Williams Park		DNR	300OR1180540	38,600	38,600
180543 Scarborough & Walkerton Trail		DNR	300OR1180543	69,271	69,271
Red Mill County Park		DNR	300OR1180549	39,908	39,908
Spicer Lake Nature Preserve - 180550		DNR	300OR1180550	96,972	96,972
Pine Knob Lake		DNR	300OR1180556	61,250	61,250
Sugar Creek Township		DNR	300OR1180056100	200,000	200,000
Argos Community Park Expansion		DNR	300OR1180056500	(61,250)	(61,250)
IN Statewide Outdoor Rec Plan (SCORP)		DNR	300OR1180056600	9,667	9,667
Total for Program				<u>446,458</u>	<u>446,458</u>

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<u>U.S. DEPARTMENT OF INTERIORS (continued)</u>					
Other Assistance					
Federal Aid Coordination	15	DNR	300FW1A14C55000	90,075	-
Fish and Wildlife Area Development	15				
Fish and Wildlife Area Development		DNR	300FW1A22D41000	2,173,670	-
Fish and Wildlife Area Development		DNR	300FW1A22D42000	899,486	-
Fish and Wildlife Area Development		DNR	300FW1A22D42PMP	91,463	-
Fish and Wildlife Area Development		DNR	300FW1A22D42PMS	3,881	-
Total for Program				3,168,500	-
Technical Assistance	15				
Technical Assistance		DNR	300FW1A26T17000	71,425	-
Technical Assistance		DNR	300FW1A26T18000	296,631	-
Total for Program				368,056	-
Division of State Parks - Unfunded Open Task Order	15	DNR	300SP1TASK1	28,403	-
Division of Historic Preservation	15				
Stabilization of the Donald B National Historic Landmark		DNR	300HP1SDB070001	5,000	-
Study & Identification of Indiana's Jewish Heritage Sites		DNR	300HP1JHS030001	(3,709)	-
Architectural Historian Position		DNR	300HP2IHFA05001	184,489	-
Total for Program				185,780	-
Total Other Assistance				3,840,814	-
Total U.S. Department of Interior				19,197,031	1,731,027
<u>U.S. DEPARTMENT OF JUSTICE</u>					
Prisoner ReEntry Initiative Demonstration (Offender Reentry)	16.202				
Prisoner Re-Entry Initiative		IDOC	2007-RE-CX-0018	1,520	-
Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)	16.203				
CASOM TTA		IDOC	2008-WP-BX-K011	5,226	-
Juvenile Accountability Block Grants	16.523				
FY 2004 Juvenile Accountability Block Grants Program		ICJI	04JBFX0057	361,054	361,054
FY 2005 Juvenile Accountability Block Grants Program		ICJI	05JBFX0039	119,958	119,958
FY 2006 Juvenile Accountability Block Grants Program		ICJI	06JBFX0024	306,772	306,766
FY 2008 Juvenile Accountability Block Grant		ICJI	08JBFX0044	29,733	-
Total for Program				817,517	787,777
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540				
FY 2005 Title II Part B Formula Grant Program		ICJI	05JFFX0020	8,650	4,821
FY 2006 Title II Part B Formula Grant Program		ICJI	06JFFX0036	151,131	74,137
FY 2007 OJJDP Title II Formula Grants Program		ICJI	07JFFX0008	949,641	826,932
FY 2008 OJJDP Title II Formula Grants Program		ICJI	08JFFX0025	530,845	521,137
Total for Program				1,640,267	1,427,027
Missing Children's Assistance	16.543				
ICAC TASK FORCE PROGRAM		ISP	2003-MC-CX-K002	116,916	41,492
ICAC TASK FORCE PROGRAM		ISP	2008-MC-CX-K006	72,794	24,688
Total for Program				189,710	66,180
Title V - Delinquency Prevention Program	16.548				
FY 2006 Title V - Incentive Grants for Local Delinquency Prevention Program		ICJI	06JPFX0029	(10,000)	(10,000)
State Justice Statistics Program for Statistical Analysis Centers	16.550				
2007 SJS STATISTICAL ANALYSIS		ICJI	2007BJCXK040	50,000	50,000
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560				
Solving Cold Cases with DNA		IDSP	2005-DN-BX-K028	119,559	-
Improvement in Forensic Drug Analytical Services		IDSP	2007-CD-BX-0063	195,057	-
FY 2007 Forensic Science Improvement Program		ICJI	07CDBX0063	303,261	303,261
Total for Program				617,877	303,261

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<u>U.S. DEPARTMENT OF JUSTICE (continued)</u>					
Crime Victim Assistance	16.575				
FY 05 Victim Assistance Grant Program		ICJI	05VAGX0038	291,751	184,000
FY 2006 VOCA Victim Assistance Grant Program		ICJI	06VAGX0039	563,928	384,937
FY 07 VOCA Assistance Grant Program		ICJI	07VAGX0056	2,614,311	2,614,311
OVC FY2008 VOCA Victim Assistance Formula		ICJI	08VAGX0023	<u>2,618,715</u>	<u>2,618,715</u>
Total for Program				<u>6,088,705</u>	<u>5,801,963</u>
Crime Victim Compensation	16.576				
OVC FY 06 Victims of Crime Act (VOCA) Crime Compensation Grants Program		ICJI	06VCGX0044	282	-
FY 07 VOCA Victim Compensation Formula		ICJI	07VCGX0048	<u>92,122</u>	<u>-</u>
Total for Program				<u>92,404</u>	<u>-</u>
Edward Byrne Memorial Formula Grant Program	16.579				
FY 2003 Edward Byrne Memorial State & Law Enforcement Assistance Formula Grant Program		ICJI	03DBBX0026	478,436	-
Edward Byrne Memorial State and Local Law Enforcement Assistance Program		ICJI	04DBBX0018	113,730	99,222
FY 2005 Edward Byrne Justice Assistance Grant Program		ICJI	05DJBX0759	164,192	141,070
FY 2006 Edward Byrne Memorial Justice Assistance Grant (JAG) Program		ICJI	06DJBX0051	751,022	428,386
FY 2007 Edward Byrne Memorial Justice Assistance Grant (JAG) Program		ICJI	07DJBX0081	2,280,487	2,111,081
FY 2008 Justice Assistance Grant		ICJI	08DJBX0018	<u>283,460</u>	<u>283,460</u>
Total for Program				<u>4,071,326</u>	<u>3,063,220</u>
Violence Against Women Formula Grant	16.588				
Indiana's FY 2005 STOP Violence Against Women Formula Grant Program		ICJI	05WFAQ0034	82,203	82,197
Indiana's FY 2006 STOP Violence Against Women Formula Grant Program		ICJI	06WFAQ0028	221,086	52,005
Indiana's FY 2007 STOP Violence Against Women Formula Grant Program		ICJI	07WFAQ0003	309,476	289,598
Indiana's FY 2008 STOP Violence Against Women Formula Grant Program		ICJI	08WFAQ0011	<u>1,494,991</u>	<u>1,494,991</u>
Total for Program				<u>2,107,756</u>	<u>1,918,792</u>
Residential Substance Abuse Treatment for State Prisoners	16.593				
FY 2003 Residential and Substance Abuse Treatment Formula Grant		ICJI	03RTBX0050	10,629	10,629
FY 2005 Residential Substance Abuse Treatment for State Prisoners Program		ICJI	05RTBX0048	37,820	37,820
FY 2007 Residential Substance Abuse Treatment Program		ICJI	07RTBX0054	151,005	151,005
FY 2008 Residential Substance Abuse Treatment Program		ICJI	08RTBX0024	<u>45,000</u>	<u>45,000</u>
Total for Program				<u>244,454</u>	<u>244,454</u>
State Criminal Alien Assistance Program	16.606				
SCAAP		IDOC	2008-AP-BX-00204	<u>220,479</u>	<u>-</u>
Community Prosecution and Project Safe Neighborhood	16.609				
Targus Info Project		ISP	2006-PG-BX-0074	11,760	-
Title Three Project		ISP	2006-PG-BX-0074	7,183	-
FY 2006 Project Safe Neighborhoods - N.		ICJI	06GPCX0083	47,255	46,193
FY 2007 Project Safe Neighborhoods - N.		ICJI	07GPCX0062	62,656	74,184
FY 2008 Project Safe Neighborhoods - Northern District, IN		ICJI	2008-GP-CX-0050	3,079	-
FY 2006 Project Safe Neighborhood - Southern Indiana		ICJI	03GPCX4523	113,245	62,806
FY 2005 Project Safe Neighborhood - Southern Indiana		ICJI	06GPCX0082	73,966	54,338
FY 2007 Project Safe Neighborhoods - Indiana Southern District		ICJI	07GPCX0010	92,569	38,740
FY 2008 Project Safe Neighborhoods - Southern District of Indiana		ICJI	2008-GP-CX-0049	<u>7,175</u>	<u>-</u>
Total for Program				<u>418,887</u>	<u>276,260</u>
Public Safety Partnership and Community Policing Grants	16.710				
2005 Methamphetamine Initiative		ISP	2005-CK-WX-0403	132,186	-
2006 Methamphetamine Initiative		ISP	2006-CK-WX-0498	143,849	-
2006 Methamphetamine Initiative		ISP	2006-CK-WX-0057	18,066	-
2007 Methamphetamine Initiative		ISP	2007-CK-WX-0298	23,545	-
COPS Methamphetamine Grant Award		ICJI	06CKWX0498	112,135	112,135
COPS - Regional Community Policing Initiative		ICJI	07CKWXK017	149,359	3,860
COPS Methamphetamine Initiative Grant		ICJI	07CKWX0298	<u>29,785</u>	<u>29,785</u>
Total for Program				<u>608,925</u>	<u>145,780</u>
Enforcing Underage Drinking Laws Program	16.727				
OJJDP FY 2005 Enforcing Underage Drinking Laws-Block Grant Program		ICJI	05AHFX0039	18,345	-
FY 2006 Enforcing the Underage Drinking Laws (EUDL) Grant Program		ICJI	06AHFX0003	<u>82,652</u>	<u>161</u>

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<u>U.S. DEPARTMENT OF JUSTICE (continued)</u>					
Enforcing Underage Drinking Laws Program (continued)					
Enforcing Underage Drinking Laws of Indiana and Supporting Statewide Prevention Initiatives		ICJI	07AHFX0041	27,535	200
Enforcing the Underage Drinking Laws of Indiana and Supporting Statewide Initiatives		ICJI	08AHFX0032	169	-
Total for Program				128,701	361
Edward Byrne Memorial Justice Assistance Grant Program	16.738				
DES Training Grant		ISP	2006-DJ-BX-0051	2,634	-
Advanced Criminal Enforcement Grant I-70		ISP	2007-DJ-BX-0018	5,530	-
Advanced Criminal Enforcement Grant I-65 N		ISP	2007-DJ-BX-0018	4,078	-
Advanced Criminal Enforcement Grant I-69		ISP	2007-DJ-BX-0018	5,888	-
Meth Suppression Section 2008		ISP	2007-DJ-BX-0018	97,066	-
DRUG ENFORCEMENT UNIT 2008		ISP	2007-DJ-BX-0018	58,291	-
Replacement of GCMS 2008		ISP	2007-DJ-BX-0018	76,500	-
Meth Suppression Section 2009		ISP	2007-DJ-BX-0018	26,603	-
DRUG ENFORCEMENT UNIT 2009		ISP	2007-DJ-BX-0018	88,676	-
Replacement of GCMS 2009		ISP	2008-DJ-BX-0018	5,274	-
Total for Program				370,540	-
Statewide Automated Victim Information Notification (SAVIN) Program	16.740				
SAVIN		IDOC	2006-VN-CX-0015	985,943	-
Forensic DNA Backlog Reduction Program	16.741				
Forensic DNA Capacity Enhancement FY 2006		ISP	2006-DN-BX-K189	253,490	-
Forensic DNA Backlog Reduction FY 2007		ISP	2007-DN-BX-K160	351,551	-
Forensic DNA Backlog Reduction FY 2008		ISP	2008-DN-BX-K085	28,646	-
Total for Program				633,687	-
Anti Gang Initiative	16.744				
Anti Gang South		ICJI	06PGBX0074	90,234	50,648
Anti Gang North		ICJI	06PGBX0086	213,276	189,144
Anti Gang South		ICJI	07PGBX0068	123,544	88,236
Anti Gang North		ICJI	07PGBX0067	140,181	132,823
Comprehensive Anti Gang Indpls/Marion Co		ICJI	08PGBX0003	353,741	322,667
Total for Program				920,976	783,518
Other Assistance					
Office of Justice Programs	16	JC	2005DCBX0031	25,080	25,080
Drug Enforcement Administration	16				
Marijuana Eradication		ISP	ME-2008-69	504,849	-
Marijuana Eradication		ISP	ME-2009-71	54,789	-
Total for Program				559,638	-
Total Other Assistance				584,718	25,080
Total U.S. Department of Justice				20,789,618	14,883,672
<u>U.S. DEPARTMENT OF LABOR</u>					
Employment Services Cluster					
Employment Service	17.207				
W/P 7B (247,249,252,648)		IDWD	ES-14863-05-55	37,783	-
WOTC		IDWD	ES-14863-05-55	92,040	-
W/P 7A (205,206,207,256)		IDWD	ES-15694-06-55	1,005,479	58,566
W/P 7B (247,249,252,648)		IDWD	ES-15694-06-55	1,051,332	-
WOTC		IDWD	ES-15694-06-55	235,691	-
ONE STOP LMI		IDWD	ES-15694-06-55	17,391	-
W/P 7A (205,206,207,256)		IDWD	ES-16212-07-55-A-18	5,806,686	65,355
W/P 7B (247,249,252,648)		IDWD	ES-16212-07-55-A-18	75,804	-
ONE STOP LMI		IDWD	ES-16212-07-55-A-18	410,186	-
W/P 7A (205,206,207,256)		IDWD	ES-17559-08-55-A-18	7,028,422	649,565
W/P 7B (247,249,252,648)		IDWD	ES-17559-08-55-A-18	119,995	-
ONE STOP LMI		IDWD	ES-17559-08-55-A-18	313,577	-
Total for Program				16,194,386	773,486

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<b>U.S. DEPARTMENT OF LABOR (continued)</b>					
<b>Employment Services Cluster (continued)</b>					
Disabled Veterans' Outreach Program (DVOP)	17.801				
DVOP		IDWD	E-9-5-6-5064	2,074	-
DVOP		IDWD	E-9-5-7-5064	4,411	-
DVOP		IDWD	E-9-5-8-5064	462,960	1,396
DVOP		IDWD	E-9-5-9-5064	950,036	65,301
Total for Program				<u>1,419,481</u>	<u>66,697</u>
<b>Local Veterans Employment Representative Program (LVER)</b>					
LVER	17.804	IDWD	E-9-5-6-5064	(806)	-
LVER		IDWD	E-9-5-7-5064	(1,460)	-
LVER		IDWD	E-9-5-8-5064	481,581	6,600
LVER		IDWD	E-9-5-9-5064	1,263,109	74,801
Total for Program				<u>1,742,424</u>	<u>81,401</u>
Total for Cluster				<u>19,356,292</u>	<u>921,584</u>
<b>WIA Cluster</b>					
<b>WIA Adult Program</b>					
WIA PROGRAM SUP	17.258	IDWD	AA-13797-04-50	1,802	1,802
WIA ADMINISTRAT		IDWD	AA-14674-05-55	9,439	9,439
ADULT WIA		IDWD	AA-14674-05-55	(136,541)	-
WIA ADM STAT AC		IDWD	AA-14674-05-55	1,512	1,512
WIA ADMINISTRAT		IDWD	AA-14674-05-55	14,561	-
WIA PROGRAM SUP		IDWD	AA-14674-05-55	80,496	80,496
WIA Admin Funds (formula)		IDWD	AA-15478-06-55	(620)	-
ADULT WIA		IDWD	AA-15478-06-55	(53,527)	-
WIA ADM STAT AC		IDWD	AA-15478-06-55	1,162	1,162
WIA ADMINISTRAT		IDWD	AA-15478-06-55	(17,838)	-
WIA PROGRAM SUP		IDWD	AA-15478-06-55	(136,292)	-
WIA ADMINISTRAT		IDWD	AA-16027-07-55-A-18	1,006,431	1,006,431
ADULT WIA		IDWD	AA-16027-07-55-A-18	6,071,178	6,071,178
WIA ADMINISTRAT		IDWD	AA-16027-07-55-A-18	67,927	-
WIA PROGRAM SUP		IDWD	AA-16027-07-55-A-18	762,003	-
WIA ADMINISTRAT		IDWD	AA-17120-08-55-A-18	372,974	372,974
ADULT WIA		IDWD	AA-17120-08-55-A-18	13,621,595	13,621,595
WIA ADMINISTRAT		IDWD	AA-17120-08-55-A-18	581,787	-
WIA PROGRAM SUP		IDWD	AA-17120-08-55-A-18	793,314	-
Total for Program				<u>23,041,363</u>	<u>21,166,589</u>
<b>WIA Youth Activities</b>					
WIA PROGRAM SUP	17.259	IDWD	AA-13797-04-50	2,113	2,113
WIA ADMINISTRAT		IDWD	AA-14674-05-55	10,914	10,914
WIA YOUTH		IDWD	AA-14674-05-55	(163,391)	-
WIA ADM STAT AC		IDWD	AA-14674-05-55	16,630	16,630
WIA ADMINISTRAT		IDWD	AA-14674-05-55	160,175	-
WIA PROGRAM SUP		IDWD	AA-14674-05-55	885,451	85,451
WIA Admin Funds (formula)		IDWD	AA-15478-06-55	(700)	-
WIA YOUTH		IDWD	AA-15478-06-55	(240,373)	-
WIA ADM STAT AC		IDWD	AA-15478-06-55	1,335	1,335
WIA ADMINISTRAT		IDWD	AA-15478-06-55	(20,481)	-
WIA PROGRAM SUP		IDWD	AA-15478-06-55	(156,483)	-
WIA ADMINISTRAT		IDWD	AA-16027-07-55-A-18	1,168,755	1,168,755
WIA YOUTH		IDWD	AA-16027-07-55-A-18	3,728,158	3,728,158
WIA ADMINISTRAT		IDWD	AA-16027-07-55-A-18	77,990	-
WIA PROGRAM SUP		IDWD	AA-16027-07-55-A-18	874,892	-
WIA ADMINISTRAT		IDWD	AA-17120-08-55-A-18	583,785	583,785
WIA Youth Funds (formula)		IDWD	AA-17120-08-55-A-18	10,530,098	10,530,098
ARRA - WIA Youth ARRA 85% Substate		IDWD	AA-17120-08-55-A-18	3,011,095	1,349,310
ARRA - WIA ADMINISTRAT		IDWD	AA-17120-08-55-A-18	910,623	-
ARRA - WIA ARRA Youth		IDWD	AA-17120-08-55-A-18	20,807	-
ARRA - WIA PROGRAM SUP		IDWD	AA-17120-08-55-A-18	1,241,709	-
ARRA - WIA Youth Admin ARRA		IDWD	AA-17120-08-55-A-18	92,164	-
Total for Program				<u>22,735,266</u>	<u>17,476,549</u>
<b>WIA Dislocated Workers</b>					
WIA PROGRAM SUP	17.260	IDWD	AA-13797-04-50	2,300	2,300
WIA ADMINISTRAT		IDWD	AA-14674-05-55	9,144	9,144
ADULT DIS WRK W		IDWD	AA-14674-05-55	(517,088)	-

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WIA Cluster (continued)					
WIA Dislocated Workers (continued)					
RAPID RESPON W		IDWD	AA-14674-05-55	(941,495)	-
WIA ADM STAT AC		IDWD	AA-14674-05-55	12,094	12,094
WIA ADMINISTRAT		IDWD	AA-14674-05-55	116,491	-
WIA PROGRAM SUP		IDWD	AA-14674-05-55	643,964	643,964
WIA Admin Funds (formula)		IDWD	AA-15478-06-55	(680)	-
ADULT DIS WRK W		IDWD	AA-15478-06-55	(89,778)	-
RAPID RESPON W		IDWD	AA-15478-06-55	1,539,688	1,539,688
WIA ADM STAT AC		IDWD	AA-15478-06-55	1,808	1,808
WIA ADMINISTRAT		IDWD	AA-15478-06-55	(27,748)	-
WIA RAPID RESPO		IDWD	AA-15478-06-55	232,995	-
WIA PROGRAM SUP		IDWD	AA-15478-06-55	(212,010)	-
WIA ADMINISTRAT		IDWD	AA-16027-07-55-A-18	1,071,362	1,071,362
ADULT DIS WRK W		IDWD	AA-16027-07-55-A-18	539,727	539,727
RAPID RESPON W		IDWD	AA-16027-07-55-A-18	2,904,746	2,904,746
WIA ADMINISTRAT		IDWD	AA-16027-07-55-A-18	105,664	-
WIA RAPID RESPO		IDWD	AA-16027-07-55-A-18	3,132	-
WIA PROGRAM SUP		IDWD	AA-16027-07-55-A-18	1,185,337	-
WIA Adult from Disl Wkr		IDWD	AA-17120-08-55-A-18	3,826,845	3,826,845
WIA ADMINISTRAT		IDWD	AA-17120-08-55-A-18	664,866	664,866
ADULT DIS WRK W		IDWD	AA-17120-08-55-A-18	5,990,607	5,990,607
RAPID RESPON W		IDWD	AA-17120-08-55-A-18	2,710,503	-
WIA ADMINISTRAT		IDWD	AA-17120-08-55-A-18	1,037,098	-
WIA RAPID RESPO		IDWD	AA-17120-08-55-A-18	766,924	-
WIA PROGRAM SUP		IDWD	AA-17120-08-55-A-18	1,414,169	-
WIA IN Weather Related Disaster		IDWD	EM-17482-08-60-A-18	1,321,754	30,973
WIA IN Weather Related Disaster		IDWD	EM-17498-08-60-A-18	80,038	70,792
WIA IN Weather Related Disaster		IDWD	EM-17760-08-60-A-18	1,922,491	-
WIA IN Weather Related Disaster		IDWD	EM-18152-08-60-A-18	340,405	245,846
Total for Program				<u>26,655,353</u>	<u>17,554,762</u>
Total for Cluster				<u>72,431,982</u>	<u>56,197,900</u>
Labor Force Statistics	17.002				
BLS-OES		IDWD	W9J80187	1,039	-
BLS-CES		IDWD	W9J880188	65,447	-
BLS-LAUS		IDWD	W9J880188	55,902	-
BLS-OES		IDWD	W9J880188	97,466	-
BLS-QCEW		IDWD	W9J880188	91,142	-
BLS-MLS		IDWD	W9J880188	6,112	-
BLS-CES		IDWD	LMI1795009A	211,553	-
BLS-LAUS		IDWD	LMI1795009B	109,613	-
BLS-OES		IDWD	LMI1795009C	308,469	-
BLS-QCEW		IDWD	LMI1795009D	325,912	-
BLS-MLS		IDWD	LMI1795009E	57,508	-
Total for Program				<u>1,330,163</u>	-
Compensation and Working Conditions	17.005				
OSHS Survey & CFOI Grants 2008		IDOL	W9J8-8118	16,201	-
OSHS Survey & CFOI Grants 2009		IDOL	W9J9-8118	105,135	-
Total for Program				<u>121,336</u>	-
Unemployment Insurance	17.225				
State Unemployment Benefits		IDWD	N/A	1,665,907,767	-
FECA-UCFE, UCPE, and UCS		IDWD	N/A	688,069,615	-
FAC-ARRA		IDWD	N/A	97,005,100	-
UI Grant		IDWD	UI-14433-05-55	4,661	-
UI Grant		IDWD	UI-15120-06-55	9,608	-
Tax & Wage Rep.A1051		IDWD	UI-15120-06-55	(3,179)	-
National Dir of New Hire		IDWD	UI-15120-06-55	100,000	-
UI Data Validation		IDWD	UI-15120-06-55	50,000	-
Adjudicator Training		IDWD	UI-15120-06-55	3,150	-
UI Grant		IDWD	UI-15797-07-55	(43,872)	-
UI REA GRANT		IDWD	UI-15797-07-55	193	-
UI SBR 2008 Wireless PC Cards		IDWD	UI-15797-07-55	29,716	-
UI SBR 2008 Agy Disaster Relief		IDWD	UI-15797-07-55	45,408	-
UI SBR Document Shredding		IDWD	UI-15797-07-55	1,959	-
UI Grant		IDWD	UI-16745-08-55-A-18	17,845,699	-
Unemployment Insurance		IDWD	UI-16745-08-55-A-18	1,514,448	-

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<u>U.S. DEPARTMENT OF LABOR (continued)</u>					
Unemployment Insurance (continued)					
Emergency Unemployment Compensation		IDWD	UI-16745-08-55-A-18	1,932,186	-
UI Disaster Relief Admin/Ben		IDWD	UI-16745-08-55-A-18	13,562	-
UI REA GRANT		IDWD	UI-16745-08-55-A-18	304,401	-
UI Admin Grant		IDWD	UI-18019-09-55-A-18	25,690,941	-
Emergency Unemployment Compensation		IDWD	UI-18019-09-55-A-18	82,178	-
UI Disaster Relief Admin/Ben		IDWD	UI-18019-09-55-A-18	174,865	-
UI REA GRANT		IDWD	UI-18019-09-55-A-18	234,191	-
Total for Program				<u>2,498,972,596</u>	<u>-</u>
Senior Community Service Employment Program	17.235				
Title V		FSSA	AD 161323GO	2,104,781	2,055,493
Title V		FSSA	AD 14084WTO	541,531	541,531
ARRA - Title V ARRA		FSSA	AD 18366520	23,604	23,604
Total for Program				<u>2,669,916</u>	<u>2,620,628</u>
Trade Adjustment Assistance	17.245				
TRADE ADJ ASST		IDWD	TA-15301-06-55	(4,877)	-
TRADE ADJ ASST		IDWD	TA-15897-07-55-A18	868,127	-
TRADE ADJ ASST		IDWD	TA-16798-08-55-A-18	8,363,393	-
TRADE ADJ ASST		IDWD	TA-17850-09-55-A-18	1,137,215	-
TRADE ADJ ASST		IDWD	TA-17850-09-55-A-18	3,189,294	-
Alt Trade Adj. Assistance		IDWD	UI-15797-07-55	1,600	-
Trade (TAA) Benefits (TRA)		IDWD	UI-16745-08-55-A-18	4,453,617	-
Alt Trade Adj. Assistance		IDWD	UI-16745-08-55-A-18	501,584	-
Trade (TAA) Benefits (TRA)		IDWD	UI-18019-09-55-A-18	11,674,997	-
Alt Trade Adj. Assistance		IDWD	UI-18019-09-55-A-18	1,007,894	-
Total for Program				<u>31,192,844</u>	<u>-</u>
WIA Pilots, Demonstration and Research Projects	17.261				
Career Advancement Account Dem		IDWD	MI-15741-06-60	(219,467)	-
Career Advancement Account Dem		IDWD	MI-15741-06-60	2,037	-
Total for Program				<u>(217,430)</u>	<u>-</u>
Work Incentive Grants	17.266				
NAVIGATOR USDOL		IDWD	WI-15560-06-60	49,572	41,401
NAVIGATOR USDOL		IDWD	WI-15560-06-60	98,489	98,489
NAVIGATOR USDOL		IDWD	WI-15560-06-60	126,894	126,613
Total for Program				<u>274,955</u>	<u>266,503</u>
Incentive Grants - WIA Section 503	17.267				
WIA INCENTIVE G		IDWD	PI14918RD	(53,988)	-
WIA INCENTIVE G		IDWD	PI15661-06-55	283,097	563,575
Total for Program				<u>229,109</u>	<u>563,575</u>
H-1B Job Training Grants	17.268				
WIRED		IDWD	WR-15406-06-60	2,012,605	2,012,605
WIRED		IDWD	WR-15406-06-60	903,125	854,443
WIRED not in GA17		IDWD	WR-15406-06-60	3,645,452	3,645,452
WIRED		IDWD	WR-15538-06-60	233,516	233,516
WIRED		IDWD	WR-15538-06-60	1,723,811	1,723,811
Total for Program				<u>8,518,509</u>	<u>8,469,827</u>
Work Opportunity Tax Credit Program	17.271	IDWD	ES-16212-07-55-A-18	6,590	-
Temporary Labor Certification for Foreign Workers	17.273				
LABOR CRTFCTN		IDWD	ES-16212-07-55-A-18	(470)	-
LABOR CRTFCTN		IDWD	ES-17559-08-55-A-18	35,613	-
Total for Program				<u>35,144</u>	<u>-</u>

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<u>U.S. DEPARTMENT OF LABOR (continued)</u>					
Occupational Safety and Health - State Program	17.503				
23G Grant 2008		IDOL	SP167070855F18	537,509	-
23G Grant 2009		IDOL	SP177370975F18	<u>1,690,565</u>	<u>-</u>
Total for Program				<u>2,228,074</u>	<u>-</u>
Consultation Agreements	17.504				
21D Grant 2008		IDOL	CS166640875F18	68,378	-
21D Grant 2009		IDOL	CS176940975F18	<u>778,185</u>	<u>-</u>
Total for Program				<u>846,563</u>	<u>-</u>
OSHA Data Initiative	17.505				
ODI 2008		IDOL	DC169700875F18	48,352	-
ODI 2009		IDOL	DC180940975F18	<u>40,948</u>	<u>-</u>
Total for Program				<u>89,300</u>	<u>-</u>
Veterans Employment Program	17.802				
WVET		IDWD	E-9-5-6-0006	3,120	3,074
WVET		IDWD	E-9-5-6-0006	<u>744,432</u>	<u>743,253</u>
Total for Program				<u>747,552</u>	<u>746,327</u>
Total U.S. Department of Labor				<u>2,638,833,493</u>	<u>69,786,344</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					
IDOC PREP Program	18.750				
IDOC PREP Program		IDOC	90FR0101/02	299,145	-
IDOC PRFD		IDOC	90FR0019/02	<u>224,468</u>	<u>-</u>
Total U.S. Department of Health and Human Services				<u>523,613</u>	<u>-</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>					
Highway Planning and Construction Cluster					
Highway Planning and Construction	20.205				
Highway Planning and Construction		IDOT	N/A	990,096,308	-
ARRA - Highway Planning and Construction		IDOT	N/A	<u>9,520,600</u>	<u>-</u>
Total for Program				<u>999,616,909</u>	<u>-</u>
Recreational Trails Program	20.219				
Cardinal Greenway - Marion & Sweetser		DNR	300OR1RT201	150,000	150,000
Redbird OHV Area - 2004		DNR	300OR1RT0401	280,836	280,836
Bluhm Lincoln Memorial Trail		DNR	300OR1RT0404	87,441	87,441
Westchester - Liberty Trail		DNR	300OR1RT0405	150,000	150,000
Greentown Trail		DNR	300OR1RT0406	85,049	85,049
Redbird OHV Area 1G		DNR	300OR1RT0501	255,103	-
Whitewater Canal Trail Inc		DNR	300OR1RT0502	12,649	12,649
Sugar Creek Park Trail		DNR	300OR1RT0503	150,000	150,000
Hoosier Mountain Biking Assoc		DNR	300OR1RT0505	41,617	41,617
RTP Admin-RT0506		DNR	300OR1RT0506	2,898	7,509
Nickel Plate Trail Phase III		DNR	300OR1RT0600300	(128,324)	-
Farm Heritage Trail Phase 1		DNR	300OR1RT0600500	150,000	150,000
Redbird OHV Area II		DNR	300OR1RT0700100	<u>379,143</u>	<u>379,143</u>
Total for Program				<u>1,616,414</u>	<u>1,494,244</u>
Total for Cluster				<u>1,001,233,322</u>	<u>1,494,244</u>
Transit Services Programs Cluster					
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513				
		IDOT	IN-16-X001-00	107,330	63,030
		IDOT	IN-16-X002-00	2,260,444	2,246,634
		IDOT	IN-16-X003-00	1,973,361	1,973,361
		IDOT	IN-16-X031-00	<u>12,104</u>	<u>-</u>
Total for Program				<u>4,353,238</u>	<u>4,283,025</u>

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<u>U.S. DEPARTMENT OF TRANSPORTATION (continued)</u>					
Transit Services Programs Cluster (continued)					
Job Access - Reverse Commute Program					
	20.516	IDOT	IN-37-X020-00	117,033	117,033
		IDOT	IN-37-X099-00	<u>56,300</u>	<u>56,300</u>
Total for Program				<u>173,333</u>	<u>173,333</u>
New Freedom Program					
	20.521	IDOT	IN-57-X004-00	67,794	67,794
		IDOT	IN-57-X056-00	<u>41,688</u>	<u>41,688</u>
Total for Program				<u>109,482</u>	<u>109,482</u>
Total for Cluster				<u>4,636,053</u>	<u>4,565,840</u>
Highway Safety Cluster					
State and Community Highway Safety					
	20.600	ICJI		<u>6,528,695</u>	<u>6,528,695</u>
Alcohol Impaired Driving Countermeasures Incentive Grants I					
	20.601	ICJI		<u>1,693,312</u>	<u>1,693,312</u>
Occupant Protection Incentive Grants					
	20.602	ICJI		<u>505,222</u>	<u>505,222</u>
Safety Belt Performance Grants					
	20.609	ICJI		<u>5,425,130</u>	<u>5,425,130</u>
State Traffic Safety Information System Improvement Grants					
	20.610	ICJI		<u>488,676</u>	<u>488,676</u>
Incentive Grant Program to Increase Motorcyclist Safety					
408 Grant	20.612	IDHS	K9-07-01-04-01	140,046	-
408 Grant		IDHS	K9-08-04-01-01	119,068	-
Motor Cycle Safety		ICJI		<u>92,016</u>	<u>92,016</u>
Total for Program				<u>351,131</u>	<u>92,016</u>
Total for Cluster				<u>14,992,166</u>	<u>14,733,051</u>
Airport Improvement Program					
Federal Aviation Administration (FAA) - AERO	20.106	IDOT	IN-18-0000-005	26,606	103,554
Federal Aviation Administration (FAA) - AERO		IDOT	IN-18-0000-004	<u>153,900</u>	<u>76,950</u>
Total for Program				<u>180,506</u>	<u>180,504</u>
National Motor Carrier Safety					
2008 MCSAP Basic	20.218	IDSP	27XX18MC081815780	3,159,904	-
2009 MCSAP Basic		IDSP	MC091810000000	1,300,968	-
2008 High Priority Traffic Enforcement		IDSP	27XX18MH081815780	274,793	-
2008 New Entrant Program		IDSP	27XX18MN081815780	<u>768,438</u>	-
Total for Program				<u>5,504,103</u>	-
Safety Data Improvement Program					
	20.234	ISP	MR-08-18-01-G-00000	<u>169,606</u>	-
Federal Transit Capital Investment Grants					
	20.500	IDOT	IN-03-0109-04	<u>395,286</u>	<u>395,286</u>
Federal Transit - Metropolitan Planning Grants					
Federal Transit Technical Studies Grants	20.505	IDOT	IN-80-0001-00	125,498	125,498
Federal Transit Technical Studies Grants		IDOT	IN-80-0012-00	(11,986)	11,986
Federal Transit Technical Studies Grants		IDOT	IN-80-X013-00	11,308	7,597
Federal Transit Technical Studies Grants		IDOT	IN-80-X014-00	111,167	25,637
Federal Transit Technical Studies Grants		IDOT	IN-80-X015-00	79,360	79,360
Federal Transit Technical Studies Grants		IDOT	IN-80-X016-00	<u>149,579</u>	<u>18,957</u>
Total for Program				<u>464,926</u>	<u>269,034</u>
Formula Grants for Other Than Urbanized Areas					
Public Transp. For Non-urbanized Areas	20.509	IDOT	IN-18-X023-00	2,002	2,002
Public Transp. For Non-urbanized Areas		IDOT	IN-18-X025-00	2,009,731	1,942,710
Public Transp. For Non-urbanized Areas		IDOT	IN-18-X026-00	7,942,351	7,803,810
Public Transp. For Non-urbanized Areas		IDOT	IN-18-X027-00	<u>2,074,451</u>	<u>2,074,451</u>
Total for Program				<u>12,028,535</u>	<u>11,822,973</u>

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<b><u>U.S. DEPARTMENT OF TRANSPORTATION (continued)</u></b>					
National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants	20.614	ISP	DTNH22-07-H-00126	91,585	-
Pipeline Safety Program Base Grants	20.700				
One Call Grant 2008		IURC	DTPH56-08-G-PHPC10	10,601	10,601
State Damage Prevention Program Grant 2008		IURC	DTPH56-08-G-PHPS01	100,000	100,000
Total for Program				110,601	110,601
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703				
Hazardous Materials 2007 #14		IDHS	HMEIN6050140	5,239	5,236
Hazardous Materials 2008 #15		IDHS	HMEIN7050150	214,844	214,843
Hazardous Materials 2009 #16		IDHS	HMEIN8050160	12,006	12,000
Total for Program				232,089	232,079
Other Assistance					
Seat Belt & Occupant Protection	20	ICJI		5,378,024	5,378,024
Total U.S. Department of Transportation				1,045,416,803	39,181,637
<b><u>U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</u></b>					
Employment Discrimination-State and Local Fair Employment Practices Agency Contracts Cooperative Agreement	30.002	ICRC	6FPSLP004	17,154	-
Total U.S. Equal Employment Opportunity Commission				17,154	-
<b><u>GENERAL SERVICES ADMINISTRATION</u></b>					
Donation of Federal Surplus Personal Property	39.003	IDOA	N/A	4,893,854	-
HAVA Early Payments Section 101 Funds	39.011	SOS	369940	2,441,159	-
Total General Services Administration				7,335,013	-
<b><u>NATIONAL ENDOWMENT FOR THE ARTS AND HUMANITIES</u></b>					
Promotion of the Arts - Partnership Agreements	45.025				
Basic State Program		IAC	07-6100-2053	121,204	8,589
Basic State Program		IAC	08-6100-2016	579,933	244,402
Arts In Education		IAC	08-6100-2016	23,200	23,200
Under-served		IAC	07-6100-2053	8,000	8,000
Under-served		IAC	08-6100-2016	75,501	75,501
Challenge America		IAC	07-6100-2053	6,592	6,592
Total for Program				814,430	366,284
Grants to States	45.310				
2007 GRANT		ISL	LS-00070015-07	1,151,612	-
2008 GRANT		ISL	LS-00080015-08	2,041,111	-
2009 GRANT		ISL	LS-00090015-09	15,264	-
Total for Program				3,207,987	-
Total National Endowment for the Arts and Humanities				4,022,417	366,284
<b><u>U.S. SMALL BUSINESS ADMINISTRATION</u></b>					
Small Business Development Centers	59.037				
Small Business Development Center 2009		IEDC	9-603001-Z-0015-24-01	1,963,241	1,349,895
Small Business Development Center 2007		IEDC	7-603001-Z-0015	75,371	-
Total for Program				2,038,612	1,349,895
Total U.S. Small Business Administration				2,038,612	1,349,895

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF VETERANS AFFAIRS</u>					
All-Volunteer Force Educational Assistance	64.124				
State Approving Agency		IDVA	V101 (223C) P-4817	141,029	-
State Approving Agency		IDVA	V101 (223C) P-4917	<u>264,381</u>	-
Total for Program				<u>405,410</u>	-
Total U.S. Department of Veteran Affairs				<u>405,410</u>	-
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>					
State Indoor Radon Grants	66.032				
State Indoor Radon Grant Program 2008		ISDOH	K1-00E13102	86,860	-
State Indoor Radon Grant Program 2009		ISDOH	K1-00E13103	<u>2,512</u>	-
Total for Program				<u>89,372</u>	-
Survey, Studies, Investigation Demonstration and Special Purpose Activities Relating to the Clean Air Act	66.034				
Region 5 2008 Indoor Environments FY 2009		ISDOH	XA-00E66401-0	5,940	-
Clean School Bus		IDEM	XA831745-01	<u>49,560</u>	-
Total for Program				<u>55,500</u>	-
Water Pollution Control State, Interstate and Tribal Program Support 106 Watershed Monitoring	66.419				
		IDEM	I965557-06	<u>217,235</u>	-
State Underground Water Source Protection	66.433				
Underground Injection Control		DNR	300OG1UIC080001	91,331	-
Underground Injection Control		DNR	300OG1UIC090001	<u>84,185</u>	-
Total for Program				<u>175,516</u>	-
Construction Management Assistance	66.438	IDEM	C180000-90	<u>412,986</u>	-
Water Quality Management Planning	66.454				
Water Quality Management 205(j)(1)		IDEM	C6975750-03	14,664	-
Water Quality Management 205(j)(1)		IDEM	C6975750-03	66	-
Water Quality Management 205(j)(1)		IDEM	C6975750-04	4,130	-
Water Quality Management 205(j)(1)		IDEM	C6975750-05	26,741	-
Water Quality Management 205(j)(1)		IDEM	C6975750-06	156,563	-
Water Quality Management 205(j)(1)		IDEM	C600E388-01	4	-
Watershed 08 Monitoring		IDEM	I965557-07	<u>45,716</u>	-
Total for Program				<u>247,884</u>	-
Nonpoint Source Implementation Grants	66.460				
319 NPS Surface Water		IDEM	C9975482-01	158,303	-
319 NPS Surface Water		IDEM	C9975482-02	358,580	-
319 NPS Surface Water		IDEM	C9975482-03	214,218	-
319 NPS Surface Water		IDEM	C9975482-04	297,610	-
319 NPS Surface Water		IDEM	C9975482-05	930,583	-
319 NPS Surface Water		IDEM	C9975482-06	1,066,876	-
319 NPS Surface Water		IDEM	C9975482-07	529,616	-
319 NPS Surface Water		IDEM	C9975482-08	1,098,051	-
319 NPS Surface Water		IDEM		5,942	-
319 NPS Surface Water		IDEM	C9975482-09	36,546	-
Payroll holding account		IDEM		622	-
319 NPS Groundwater		IDEM	C9975482-01	<u>24,248</u>	-
Total for Program				<u>4,721,195</u>	-
Regional Wetland Program Development Grant	66.461				
Wetlands Pro Dev.		IDEM	CD965165-01	100,023	-
Wetlands Pro Dev.		IDEM		3,993	-
Mapping Wetlands Impacts		IDEM	CD00E398-01	21,264	-
Mapping Wetlands Impacts		IDEM		<u>29</u>	-
Total for Program				<u>125,309</u>	-
Capitalization Grants for Drinking Water State Revolving Fund Drinking Water - PWSS	66.468	IDEM	FS975486-03	<u>(89)</u>	-

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<u>U.S. ENVIRONMENTAL PROTECTION AGENCY (continued)</u>					
Great Lakes Program	66.469				
Lamp Lake Michigan		IDEM		10,843	-
Lamp Lake Michigan		IDEM	GL00E204-01	1,116	-
Lamp Lake Michigan		IDEM		6,649	-
Delisting Targets Grand Calumet		IDEM	GL965660-01	8,964	-
Total for Program				<u>27,572</u>	-
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471				
ERG Operator Cert		IDEM	CT965138-01	309,033	-
Beach Monitoring and Notification Program Implementation Grants	66.472				
Beach Protection Lake Michigan		IDEM	CU965643-01	(692)	-
Beach Monitoring		IDEM	CU965912-01	4,800	-
Beach Monitoring 2007		IDEM	CU965444-01	28,780	-
Beach Monitoring 2008		IDEM		4,960	-
FY 2008 Great Lakes		IDEM	CU00E527-01	635	-
FY 2008 Great Lakes		IDEM	CU00E527-01	9,924	-
Total for Program				<u>48,407</u>	-
Water Protection Grants to States	66.474				
Great Lakes Beach Monitoring		IDEM	CU00E269-01	131,754	-
Counter Terrorism		IDEM	WP00E096-01	69,289	-
Counter Terrorism		IDEM	WP975634-01	(2,280)	-
Payroll holding acct		IDEM		(109)	-
Total for Program				<u>198,654</u>	-
Performance Partnership Grants	66.605				
PPG		IDEM	BG985432-08	2,188,522	-
PPG		IDEM	BG985432-08	46,997	-
PPG		IDEM	BG985432-08	104,305	-
PPG		IDEM	BG985432-08	35,492	-
PPG		IDEM	BG985432-08	4,064	-
PPG		IDEM	BG985432-08	133,742	-
PPG		IDEM	BG985432-08	52	-
PPG		IDEM	BG985432-08	260,509	-
PPG		IDEM		403	-
PPG		IDEM	BG985432-08	2,577,084	-
PPG		IDEM	BG985432-08	72,954	-
PPG		IDEM	BG985432-08	90,750	-
PPG		IDEM	BG985432-08	58,948	-
PPG		IDEM	BG985432-08	8,635	-
PPG		IDEM	BG985432-08	242,179	-
PPG		IDEM	BG985432-08	25,322	-
PPG		IDEM	BG985432-08	65	-
PPG		IDEM	BG985432-08	3,352,975	-
PPG		IDEM		50,305	-
PPG		IDEM		88,195	-
PPG		IDEM		7,535	-
PPG		IDEM		212,029	-
PPG		IDEM	BG985432-08	45,997	-
PPG		IDEM	BG985432-08	2,670,265	-
PPG		IDEM		85,219	-
PPG		IDEM		19,686	-
PPG		IDEM		14,163	-
PPG		IDEM		42,952	-
PPG		IDEM		118,514	-
PPG		IDEM		33,517	-
PPG		IDEM		6,495	-
PPG		IDEM		106,411	-
PPG Underground Storage Tanks		IDEM	BG985432-08	87,396	-
Underground Storage Tk		IDEM	BG985432-08	11,154	-
Underground Storage Tk		IDEM	BG985432-08	397	-
PPG PCB		IDEM	BG985432-08	60,059	-
Total for Program				<u>12,863,287</u>	-
Surveys, Studies, Investigations and Special Purposes Grants	66.606				
Ambient Air Monitoring		IDEM	PM985773-04	403,052	-
Ambient Air Monitoring		IDEM	PM985773-04	20,674	-
Ambient Air Monitoring		IDEM	PM985773-04	27	-

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<u>U.S. ENVIRONMENTAL PROTECTION AGENCY (continued)</u>					
Surveys, Studies, Investigations and Special Purposes Grants (continued)					
Ambient Air Monitoring		IDEM	PM985773-05	767,883	-
Ambient Air Monitoring		IDEM	PM985773-05	87,588	-
Ambient Air Monitoring		IDEM	PM985773-05	24	-
Auto Salvage		IDEM	X975270-01	993	-
Auto Salvage		IDEM	X975270-01	270	-
Local Scale Air Toxics		IDEM	XA965784-01	12,215	-
Total for Program				<u>1,292,726</u>	-
Environmental Information Exchange Network Grant Program and Related Assistance	66.608				
National Env. Information Exchange 06		IDEM	OS833045-01	373,550	-
Exchange Network 07		IDEM	OS833484-01	151,136	-
Exchange Network 08		IDEM	OS834104-01	117,597	-
NEIEN RCRA Data FI		IDEM	OS832586-01	45,644	-
NEIEN Implementation		IDEM	OS831964-01	8,326	-
Total for Program				<u>696,253</u>	-
Environmental Policy and Innovation Grants	66.611				
Auto Salvage Environmental		IDEM	PI975839-01	63,773	-
Auto Salvage Environmental		IDEM		238	-
Auto Salvage Environmental		IDEM		68	-
Clean Community Cha		IDEM	PI965680-01	(50)	-
Environmental Stewardship		IDEM	PI00E001-01	162,600	-
Total for Program				<u>226,629</u>	-
TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	66.707				
Lead Based Paint Program 2008		ISDOH	PB-00E44701	184,871	-
Lead Based Paint Program 2009		ISDOH	PB-00E44702	185,447	-
Total for Program				<u>370,318</u>	-
Pollution Prevention Grants Programs	66.708				
Linking Pollution Prevention		IDEM	NP00E309-01	72,948	-
Superfunds State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreement	66.802				
RCRA 3012 Program-CERCLIS Management		IDEM	V00E188-01	84,878	-
RCRA 3012 Program-PreCERCLIS Screening		IDEM	V00E188-01	36,077	-
RCRA 3012 Program-CERCLIS Pre-Assess		IDEM	V00E188-01	20,770	-
RCRA 3012 Program-CERCLIS Site Inspect		IDEM	V00E188-01	123,983	-
RCRA 3012 Program-CERCLIS Expand Site		IDEM	V00E188-01	33,304	-
RCRA 3012 Program-CERCLIS ReAssess		IDEM	V00E188-01	8,169	-
RCRA 3012 Program-CERCLIS Hazard Rank		IDEM	V00E188-01	33,392	-
RCRA 3012 Program-CERCLIS Management		IDEM	V00E188-02	18,867	-
RCRA 3012 Program-PreCERCLIS Screening		IDEM	V00E188-02	26	-
RCRA 3012 Program-CERCLIS Site Inspect		IDEM	V00E188-02	8,582	-
RCRA 3012 Program-CERCLIS Expand Site		IDEM	V00E188-02	1,022	-
Salary & fringe Holding Account		IDEM	V00E188-02	(1,370)	-
Ninth Avenue Dump		IDEM	V005995-01	(408)	-
Elkhart Main Street Well Field-East-447		IDEM		995	-
Elkhart Main Street Well Field-West-448		IDEM		1,986	-
Core Superfund		IDEM		(6)	-
Galen Myers Remedial Action		IDEM	V965884-01	45,501	-
Galen Myers Remedial Action		IDEM	V965884-01	838	-
Continental Steel-remedial design		IDEM	V985768-01	104,224	-
Continental Steel-remedial design		IDEM	V985768-01	(1,982)	-
Continental Steel-remedial design		IDEM	V985768-01	(15)	-
Continental Steel-remedial action		IDEM	V985768-01	(22,672)	-
		IDEM		541	-
Cont Steel Remd Action		IDEM	V985768-02	55,731	-
Cont Steel Remd Action		IDEM	V985768-02	1,929	-
Cont Steel Remd Lead		IDEM	V985768-02	7,804	-
Cont Steel Remd Lead		IDEM	V985768-02	680	-
Payroll holding		IDEM	V985768-01	(302)	-
Waste		IDEM		1,763	-
Conrail Yard Site-		IDEM		7,178	-
Third Site		IDEM		(16)	-
Prestolite Battery		IDEM		(78)	-
International Minerals & Chem		IDEM	V965003-02	130	-
International Minerals & Chem		IDEM		5,618	-

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<u>U.S. ENVIRONMENTAL PROTECTION AGENCY (continued)</u>					
Superfunds State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreement (continued)					
American Chemical Services		IDEM		7,375	-
Douglas Road Landfill		IDEM		847	-
Lemon Lane		IDEM		12,620	-
Illinois Central Springs		IDEM	V965478-01	57,640	-
Lakeland Disposal		IDEM		6,788	-
Neal's Landfill		IDEM		95	-
Neal's Landfill		IDEM		3,765	-
Bennet Stone		IDEM		468	-
Cam-Or		IDEM		(3)	-
Little Mississinewa		IDEM		(259)	-
Jacobsville		IDEM		6,032	-
Town of Pines		IDEM		(166)	-
Elm Street		IDEM	V965003-02	293	-
Lusher St		IDEM	V965003-02	10,239	-
Payroll holding		IDEM		74,780	-
Total for Program				<u>757,653</u>	-
Underground Storage Tank Prevention, Detection and Compliance Program	66.804				
Underground Storage Tk		IDEM	L00E497-01	259,575	-
Underground Storage Tk		IDEM	L00E497-01	34,431	-
Underground Storage Tk		IDEM	L00E497-01	29,117	-
Underground Storage Tk		IDEM	L00E497-01	551	-
Underground Storage Tk		IDEM	L00E497-01	433	-
Underground Storage Tk		IDEM	L00E497-01	93	-
Total for Program				<u>324,200</u>	-
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805				
Leaking Underground Storage Tank		IDEM	LS005981-15 7	74,633	-
Leaking Underground Storage Tank		IDEM	LS005981-15 E	173,475	-
Leaking Underground Storage Tank		IDEM	LS005981-15 4	13,586	-
Leaking Underground Storage Tank		IDEM	LS005981-15 7	3,468	-
Leaking Underground Storage Tank		IDEM	LS005981-15 E	7,410	-
Leaking Underground Storage Tank		IDEM	LS005981-15 4	1,718	-
Leaking Underground Storage Tank		IDEM	LS005981-15 7	3,675	-
Leaking Underground Storage Tank		IDEM	LS005981-15 E	(103)	-
Leaking Underground Storage Tank		IDEM	LS005981-15 4	13	-
Leaking Underground Storage Tank		IDEM	LS005981-15 7	(637)	-
Leaking Underground Storage Tank		IDEM	LS005981-15 E	(75)	-
Leaking Underground Storage Tank		IDEM	LS005981-15 7	(218)	-
Leaking Underground Storage Tank		IDEM	LS005981-16 7	437,319	-
Leaking Underground Storage Tank		IDEM	LS005981-16 7	21,250	-
Leaking Underground Storage Tank		IDEM	LS005981-16 E	1,013,404	-
Leaking Underground Storage Tank		IDEM	LS005981-16 4	27,420	-
Leaking Underground Storage Tank		IDEM	LS005981-16 4	39	-
Leaking Underground Storage Tank		IDEM	LS005981-16 4	23	-
Leaking Underground Storage Tank		IDEM	LS005981-16 E	18,516	-
Leaking Underground Storage Tank		IDEM	LS005981-16 7	2,468	-
Leaking Underground Storage Tank		IDEM	LS005981-16 E	6,801	-
Leaking Underground Storage Tank		IDEM	LS005981-16 7	143	-
Leaking Underground Storage Tank		IDEM	LS005981-16 E	305	-
Total for Program				<u>1,804,633</u>	-
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809				
Core Superfund		IDEM	VC005990-03	229,215	-
Core Superfund		IDEM	VC005990-04	1,959	-
Total for Program				<u>231,174</u>	-
Total U.S. Environmental Protection Agency				<u>25,268,395</u>	-
<u>U.S. DEPARTMENT OF ENERGY</u>					
State Energy Program	81.041				
State Energy Program		LTGOV	DE-FG26-07NT43163	1,133,975	355,460
Regional Biomass Energy Program	81.079	LTGOV	CGLG-06-003	46,549	29,500

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<u>U.S. DEPARTMENT OF ENERGY (continued)</u>					
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117				
Indiana Wind Working Group		LTGOV	AAM-7-77543-02	84,254	59,529
Save Energy Now: Purdue Industrial Energy Efficiency Assessment Initiative		LTGOV	DE-FG36-08GO48006	<u>10,625</u>	<u>10,625</u>
Total for Program				<u>94,879</u>	<u>70,154</u>
State Energy Program Special Projects	81.119				
BioFuels Corridor		LTGOV	DE-FC26-06NT43014	<u>510,943</u>	<u>490,871</u>
Total for U.S. Department of Energy				<u>1,786,346</u>	<u>945,985</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>					
Title I, Part A Cluster					
Title I Grants to Local Educational Agencies	84.010				
Title I		ISSCH	03-9105	88,679	-
Grants to States 2008		IDOE	S010A070014	21,713,421	21,694,301
Grants to States 2009		IDOE	S010A080014	<u>226,598,143</u>	<u>223,381,863</u>
Total for Program				<u>248,400,243</u>	<u>245,076,164</u>
ARRA - Stimulus Grant - Title I Grants to LEAs - 2009	84.389	IDOE	S387A090015	<u>3,176,103</u>	<u>3,176,103</u>
Total for Cluster				<u>251,576,346</u>	<u>248,252,267</u>
Special Education Cluster (IDEA)					
Special Education Grants to States (IDEA, Part B)	84.027				
State Grant 2007		IDOE	H027A060084	7,334,023	7,328,219
State Grant 2008		IDOE	H027A070084	48,969,909	48,862,666
State Grant 2009		IDOE	H027A080084	192,185,092	187,763,039
Part B		ISD	14209-102-PN01	159,460	-
Special Education Grant		ISSCH	14205-100-PN01	<u>26,400</u>	<u>-</u>
Total for Program				<u>248,674,884</u>	<u>243,953,924</u>
Special Education Preschool Grants (IDEA Preschool)	84.173				
State Grant 2008		IDOE	H173A070104	1,005,045	1,005,045
State Grant 2009		IDOE	H173A080104	7,674,627	7,650,656
Early Childhood		ISD	45709-102-PN01	<u>20,289</u>	<u>-</u>
Total for Program				<u>8,699,961</u>	<u>8,655,701</u>
ARRA - Stimulus Grant - Special Ed Grants to States (IDEA Part B)	84.391	IDOE	H391A090084	<u>4,363,104</u>	<u>4,363,104</u>
ARRA - Stimulus Grant - Special Ed Preschool (IDEA Preschool)	84.392	IDOE	H392A090104	<u>54,058</u>	<u>54,058</u>
Total for Cluster				<u>261,792,007</u>	<u>257,026,787</u>
Adult Education - Basic Grants to States	84.002				
State Grant Program 2007		IDOE	V002A0060014	82,989	-
State Grant Program 2008		IDOE	V002A0070014	539,123	539,123
State Grant Program 2009		IDOE	V002A0080014	<u>9,248,948</u>	<u>8,158,769</u>
Total for Program				<u>9,871,060</u>	<u>8,697,892</u>
Migrant Education - State Grant Program	84.011				
Basic State Grant 2006		IDOE	S011A050014	215,059	-
Basic State Grant 2007		IDOE	S011A060014	3,170,609	3,170,609
Basic State Grant 2008		IDOE	S011A070014	<u>2,286,005</u>	<u>1,377,654</u>
Total for Program				<u>5,671,673</u>	<u>4,548,263</u>
Title I Program for Neglected and Delinquent Children	84.013				
State Grant 2008		IDOE	S013A070014	215,882	215,882
State Grant 2009		IDOE	S013A080014	<u>897,318</u>	<u>897,318</u>
Total for Program				<u>1,113,200</u>	<u>1,113,200</u>

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<u>U.S. DEPARTMENT OF EDUCATION (continued)</u>					
Career and Technical Education - Basic Grants to States	84.048				
COMM TECH ED		IDWD	VO48A050014A	70	-
STATE LEADERSHIP		IDWD	VO48A050014A	317	-
COMM TECH ED		IDWD	VO48A060014A	290,993	-
STATE LEADERSHIP		IDWD	VO48A060014A	1,587,471	1,178,525
CP SECONDARY B/ POST 2ND VOC. ED		IDWD	VO48A060014A	1,664,694	1,664,694
COMM TECH ED		IDWD	VO48A060014A	292,922	-
STATE LEADERSHIP		IDWD	VO48A070014A	(270,055)	-
CP SECONDARY B/ POST 2ND VOC. ED		IDWD	VO48A070014A	591,368	80,180
COMM TECH ED		IDWD	VO48A070014A	4,794,565	4,907,075
STATE LEADERSHIP		IDWD	VO48A070014A	2,057,776	2,057,776
POST 2ND VOC. ED		IDWD	VO48A080014A	358,530	342,886
STATE LEADERSHIP		IDWD	VO48A080014A	430,855	-
POST 2ND VOC. ED		IDWD	VO48A080014A	5,569,011	5,569,011
Total for Program				<u>17,368,518</u>	<u>15,800,147</u>
Leveraging Educational Assistance Partnership	84.069				
Leveraging Education Assistance Program		SSACI	N069A80015	601,293	-
Special Leveraging Education Assistance Program		SSACI	N069B080012	773,455	-
Total for Program				<u>1,374,748</u>	<u>-</u>
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126				
Title I, Section 110		FSSA	H 126A 07 0019	32,299	-
Title I, Section 110		FSSA	H 126A 07 0019	6,328,552	-
Title I, Section 110		FSSA	H 126A 07 0019	4,095	-
Title I, Section 110		FSSA	H 126A 07 0019	1,667,156	-
Title I, Section 110		FSSA	H 126A 08 0019	24,234,463	-
Title I, Section 110		FSSA	H 126A 08 0019	74,059	-
Title I, Section 110		FSSA	H 126A 08 0019	287,783	-
Title I, Section 110		FSSA	H 126A 08 0019	765,321	-
Title I, Section 110		FSSA	H 126A 09 0019	327,765	-
Title I, Section 110		FSSA	H 126A 09 0019	36,936,246	-
Title I, Section 110		FSSA	H 126A 09 0019	438,173	-
Title I, Section 110		FSSA	H 126A 09 0019	99,101	-
Total for Program				<u>71,195,013</u>	<u>-</u>
Rehabilitation Services - Client Assistance Program	84.161				
2006		IPASC	H161A060015B	210,997	-
2007		IPASC	H161A070015B	41,425	-
2008		IPASC	H161A080015B	158,884	-
2009		IPASC	H161A090015B	77,758	-
Total for Program				<u>489,065</u>	<u>-</u>
Independent Living - State Grants	84.169	FSSA	H 169A 09 0020	147,114	-
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	84.177				
Rehabilitative Services		FSSA	H 177B 07 0014	327,127	-
Rehabilitative Services		FSSA	H 177B 08 0014	335,112	-
Total for Program				<u>662,239</u>	<u>-</u>
Special Education - Grants for Infants and Families	84.181				
Infants & Families with Disabilities (First Steps)		FSSA	H 181A 06 0030	3,968,900	-
Infants & Families with Disabilities (First Steps)		FSSA	H 181A 07 0030	8,675,356	-
Infants & Families with Disabilities (First Steps)		FSSA	H 181A 08 0030	539,213	-
Total for Program				<u>13,183,469</u>	<u>-</u>
Byrd Honors Scholarship	84.185				
2008 Grant		IDOE	P185A070015	531,500	531,500
2009 Grant		IDOE	P185A080015	225,160	225,160
Total for Program				<u>756,660</u>	<u>756,660</u>
Safe and Drug Free Schools and Communities - State Grants	84.186				
State Grant 2007		IDOE	Q186A060015	102,416	102,416
State Grant 2008		IDOE	Q186A070015	3,328,733	3,054,326

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<b>U.S. DEPARTMENT OF EDUCATION (continued)</b>					
Safe and Drug Free Schools and Communities - State Grants (continued)					
State Grant 2009		IDOE	Q186A080015	1,149,829	1,149,829
2006 Safe & Drug-Free Schools and Communities - State Grants		ICJI	Q186B060016	647,117	314,623
2007 Safe & Drug-Free Schools and Communities - State Grants		ICJI	Q186B070016	201,754	151,710
2008 Safe & Drug-Free Schools and Communities - State Grants		ICJI	Q186B080016	27,993	-
Total for Program				<u>5,457,841</u>	<u>4,772,903</u>
Supported Employment Services for Individuals with Significant Disabilities	84.187	FSSA	H 187A 07 0020	532,980	-
Education for Homeless Children and Youth					
State Grant 2008	84.196	IDOE	S196A070015	51,759	8,483
State Grant 2009		IDOE	S196A080015	1,015,635	1,015,635
Total for Program				<u>1,067,394</u>	<u>1,024,118</u>
Javits Gifted & Talented Students Education Grant Program	84.206	IDOE	S206A020001	66,914	66,914
Even Start State Educational Agencies					
State Grant 2008	84.213	IDOE	S213C070015	113,342	94,835
State Grant 2009		IDOE	S213C080015	1,045,515	1,033,842
Total for Program				<u>1,158,857</u>	<u>1,128,677</u>
Assistive Technology					
Assistive Technology (ATTAIN)	84.224	FSSA	H 224A 07	272,844	-
Assistive Technology (ATTAIN)		FSSA	H 224A 08	238,186	-
Total for Program				<u>511,031</u>	-
Program of Protection and Advocacy of Individual Rights					
'2006	84.240	IPASC	H240A060015	289,562	-
'2007		IPASC	H240A070015	172,794	-
'2008		IPASC	H240A080016	131,289	-
'2009		IPASC	H240A080017	192,374	-
Total for Program				<u>786,019</u>	-
Tech-Prep Education					
COM TECH ED-PRE	84.243	IDWD	V243A060014	(82)	-
COM TECH ED-PRE		IDWD	V243A070014	1,887,925	1,876,473
COM TECH ED-PRE		IDWD	V243A080014	492,785	195,440
Total for Program				<u>2,380,628</u>	<u>2,071,913</u>
Rehabilitation Services - American Indians with Disabilities	84.250	IDOE	S250B010069	6	-
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	FSSA	H 265A 05 0040	29,957	-
Charter Schools	84.282	IDOE	U282A070012-08A	5,638,633	5,412,777
Twenty First Century Community Learning Center					
Award 2007	84.287	IDOE	S287A060014	1,787,532	1,262,119
Award 2008		IDOE	S287A070014	7,929,020	7,929,020
Total for Program				<u>9,716,552</u>	<u>9,191,139</u>
State Grants for Innovative Education					
State Grant 2007	84.298	IDOE	S298A060014	190,773	130,212
State Grant 2008		IDOE	S298A070014	1,171,222	1,177,642
Total for Program				<u>1,361,995</u>	<u>1,307,854</u>
Education Technology State Grants					
State Grant 2007	84.318	IDOE	S318X060014	1,467,318	1,413,509
State Grant 2008		IDOE	S318X070014	2,802,007	2,631,625
Total for Program				<u>4,269,326</u>	<u>4,045,134</u>
Special Education - State Personnel Development	84.323	IDOE	H323A030003	2,009,253	2,009,253

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<b>U.S. DEPARTMENT OF EDUCATION (continued)</b>					
Advanced Placement Incentive Programs	84.330	IDOE	S330B070023	119,261	10,707
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals Specter 07	84.331	IDOC	Q331A070015	376,048	-
Specter 08		IDOC	Q331A080015	216,786	-
Total for Program				592,834	-
Gaining Early Awareness and Readiness for Undergraduate Programs GEARUP Admin	84.334	SSACI	P335S050010	2,363,698	-
GEARUP Tuition		SSACI	P335S050010	463,396	-
GEARUP Mentorship		SSACI	P335S050010	63,883	-
Total for Program				2,890,977	-
Reading Excellence	84.338	IDOE	S338A010016	297,862	-
Class Size Reduction	84.340	IDOE	S340A010015	36,000	-
Assistive Technology - State Grants for Protection and Advocacy 2005	84.343	IPASC	H343A050015	(98)	-
2006		IPASC	H343A060015	42	-
2007		IPASC	H343A070015	32,644	-
2008		IPASC	H343A080015	33,112	-
2009		IPASC	H343A090015	37,653	-
Total for Program				103,352	-
Reading First State Grants State Grant	84.357	IDOE	S357A060015	5,370,830	2,865,541
State Grant		IDOE	S357A070015	9,038,777	9,038,777
Total for Program				14,409,607	11,904,318
Rural Education State Grant	84.358	IDOE	S358B060014	43,109	43,109
State Grant		IDOE	S358B070014	156,050	156,050
State Grant		IDOE	S358B080014	433,679	433,679
Total for Program				632,838	632,838
English Language Acquisition Grants State Formula Grant Program	84.365	IDOE	T365A070014	1,199,666	950,423
State Formula Grant Program		IDOE	T365A080014	5,674,075	5,974,075
Total for Program				6,873,741	6,924,498
Mathematics and Science Partnerships Grant 2007	84.366	IDOE	S366B060015	658,533	658,533
Grant 2008		IDOE	S366B070015	2,157,161	2,022,553
Total for Program				2,815,694	2,681,086
Improving Teacher Quality State Grants Grant 2007	84.367	IDOE	S367A060013	3,251,297	3,251,297
Grant 2008		IDOE	S367A070013	27,537,121	26,442,612
Grant 2009		IDOE	S367A080013	15,410,922	14,981,852
Improving Teacher Quality		CHE	S367B060014A	736,549	736,549
Improving Teacher Quality		CHE	S367B070014A	394,945	394,945
Improving Teacher Quality		CHE	S367B080014A	38,851	38,851
Total for Program				47,369,685	45,846,106
Grants for State Assessments & Related Activities State Grant	84.369	IDOE	S369A070015	513,822	-
State Grant		IDOE	S369A080015	4,397,665	89,275
Total for Program				4,911,487	89,275
Statewide Data Systems	84.372	IDOE	R372A070013	775,665	266,866

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<u>U.S. DEPARTMENT OF EDUCATION (continued)</u>					
School Improvement Grants	84.377A				
State Grant 2006		IDOE	S377A070015	1,678,695	1,678,695
State Grant 2007		IDOE	S377A080016	4,793,033	4,793,033
Total for Program				6,471,728	6,471,728
ARRA - Stabilization - State Fiscal Stabilization, Education - 2009	84.394A	IDOE	S394A090015	536,365,651	536,365,651
Total U.S. Department of Education				1,294,854,879	1,178,418,972
<u>NATIONAL ARCHIVES AND RECORDS ADMINISTRATION</u>					
National Historical Publications and Records Grants	89.003	ICPR	NAR07-RS-10032-07	2,441	-
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					
Aging Cluster					
Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers					
Support Services	93.044	FSSA	08 AA IN T3 SP	4,859,592	4,728,632
Support Services		FSSA	09 AA IN T3 SP	2,278,701	2,219,334
Total for Program				7,138,293	6,947,966
Special Programs for the Aging-Title III, Part C - Nutrition Services					
Congregate Meals	93.045	FSSA	08 AA IN T3 SP	4,557,903	4,425,648
Congregate Meals		FSSA	09 AA IN T3 SP	1,132,338	1,084,399
Home Delivered Meals		FSSA	08 AA IN T3 SP	4,730,441	4,606,650
Home Delivered Meals		FSSA	09 AA IN T3 SP	1,535,685	1,490,814
Total for Program				11,956,367	11,607,511
Nutrition Services Incentive Program					
Nutrition Services Incentive Program	93.053	FSSA	2 08 AA IN NSIP	388,561	388,561
Nutrition Services Incentive Program		FSSA	2 09 AA IN NSIP	533,724	533,724
Total for Program				922,285	922,285
ARRA - Aging Home-Delivered Nutrition Services for States	93.705	FSSA	09AAINC2RR	291,449	291,449
ARRA - Aging Congregate Nutrition Services for States	93.707	FSSA	09AAINC1RR	208,611	208,611
Total for Cluster				20,517,006	19,977,823
CCDF Cluster					
Child Care and Development Block Grant					
Child Care and Development Block Grant (CCDBG) - Administration	93.575	FSSA	G 07 01 IN CCDF	435	-
Child Care and Development Block Grant (CCDBG) - Administration		FSSA	G 08 01 IN CCDF	33,882,223	-
Child Care and Development Block Grant (CCDBG) - Administration		FSSA	G 09 01 IN CCDF	48,301,874	-
Total for Program				82,184,532	-
Child Care Mandatory and Matching Funds of the					
Child Care Development Fund					
Child Care Development Fund (CCDF) Matching/Mandatory	93.596	FSSA	G 07 01 IN CCDF	1,518,815	-
Child Care Development Fund (CCDF) Matching/Mandatory		FSSA	G 08 01 IN CCDF	26,163,366	-
ARRA - Child Care Development Fund (CCDF) Matching/Mandatory		FSSA	G 09 01 IN CCDF	43,156,903	-
Total for Program				70,839,084	-
ARRA - Child Care and Development Block Grant	93.713	FSSA	G 09 01 IN CCD7	14,094	-
Total for Cluster				153,037,710	-
Medicaid Cluster					
State Medicaid Fraud Control Unit					
State Medicaid Fraud Control Unit	93.775	AG	01-0801-IN-5050	622,500	-
State Medicaid Fraud Control Unit		AG	01-0901-IN-5050	2,291,824	-
State Medicaid Fraud Control Unit		AG	01-0701-IN-5050	28,737	-
Total for Program				2,943,061	-

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<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</b>					
Medicaid Cluster (continued)					
State Survey and Certification of Health Care Providers and Suppliers	93.777				
Medicare Title XVIII-2008		ISDOH	05-0805-IN-5000	1,690,145	-
Medicare Title XVIII-2009		ISDOH	05-0905-IN-5000	4,504,734	-
CLIA (Clinical Lab Improvement Act) - 2008		ISDOH	05-0805-IN-5002	(18,560)	-
CLIA (Clinical Lab Improvement Act) - 2009		ISDOH	05-0905-IN-5002	169,461	-
Title XIX - Certification of Health Care Providers		FSSA	5 08 05 IN 5001	2,145,654	-
Title XIX - Certification of Health Care Providers		FSSA	5 09 05 IN 5001	2,802,347	-
Total for Program				<u>11,293,781</u>	-
Medical Assistance Program (Medicaid)	93.778				
Medicaid Assistance		FSSA	5 08 05 IN 5028	670,880,751	-
Medicaid Assistance		FSSA	5 09 05 IN 5028	2,887,816,653	-
Medicaid Administration		FSSA	5 08 05 IN 5048	17,713,799	-
Medicaid Administration		FSSA	5 08 05 IN 5048	189,948,096	-
ARRA - Medicaid Assistance		FSSA	0905INARRA	396,307,981	-
Total for Program				<u>4,162,667,279</u>	-
Total for Cluster				<u>4,176,904,121</u>	-
State and Territorial and Technical Assistance Capacity Development Minority					
HIV/AIDS Demonstration Program	93.006				
OMH State Partnership Program FY08		IDSOH	1 STTMP051005-03	91,933	51,634
OMH State Partnership Program FY09		IDSOH	1 STTMP051005-04	27,165	16,775
Total for Program				<u>119,098</u>	<u>68,409</u>
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation					
Elder Protection Services	93.041				
		FSSA	08 AA IN T7 SP	101,124	101,124
Special Programs for the Aging - Title VII, Chapter 2 Long-Term Care Ombudsman					
Service for Older Individuals	93.042				
Ombudsman		FSSA	08 AA IN T7 SP	77,910	34,070
Ombudsman		FSSA	09 AA IN T7 SP	267,367	193,032
Total for Program				<u>345,277</u>	<u>227,102</u>
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services					
Preventative Health	93.043				
Preventative Health		FSSA	08 AA IN T3 SP	379,389	367,891
		FSSA	09 AA IN T3 SP	150,418	146,250
Total for Program				<u>529,807</u>	<u>514,141</u>
Special Programs for the Aging - Title IV and Title II Discretionary Projects					
Alzheimer's Disease Grant	93.048				
ADRC - AOA Grant		FSSA	90 AZ 2789 03	158,407	158,407
		FSSA	90 AM 2828 01	284,744	284,744
Total for Program				<u>443,151</u>	<u>443,151</u>
Alzheimer's Disease Demonstration Grants to States	93.051				
		FSSA	90AI000901	11,063	11,063
National Family Caregiver Support, Title III, Part E	93.052				
NFCSP (Title III Admin)		FSSA	07 AA IN T3 SP	166,005	166,005
NFCSP (Title III Admin)		FSSA	08 AA IN T3 SP	2,926,562	2,836,577
NFCSP (Title III Admin)		FSSA	09 AA IN T3 SP	724,332	702,521
Total for Program				<u>3,816,899</u>	<u>3,705,103</u>
Public Health Emergency Preparedness	93.069				
Degradation of Rural Healthcare Services in Pan Flu - 2009		ISDOH	1U90TP000222-01	135,408	-
Public Health Preparedness & Response for Bioterrorism - 2008		ISDOH	5U90TP517024-08	6,229,218	1,514,917
Public Health Preparedness & Response for Bioterrorism - 2009		ISDOH	5U90TP517024-09	9,957,988	639,557
Total for Program				<u>16,322,614</u>	<u>2,154,474</u>

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<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</b>					
Advancing System Improvements to Support Targets for Healthy People 2010	93.088				
Office of Women's Health ASIST Program 2008		ISDOH	1 ASTWH070013-01-00	122,630	102,724
Office of Women's Health ASIST Program 2009		ISDOH	1 ASTWH070013-02-00	186,044	122,526
Total for Program				<u>308,674</u>	<u>225,250</u>
Food and Drug Administration - Research	93.103				
State Food Safety & Security Task Force Meetings FY08		ISDOH	1R13FD003184-03	799	-
State Food Safety & Security Task Force Meetings FY09		ISDOH	1R13FD003580-01	4,275	-
Total for Program				<u>5,074</u>	-
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	FSSA	U9SM58518	425,994	425,715
Maternal and Child Health Federal Consolidated Programs	93.110				
Early Childhood Comprehensive System Planning 2008		ISDOH	4H25MC00263-05	131,578	-
Data Integration - 2008		ISDOH	5H18MC00017-12	49,732	-
Data Integration - 2009		ISDOH	5H18MC00017-13	40,977	-
Total for Program				<u>222,287</u>	-
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116				
Tuberculosis Control Program - 2008		ISDOH	5U52-PS500520-26	504,615	349,807
Tuberculosis Control Program - 2009		ISDOH	5U52-PS500520-27	285,437	188,516
Total for Program				<u>790,052</u>	<u>538,323</u>
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130				
Primary Care Offices-2008		ISDOH	6 U68 CS 00182-18	4,295	-
Primary Care Offices-2009		ISDOH	6 U68 CS 00182-19	93,329	-
Primary Care Offices-2010		ISDOH	6 U68 HP 11487-01	22,027	-
Total for Program				<u>119,651</u>	-
Injury Prevention and Control Research and State and Community Based Programs	93.136				
Rape Prevention and Education - FY 2008		ISDOH	5VF1CE001115-02	480,145	478,639
Rape Prevention and Education - FY 2009		ISDOH	5VF1CE001115-03	376,603	359,939
Total for Program				<u>856,748</u>	<u>838,579</u>
Protection and Advocacy for Individuals with Mental Illness	93.138				
2006		IPASC	SMX189700L	562,954	-
2007		IPASC	SMX189700-07	348,552	-
2008		IPASC	3X98SM001897-08S1	230,777	-
2009		IPASC	3X98SM001897-09S1	344,123	-
Total for Program				<u>1,486,406</u>	-
Projects for Assistance in Transition from Homelessness	93.150				
Projects for Assistance in Transition from Homelessness (PATH)		FSSA	S MX 060015 Q	507,641	503,414
Projects for Assistance in Transition from Homelessness (PATH)		FSSA	S MX 060015 Q	347,855	342,365
Total for Program				<u>855,495</u>	<u>845,779</u>
Grants to States for Loan Repayment Program	93.165				
State Loan Repayment Program FY07		ISDOH	6 H56HP00122-05-01	33,500	33,500
Community Prevention Coalitions (partnership) Demonstration Grant	93.194	FSSA	U9SP11212A	4,622,596	4,617,675
Childhood Lead Poisoning Prevention Projects	93.197				
Childhood Lead Poison Prevention - 2008		ISDOH	5H64EH000135-03	175,081	175,081
Childhood Lead Poison Prevention - 2009		ISDOH	5H64EH000135-04	724,889	358,475
Total for Program				<u>899,970</u>	<u>533,556</u>
Research on Healthcare Costs, Quality and Outcomes	93.226				
Cooperative Health Statistics-2008		ISDOH	200-2007-M19929	375,215	9,631
Cooperative Health Statistics-2009		ISDOH	200-2007-M19929	371,239	9,823
Total for Program				<u>746,454</u>	<u>19,454</u>

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<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</u>					
Traumatic Brain Injury State Demonstration Grant	93.234	FSSA	H21MCO6756	100,780	-
Abstinence Education Program	93.235				
Abstinence Education Block Grant - 2008		ISDOH	G-0801INAEGP	398,719	-
Grants for Dental Public Health Residency Training	93.236	ISDOH	T12HP10693-01	147,220	-
State Rural Hospital Flexibility Program	93.241				
RHFP-Critical Access Hospitals - 2008		ISDOH	5 H54RH00042-09-00	308,581	237,926
RHFP-Critical Access Hospitals - 2009		ISDOH	5 H54RH00042-10-00	183,562	55,400
Total for Program				492,143	293,326
Substance Abuse and Mental Health Services	93.243				
MI DIG III		FSSA	H1SM058070-01	60,465	-
Alternatives to Restraint & Seclusion		FSSA	H9 SM 58129A	199,012	168,869
Total for Program				259,477	168,869
Universal Newborn Hearing Screening	93.251				
Universal Newborn Hearing Screening - 2009		ISDOH	4 H61 MC 00059-07	139,047	11,919
Universal Newborn Hearing Screening - 2010		ISDOH	4 H61 MC 00059-08	4,904	4,360
Total for Program				143,951	16,279
State Grants for Protection and Advocacy Services	93.267				
2006		IPASC	X82MC07232	47,457	-
2007		IPASC	X82MC08153	4,507	-
2008		IPASC	X82MC09917	46,534	-
Total for Program				98,498	-
Immunization Grants	93.268				
Immunization Program - 2008		ISDOH	5H23-IP522522-06	1,994,412	451,225
Immunization Program - 2009		ISDOH	5H23-IP522522-07	1,543,160	136,647
Immunization Program - 2008-Non-Cash Assistance		ISDOH	5H23-IP522522-06	36,437	-
Immunization Program - 2009-Non-Cash Assistance		ISDOH	5H23-IP522522-07	620,780	-
Total for Program				4,194,789	587,871
Substance Abuse and Mental Health Services - Access to Recovery	93.275				
Access to Recovery		CCSV	T119486	128,890	-
Access to Recovery		FSSA	1H79TIO19486-01	4,491,219	594,072
Total for Program				4,620,109	594,072
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283				
Viral Hepatitis Prevention Grant 2008		ISDOH	1U51PS5000911-01	31,472	-
Viral Hepatitis Prevention Grant 2009		ISDOH	5U51PS5000911-02	46,075	-
Comprehensive Cancer Control 2007		ISDOH	U55/CCU521884-05	1,127	-
Comprehensive Cancer Control 2008		ISDOH	1U58DP000838-01	40,822	29,883
Comprehensive Cancer Control 2009		ISDOH	1U58DP000838-02	157,092	140,737
Nutrition, Physical Activity, & Obesity Program - FY 2009		ISDOH	1U58DP001481-01	152,157	-
Early Hearing Detection & Intervention 2008		ISDOH	5UR3-DD524776-03	85,873	-
Early Hearing Detection & Intervention 2009		ISDOH	5UR3-DD000425-01	118,177	39,842
National Program of Cancer Registries - 2007		ISDOH	U55/CCU521884-05	35,765	-
National Program of Cancer Registries - 2008		ISDOH	1U58DP000838-01	392,602	-
Behavioral Risk Factor Surveillance - 2008		ISDOH	5U58-DP522814-05	177,152	-
Public Health Preparedness & Response for Bioterrorism - 2006		ISDOH	U90/CCU517024-06	(147,843)	-
Public Health Preparedness & Response for Bioterrorism - 2007		ISDOH	U90/CCU517024-07/5U90T	247,653	-
Addressing Asthma - 2008		ISDOH	5U59-EH525032	297,085	6,030
Tobacco Use Prevention and Control - 2008		ISDOH	5U58-DP522814-05	1,406,446	-
Tobacco Use Prevention and Control - 2010		ISDOH	5U58-DP001966-01	159	-
Reducing the Impact of Arthritis - 2008		ISDOH	5U58-DP522814-05	47,390	22,734
Diabetes Grant - 2010		ISDOH	5U58-DP001966-01	63,859	-
State Epidemiology & Laboratory Surveillance and Response - 08		ISDOH	5U50-CI523777-04	362,191	131,697
State Epidemiology & Laboratory Surveillance and Response - 09		ISDOH	5U50-CI523777-05	141,813	15,991
Total for Program				3,657,067	386,914

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<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</u>					
Small Rural Hospital Improvement Grant Program	93.301				
Small Rural Hospital Improvement Grant - 2008		ISDOH	6 H3HRH00003-06	150,660	150,660
Small Rural Hospital Improvement Grant - 2009		ISDOH	6 H3HRH00003-07	116,963	8,537
Total for Program				<u>267,623</u>	<u>159,197</u>
Promoting Safe and Stable Families	93.556				
Family Preservation and Support Services (Title IV Pt II)		FSSA	G 07 01 IN 00FP	2,421,872	2,421,872
Family Preservation and Support Services (Title IV Pt II)		FSSA	G 08 01 IN 00FP	4,576,493	4,578,201
Caseworker Visits (Title IV -B Pt II)		FSSA	G 06 11INFPSS	842,071	-
Total for Program				<u>7,840,435</u>	<u>7,000,073</u>
Temporary Assistance for Needy Families	93.558				
Temporary Assistance to Needy Families (TANF)		FSSA	G 08 01 IN TANF	50,925,737	-
Temporary Assistance to Needy Families (TANF)		FSSA	G 09 01 IN TANF	84,982,843	-
Total for Program				<u>135,908,580</u>	<u>-</u>
Child Support Enforcement	93.563				
Title IV-D - Child Support Enforcement		FSSA	G 05 04 IN 4004	4,948,304	-
Title IV-D - Child Support Enforcement		FSSA	G 07 04 IN 4004	7,571,648	7,099,928
Title IV-D - Child Support Enforcement		DCS	G 08 04 IN 4004	4,681,270	-
Title IV-D - Child Support Enforcement		DCS	09 04 IN4004	23,832,949	-
ARRA - Title IV-D - Child Support Enforcement		DCS	09 04 IN4002	5,148,454	-
Healthy Marriages/Healthy Relationships		FSSA	G 08 01 IN HMHR	47,853	47,853
Total for Program				<u>46,230,478</u>	<u>7,147,781</u>
Refugee and Entrant Assistance - State Admin	93.566				
Refugee and Entrant Assistance - State Admin		FSSA	G 07 AA IN 5110	325,046	307,804
Refugee and Entrant Assistance - State Admin		FSSA	G 08 AA IN 5110	323,857	294,902
Refugee and Entrant Assistance - State Admin		FSSA	G 07 AA IN 5100	(10)	-
Refugee and Entrant Assistance - State Admin		FSSA	G 08 AA IN 5100	751,987	255,784
Refugee and Entrant Assistance - State Admin		FSSA	G 09 AA IN 5100	840,985	330,762
Total for Program				<u>2,241,865</u>	<u>1,189,252</u>
Community Service Block Grant	93.569	LTGOV	G07B3INCOSR	6,432	6,075
Refugee and Entrant Assistance - Discretionary Grants	93.576				
Health Programs for Refugees-2008		ISDOH	90RX0162-02	14,010	-
Health Programs for Refugees-2009		ISDOH	90RX0162-03	87,586	-
Refugee School Impact		FSSA	90ZE008703	50,798	50,798
Refugee School Impact		FSSA	90ZE008704	64,953	64,953
Total for Program				<u>217,346</u>	<u>115,750</u>
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	FSSA	0801INRRTA	55,950	55,950
State Court Improvement Program	93.586				
CIP GRANT FY06		SC	0601INSCIP	92,870	92,320
CIP GRANT FY07		SC	0701INSCIP	162,676	162,676
CIP GRANT FY08		SC	0801INSCIP	30,928	30,928
DATA GRANT FY06		SC	0601INSCID	96,014	80,000
DATA GRANT FY07		SC	0701INSCID	80,299	-
TRAINING GRANT FY06		SC	0601INSCIT	43,888	-
TRAINING GRANT FY07		SC	0701INSCIT	115,089	67,783
TRAINING GRANT FY08		SC	0801INSCIT	34,041	707
Total for Program				<u>655,805</u>	<u>434,414</u>
Community Based Child Abuse Prevention Grant	93.590				
ADRC AOA Planning Grant		FSSA	90AM302602	8,508	8,508
ADRC AOA Planning Grant		FSSA	90AM302603	29,810	29,810
Community Based Prevention Program		FSSA	G 00 08 IN FRPG	1,442,752	1,442,752
Total for Program				<u>1,481,070</u>	<u>1,481,070</u>

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<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</u>					
Grants to States for Access and Visitation Program	93.597				
Access and Visitation		FSSA	G 06 01 IN SAVP	13,495	13,495
Access and Visitation		FSSA	G 07 01 IN SAVP	109,451	109,451
Access and Visitation		FSSA	G 08 01 IN SAVP	<u>3,126</u>	<u>3,126</u>
Total for Program				<u>126,072</u>	<u>126,072</u>
Head Start	93.600				
Head Start		FSSA	G 05 CD002002	47,456	-
Head Start		FSSA	G 05 CD002003	<u>101,749</u>	-
Total for Program				<u>149,205</u>	-
Adoption Incentive Program Payments	93.603				
Adoption Incentive Program Payments		FSSA	0701INAIPP	328,908	-
Adoption Incentive Program Payments		FSSA	0801INAIPP	<u>657,648</u>	-
Total for Program				<u>986,556</u>	-
Voting Access for Individuals with Disabilities - Grants to States	93.617				
HHS Polling Place Accessibility Grant		SOS	G-0603INVOTE	<u>25,885</u>	<u>25,885</u>
Voting Access for Individuals with Disabilities-Grants for Protection and Advocacy Systems	93.618				
2005		IPASC	G0503INVOTP	55,892	-
2006		IPASC	G0603INVOTP	48,920	-
2007		IPASC	G0703INVOTP	<u>10,069</u>	-
Total for Program				<u>114,881</u>	-
Developmental Disabilities Basic Support and Advocacy Grants	93.630				
SDDC - 2006		IGPC	G 0601INBS15	88,452	-
SDDC - 2007		IGPC	G 0701INBS15	880,858	-
SDDC - 2008		IGPC	G 0801INBS15	292,652	-
SDDC - 2009		IGPC	G 0901INBS15	352,322	-
P&A for Developmental Disabilities 2006		IPASC	G0601INPA15	735,991	-
P&A for Developmental Disabilities 2007		IPASC	G0701INPA15	207,529	-
P&A for Developmental Disabilities 2008		IPASC	G0801INPA15	177,392	-
P&A for Developmental Disabilities 2009		IPASC		<u>429,516</u>	-
Total for Program				<u>3,164,712</u>	-
Children's Justice Grants to States	93.643				
Children's Justice Act		DCS	07 02 IN CJA	<u>58,970</u>	<u>57,000</u>
Child Welfare Services - State Grants	93.645				
Title IV-B Child Welfare Social Services		FSSA	G 07 01 IN 1400	3,695,202	-
Title IV-B Child Welfare Social Services		FSSA	G 08 01 IN 1400	<u>4,847,781</u>	-
Total for Program				<u>8,542,983</u>	-
Social Services Research and Demonstration	93.647	FSSA	90PD026901	<u>35</u>	-
Adoption Opportunities	93.652				
Engaging Non-Resident Fathers		DCS	90CO1025IDCS09	<u>137,640</u>	<u>88,244</u>
Foster Care - Title IV - E	93.658				
Title IV-E Foster Care		FSSA	G 08 01 IN 1401	15,554,861	-
Title IV-E Foster Care		DCS	0901 IN 1401	84,958,663	-
ARRA - Title IV-E Foster Care		DCS	0901 IN 1402	<u>1,878,669</u>	-
Total for Program				<u>102,392,193</u>	-
Adoption Assistance	93.659				
Adoption Assistance		FSSA	G 08 01 IN 1407	6,694,802	-
Adoption Assistance		DCS	09 01 IN1407	44,420,657	-
ARRA - Adoption Assistance		DCS	09 01 IN1403	<u>2,287,518</u>	-
Total for Program				<u>53,402,976</u>	-

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</u>					
Social Services Block Grant	93.667				
Social Services Block Grant Direct Services		FSSA	G 06 01 IN SOS2	111,377	-
Social Services Block Grant		FSSA	G 08 01 IN SOSR	30,639,409	30,639,409
Social Services Block Grant Suppl		DCS	G 09 01 IN SOS2	13,395,109	13,395,109
Social Services Block Grant		DCS	G 09 02 IN SOSR	17,517,147	8,735,306
Total for Program				<u>61,663,042</u>	<u>52,769,824</u>
Child Abuse and Neglect State Grants	93.669				
Child Abuse Prevention (CAPTA)		FSSA	CAPTA 08	486,419	486,418
Family Violence Prevention and Services - Grants for Battered Women's Shelter's Grants to States and Indian Tribes	93.671				
Family Violence Prevention and Services		FSSA	G 07 01 IN FVPS	893,546	893,546
Family Violence Prevention and Services		FSSA	G 08 01 IN FVPS	1,078,673	1,065,504
Total for Program				<u>1,972,219</u>	<u>1,959,051</u>
Chafee Foster Care Independence Program	93.674				
Title IV-E Independent Living		FSSA	G 07 01 IN 1420	291,922	243,596
Title IV-E Independent Living		FSSA	G 08 01 IN 1420	2,955,015	2,758,214
Title IV-E Independent Living		FSSA	G 07 01 IN CETV	197,022	197,022
Title IV-E Independent Living		FSSA	G 08 01 IN CETV	770,195	770,195
Title IV-E Independent Living		DCS	G 09 01 IN1420	530,034	410,242
Total for Program				<u>4,744,189</u>	<u>4,379,270</u>
Children's Health Insurance Program	93.767				
Children's Health Insurance Program (CHIP) Assistance		FSSA	5 07 05IN 5021	57,453,257	-
Children's Health Insurance Program (CHIP) Assistance		FSSA	5 08 05IN 5021	30,774,270	-
Total for Program				<u>88,227,527</u>	-
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	FSSA	1QACMS030232	792,565	-
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779				
State Health Insurance Assistance Program 2008		IDOI	11-P-20202/5-14	607,307	-
State Health Insurance Assistance Program 2008		IDOI	11-P-20202/5-15	359,306	-
State Health Insurance Assistance Program 2008		IDOI	11-P-20202/5-16	10,999	-
State Health Insurance Assistance Program 2009		IDOI	11-P-20202/5-17	8,016	-
ADRC CMS		FSSA	91938A	8,153	8,153
Money Follows the Person		FSSA	1LICMS300 150A	156,323	28,238
Total for Program				<u>1,150,103</u>	<u>36,390</u>
Alternatives to Psychiatric Residential Treatment Facilities for Children	93.789	FSSA	SO30013401	2,008,195	-
Alternate Non-Emergency Service Providers or Networks	93.790	FSSA	1VOC30247A	5,316	-
Medicaid Transformation Grants	93.793				
Medicaid Transformation - Estate Recovery		FSSA	0705INTRA1	6,197	-
Medicaid InfoTech Architecture		FSSA	1U030220A	587,450	-
Total for Program				<u>593,647</u>	-
National Bioterrorism Hospital Preparedness Program	93.889				
Bioterrorism Hospital Preparedness Program - 2007		ISDOH	1U3RHS07605-01	1,911,596	-
Bioterrorism Hospital Preparedness Program - 2008		ISDOH	1U3REP070014-01	4,035,597	3,585,200
Hospital Preparedness Program - 2009		ISDOH	1U3REP080015-01	4,056,564	2,015,960
Total for Program				<u>10,003,757</u>	<u>5,601,160</u>
Grants to States for Operation of Offices of Rural Health	93.913				
Rural Health - 2008		ISDOH	6 H95RH00136-16	102,705	55,000
Rural Health - 2009		ISDOH	6 H95RH00136-17	97,996	52,439
Total for Program				<u>200,701</u>	<u>107,439</u>

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

STATE OF INDIANA  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
July 1, 2008 to June 30, 2009  
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</u>					
HIV Care Formula Grants	93.917				
Title II HIV Care Grants - 2009		ISDOH	6X07HA00033-18	11,253,978	27,143
Title II HIV Care Grants - 2010		ISDOH	6X07HA00033-19	<u>(3,691,791)</u>	<u>4,510</u>
Total for Program				<u>7,562,187</u>	<u>31,653</u>
Cooperative Agreements for State - Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919				
Breast & Cervical Cancer Early Detection - 2007		ISDOH	U55/CCU521884-05	11,064	-
Breast & Cervical Cancer Early Detection - 2008		ISDOH	1U58DP000838-01	572,424	68,373
Breast & Cervical Cancer Early Detection - 2009		ISDOH	1U58DP000838-02	<u>1,580,620</u>	<u>535,235</u>
Total for Program				<u>2,164,108</u>	<u>603,608</u>
HIV Prevention Activities - Health Department Based	93.940				
HIV Prevention Project - 2007		ISDOH	5U62-PS523488-04	14,035	-
HIV Prevention Project - 2008		ISDOH	3U62-PS523488-05	<u>2,374,460</u>	<u>1,292,629</u>
Total for Program				<u>2,388,495</u>	<u>1,292,629</u>
Human Immunodeficiency Virus/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944				
HIV/AIDS Surveillance & Seroprevalence - 2008		ISDOH	1U62-PS001049-01	523,854	71,979
HIV/AIDS Surveillance & Seroprevalence - 2009		ISDOH	5U62-PS001049-02	291,828	-
Morbidity and Risk Behavior 08		ISDOH	5U62-PS524446-04	18,380	-
Morbidity and Risk Behavior 09		ISDOH	5U62-PS524446-04	409,216	32,252
Morbidity and Risk Behavior 10		ISDOH	1U62-PS001599-01	38,710	-
Surveillance of HIV/Aids Related Events Among Persons Not Receiving Care FY08		ISDOH	5U01-PS000116-03	107,778	-
Surveillance of HIV/Aids Related Events Among Persons Not Receiving Care FY09		ISDOH	5U01-PS000116-04	<u>136,912</u>	<u>31,113</u>
Total for Program				<u>1,526,678</u>	<u>135,344</u>
Block Grants for Community Mental Health Services	93.958				
Community Mental Health Block Grants		FSSA	08 B1 IN CMHS	3,731,187	3,731,187
Community Mental Health Block Grants		FSSA	09 B1 IN CMHS	<u>2,479,064</u>	<u>2,093,783</u>
Total for Program				<u>6,210,251</u>	<u>5,824,969</u>
Block Grants for Prevention and Treatment of Substance Abuse	93.959				
Prev and Treat of Substance Abuse Block Grant		FSSA	07 B1 IN SAPT	3,334,011	3,334,011
Prev and Treat of Substance Abuse Block Grant		FSSA	08 B1 IN SAPT	29,113,591	28,343,518
Prev and Treat of Substance Abuse Block Grant		FSSA	09 B1 IN SAPT	<u>2,113,526</u>	<u>2,113,330</u>
Total for Program				<u>34,561,127</u>	<u>33,790,858</u>
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977				
Sexually Transmitted Disease Accel Prev Campaign - 07		ISDOH	5H25-PS504340-16	52,848	50,396
Sexually Transmitted Disease Accel Prev Campaign - 08		ISDOH	5H25-PS504340-17	1,462,933	1,211,717
Sexually Transmitted Disease Accel Prev Campaign - 09		ISDOH	1H25-PS501360-01	<u>400,201</u>	<u>297,453</u>
Total for Program				<u>1,915,982</u>	<u>1,559,566</u>
Mental Health Disaster Assistance and Emergency Mental Health	93.982	FSSA	H7SM00255	<u>209,298</u>	-
Cooperative Agreements for State - Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	ISDOH	3U32-DP522713-05	<u>283,658</u>	<u>11,948</u>
Preventive Health and Health Services Block Grant	93.991				
Preventive Health Services Block Grant - 2008		ISDOH	2007-B1-IN-PRVS-01	728,196	566
Preventive Health Services Block Grant - 2009		ISDOH	3B01DP009019-08	<u>877,193</u>	-
Total for Program				<u>1,605,389</u>	<u>566</u>
Maternal and Child Health Services Block Grant to the States	93.994				
Maternal and Child Health Block Grant - 2008		ISDOH	1 B04MC04272-01	4,203,983	2,555,964
Maternal and Child Health Block Grant - 2009		ISDOH	1 B04MC11185-01	<u>7,214,226</u>	<u>3,235,419</u>
Total for Program				<u>11,418,209</u>	<u>5,791,383</u>
Other Assistance					
DASIS (Drug & Alcohol Services Information Systems)	93.000	FSSA	283 02 9026	<u>63,267</u>	-

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

STATE OF INDIANA  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
July 1, 2008 to June 30, 2009  
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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</u>					
Other Assistance (continued)					
Arthritis Integrated Dissemination FY 09	93.000	ISDOH		9,582	9,582
Mammography Inspection	93.000				
Mammography Inspection Program - 2008		ISDOH	HHSF22320064061C	573	-
Mammography Inspection Program - 2009		ISDOH	HHSF223200840107C	130,962	-
Total for Program				131,535	-
Total Other Assistance				204,384	9,582
Total U.S. Department of Health and Human Services				5,003,538,662	169,605,972
<u>CORPORATION FOR NATIONAL &amp; COMMUNITY SERVICE</u>					
State Commissions	94.003				
ICCSV Federal Administration		CCSV	07CAHIN001	335,568	-
AmeriCorps	94.006				
AmeriCorps Competitive		CCSV	06ACHIN001	259,595	259,595
AmeriCorps Formula		CCSV	06AFHIN001	1,570,611	1,570,611
Total for Program				1,830,206	1,830,206
Program Development and Innovation Grants	94.007				
Disability Placement Funds		CCSV	07CDHIN001	14,767	-
Training and Technical Assistance	94.009				
Program Development and Technical Assistance		CCSV	06PTHIN001	49,670	-
Volunteers in Service to America	94.013	AG	09RVNIN001	2,691	-
Total Corporation for National and Community Service				2,232,902	1,830,206
<u>SOCIAL SECURITY ADMINISTRATION</u>					
Social Security - Disability Insurance	96.001				
Social Security Disability Ins		FSSA	06 04 IND 100	3,291	-
Social Security Disability Ins		FSSA	0704IND100	(419,024)	-
Social Security Disability Ins		FSSA	0804IND100	13,175,352	-
Social Security Disability Ins		FSSA	0904IND100	27,269,056	-
Total for Program				40,028,675	-
Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	96.009				
2006		IPASC	17B20018-5-02	29	-
2007		IPASC	17B20018-5-03	55,040	-
2008		IPASC	17B20018-5-04	45,291	-
2009		IPASC	17B20018-5-04	65,849	-
Total for Program				166,209	-
Total for Social Security Administration				40,194,884	-
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>					
Homeland Security Cluster					
State Domestic Preparedness Equipment Support Program	97.004				
2008 IN Dept of Homeland Security		BOAH	ODP08HSGP	4,339	-
Homeland Security Grant Program	97.067				
2005 HSGP		IDHS	2005-GE-T5-0049	2,279,686	1,698,293
2005 CCP		IDHS	2005-GE-T5-0049	40,470	-
2005 MMRS		IDHS	2005-GE-T5-0049	10,730	10,730
2005 UASI		IDHS	2005-GE-T5-0049	13,182	22,407
2006 SHSP		IDHS	2006-GE-T6-0019	6,676,830	3,905,455
2006 CCP		IDHS	2006-GE-T6-0019	248,046	55,460
2006 MMRS		IDHS	2006-GE-T6-0019	325,115	325,115
2006 UASI		IDHS	2006-GE-T6-0019	1,816,909	936,869

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

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July 1, 2008 to June 30, 2009  
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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF HOMELAND SECURITY (continued)</u>					
Homeland Security Cluster (continued)					
Homeland Security Grant Program (continued)					
2007 SHSP		IDHS	2007-GE-T7-0026	3,439,870	1,926,035
2007 CCP		IDHS	2007-GE-T7-0026	21,912	-
2007 MMRS		IDHS	2007-GE-T7-0026	42,027	42,027
2007 UASI		IDHS	2007-GE-T7-0026	167,713	167,713
2008 SHSP		IDHS	2008-GE-T7-0032	966,785	895,713
2008 CCP		IDHS	2008-GE-T8-0032	619	-
2008 UASI		IDHS	2008-GE-T8-0032	7,056	-
Total for Program				<u>16,056,950</u>	<u>9,985,816</u>
Cluster Total				<u>16,061,289</u>	<u>9,985,816</u>
Interoperable Emergency Communications Grant Program 2008	97.001	IDHS	2008-IO-T8-0025	82	-
Boating Safety Financial Assistance	97.012				
US Department of Homeland Security/US Boating Grant		DNR	LE3001LEB00x-08	705,775	-
US Department of Homeland Security/US Boating Grant		DNR	LE3001LEB00x-09	314,807	-
Total for Program				<u>1,020,582</u>	-
Community Assistance Program State Support Services Element	97.023				
Community Assistance Program - SSSE		DNR	300WT1SSSE08000	31,247	-
Community Assistance Program - SSSE		DNR	300WT1SSSE09000	110,039	-
Total for Program				<u>141,286</u>	-
Flood Mitigation Assistance	97.029				
FMA 2006 MADISON		IDHS	EMC-2006-FM-E018	1,425	1,425
FMA 2007 Planning		IDHS	EMC-2007-FM-E002	25,000	25,000
FMA 2007 Project		IDHS	EMC-2007-FM-E007	44,321	44,320
FMA 2008		IDHS	EMC-2008-FM-E004	133,875	133,875
Total for Program				<u>204,622</u>	<u>204,620</u>
Disaster Unemployment Assistance	97.034				
FEMA Disaster Relief		IDWD	UI-15797-07-55	(112)	-
FEMA Disaster Relief		IDWD	UI-16745-08-55-A-18	2,317	-
FEMA Disaster Relief		IDWD	UI-18019-09-55-A-18	83,251	-
Total for Program				<u>85,456</u>	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036				
Federal Disaster Reimbursement (RSRC - 405)		IDOT	DR1766/1795	639,216	-
Public Assistance Grants (2005 Tornado)		DNR	300LE0N	10,323	-
Public Assistance Grants (2005 Tornado)		DNR	300AD0N	141,274	-
Public Assistance Grants (2005 Tornado)		DNR	300SP0N	7,990	-
Disaster 1476		IDHS	N/A	2,220	-
Disaster 1573		IDHS	N/A	111,867	-
Disaster 3197		IDHS	N/A	368	-
Disaster 3274		IDHS	N/A	9,531	-
Disaster 1740		IDHS	N/A	4,062,513	-
Disaster 1766		IDHS	N/A	91,390,851	-
Disaster 1795		IDHS	N/A	20,548,619	-
Disaster 1828		IDHS	N/A	6,173,637	-
Total for Program				<u>123,098,408</u>	-
Hazard Mitigation Grant	97.039				
Disaster 1433		IDHS	N/A	867	-
Disaster 1542		IDHS	N/A	3,150	3,150
Disaster 1573		IDHS	N/A	103,264	103,237
Disaster 1612		IDHS	N/A	103,425	103,423
Disaster 1662		IDHS	N/A	16,198	13,600
Disaster 1662 Wells County		IDHS	N/A	236,500	236,500
Disaster 1662 Morgan County		IDHS	N/A	18,000	18,000
Disaster 1766		IDHS	N/A	24,924	12,000
Total for Program				<u>506,328</u>	<u>489,910</u>

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

STATE OF INDIANA  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
July 1, 2008 to June 30, 2009  
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF HOMELAND SECURITY (continued)</u>					
Chemical Stockpile Emergency Preparedness Program	97.040				
2008		IDHS	EMC-2008-CA-7002	631,539	-
2007		IDHS	EMC-2007-CA-7002	106,393	-
2006		IDHS	EMC-2006-GR-7002	<u>104,767</u>	-
Total for Program				<u>842,699</u>	-
National Dam Safety Program	97.041				
National Dam Safety Program		DNR	300WT1DM2003001	158,772	-
National Dam Safety Program		DNR	300WT1DM2006001	43,414	-
National Dam Safety Program		DNR	300WT1DM2007001	26,429	-
National Dam Safety Program		DNR	300WT1DM2008001	<u>583</u>	-
Total for Program				<u>229,198</u>	-
Emergency Management Performance Grant	97.042				
2008 Swiftwater Rescue Training		ISP	2008-EM-E08-0050	4,428	-
2005 EMPG		IDHS	2005-GE-T5-0049	7,800	-
2006 EMPG		IDHS	2006-EM-E6-0044	468,454	85,974
2007 EMPG		IDHS	2007-EME7-0028	3,346,969	2,432,614
2007 EMPG-S		IDHS	2007-EME7-0091	397,369	-
2008 EMPG		IDHS	2008-EME8-0050	<u>2,686,117</u>	<u>2,088,705</u>
Total for Program				<u>6,911,138</u>	<u>4,607,293</u>
Cooperating Technical Partners	97.045				
Cooperating Technical Partners		DNR	300WT1CTP040001	50	-
Cooperating Technical Partners		DNR	300WT1CTP040002	(50)	-
Cooperating Technical Partners		DNR	300WT1CTP050001 - 14	219,651	-
Cooperating Technical Partners		DNR	300WT1CTP060001 - 16	1,027,803	-
Cooperating Technical Partners		DNR	300WT1CTP070000	807,443	-
Cooperating Technical Partners		DNR	300WT1CTP080000	<u>28,864</u>	-
Total for Program				<u>2,083,761</u>	-
Pre-Disaster Mitigation	97.047				
PDM-C 2005		IDHS	EMC-2005-PC-0004	168,284	167,651
PDM-C 2006		IDHS	EMC-2006-PC-0005	67,923	66,150
PDM-C 2008		IDHS	EMC-2008-PC-0002	<u>163,398</u>	<u>159,199</u>
Total for Program				<u>399,606</u>	<u>393,000</u>
Port Security Grant Program	97.056				
IDNR LE DHS IPP-PSGP Lake Michigan		DNR	300LE1DHSLKMI08	23,707	-
IDNR LE DHS IPP-PSGP Ohio River		DNR	300LE1DHSOHIO08	<u>23,215</u>	-
Total for Program				<u>46,922</u>	-
Map Modernization Management Support	97.070				
Map Modernization Management Support (MMMS)		DNR	300WT1MMMS06001 - 7	25,763	-
Map Modernization Management Support (MMMS)		DNR	300WT1MMMS07000	53,516	-
Map Modernization Management Support (MMMS)		DNR	300WT1MMMS08000	<u>44,747</u>	-
Total for Program				<u>124,026</u>	-
State Homeland Security Program	97.073				
2009 Criminal Intelligence IBASE System		ISP	2006-GE-T6-0019	31,941	-
2009 Criminal Intelligence IBASE System		ISP	2007-GE-T7-0026	35,639	-
2008 Armored Car Grant		ISP	2008-GE-T8-0032	51,442	-
2008 Bomb Squad Robot		ISP	2008-GE-T8-0032	<u>18,800</u>	-
Total for Program				<u>137,822</u>	-
Law Enforcement Terrorism Prevention Program (LETPP)	97.074				
2005 LETPP		IDHS	2005-GE-T5-0049	(47,642)	77,823
2006 LETPP		IDHS	2006-GE-T6-0019	3,001,388	1,546,100
2007 LETPP		IDHS	2007-GE-T7-0026	<u>483,780</u>	<u>352,823</u>
Total for Program				<u>3,437,526</u>	<u>1,976,746</u>

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

STATE OF INDIANA  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
July 1, 2008 to June 30, 2009  
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF HOMELAND SECURITY (continued)</u>					
Buffer Zone Protection Program (BZPP)	97.078				
2005 BZPP		IDHS	2005-GR-T5-0070	491	-
2006 BZPP		IDHS	2006-BZ-T6-0056	279,857	273,812
2007 BZPP		IDHS	2007-BZ-T7-0003	<u>241,519</u>	<u>241,519</u>
Total for Program				<u>521,867</u>	<u>515,332</u>
Homeland Security Biowatch Program	97.091				
Bio-Watch HS		IDEM	2006ST-091-000019 Seg 2	50,831	-
Bio-Watch HS		IDEM	2006ST-091-000019 Seg 3	<u>126,402</u>	<u>-</u>
Total for Program				<u>177,233</u>	<u>-</u>
Other Assistance					
Storm Water Manual	97	DNR		<u>(43,180)</u>	<u>-</u>
Total U.S. Department of Homeland Security				<u>155,986,671</u>	<u>18,172,716</u>
Total Federal Awards Expended				<u>\$ 11,809,578,735</u>	<u>\$ 1,841,901,768</u>

The accompanying notes are an integral part of the Schedule of Federal 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	\$ 272,757,604
Indiana University	363,066,360
Indiana State University	15,987,679
Ball State University	24,127,064
Vincennes University	18,863,540
University of Southern Indiana	8,868,532
Ivy Tech State College	120,957,662
Indiana Finance Authority	29,855,576
Indiana Housing and Community Development Authority	296,122,492
Total	\$ 1,150,606,509

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

Note 4. State Agencies

The initials in the Agency column indicate the agency that receives the federal funds directly. The following table identifies the state agencies. See also Note 7.

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
EPCC	Evansville Child Psychiatric Center
IBS	Indiana Blind School
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
IEC	Indiana Election Commission
IEDC	Indiana Economic Development Corporation
IGPC	Indiana Governor's Planning Council for People With Disabilities
INDOT	Indiana Department of Transportation
IPAC	Indiana Prosecuting Attorney's Council
IPASC	Indiana Protection and Advocacy Services Commission
IPSB	Indiana Professional Standards Board
ISDOH	Indiana State Department of Health
ISL	Indiana State Library
ISSCH	Indiana Soldiers and Sailors Children's Home
IURC	Indiana Utility Regulatory Commission
IVH	Indiana Veterans' Home
JTAC	Judicial Technology and Automation Committee
LT.GOV	Lieutenant Governor – Office of Commissioner of Agriculture
MD/ING	Military Department of State of Indiana
SC	Supreme Court
SOS	Secretary of State
SSACI	State Student Assistance Commission of Indiana

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

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	\$ 26,329,840
Donation of Federal Surplus Personal Property	39.003	4,893,854
Immunization Grants	93.268	657,217

Note 7. Agency/Federal Program Changes

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, some processes, such as some aspects of financial reporting, were still under the authority of FSSA.

Note 8. Revised Single Audit Report

Subsequent to the release of our report on March 31, 2010, we classified four cluster programs, Special Education, Title I, Highway Planning and Construction, and Workforce Investment Act, as major programs for the 2009 audit period. We have audited these clusters and the following are the audit findings for these programs: 2009-INDOT-1, 2009-IDWD-2, 2009-IDOE-3, 2009-IDOE-4, 2009-IDOE-5, 2009-IDOE-6, 2009-IDOE-7, 2009-IDOE-8, 2009-IDOE-9, 2009-IDOE-10, and 2009-IDOE-11.

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	Yes
Significant deficiency identified that is not considered to be a material weakness?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:

Material weaknesses identified	Yes
Significant deficiencies identified that are not considered to be material weaknesses?	Yes

Type of auditor's report issued on compliance for major programs: Qualified for National Guard Military Operations and Maintenance Projects (12.401), State Children's Health Insurance Program (93.767), Medicaid (93.778), and Homeland Security Cluster (97.004 and 97.067). 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
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Dollar threshold used to distinguish between Type A and Type B programs: \$30,000,000

Auditee qualified as low-risk auditee?	No
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Identification of major programs:

CFDA No.	Program Title
FS	Food Stamp Cluster (10.551, 10.561)
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
12.401	National Guard Military Operations and Maintenance Projects
17.225	Unemployment Insurance
WIA	Workforce Investment Act Cluster (17.258, 17.259, 17.260)
17.245	Trade Adjustment Assistance
HPCC	Highway Planning and Construction Cluster (20.205, 20.219)
84.048	Career and Technical Education
Title I	Title I Cluster (84.010, 84.389)
SEC	Special Education Cluster (84.027, 84.173, 84.391, 84.392)
84.394	ARRA-Fiscal Stabilization-Education
93.558	Temporary Assistance for Needy Families (TANF)
93.563	Child Support Enforcement
CCC	Child Care Cluster (93.713, 93.575, 93.596)
93.658	Foster Care – Title IV-E
93.659	Adoption Assistance
93.767	State Children's Insurance Program
MC	Medicaid Cluster (93.775, 93.777, 93.778)
HS	Homeland Security Cluster (97.004, 97.067)
97.036	Disaster Grants-Public Assistance

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

Section II - Financial Statement Findings

The audit of the State of Indiana's financial statements disclosed a significant control deficiency and material weaknesses that are required to be reported. Management's response to the findings starts on page 287.

FINDING 2003 - CAFR-1, LEASES

Auditee Contact Person: Steve Daniels  
Title of Contact Person: Deputy Auditor of Fiscal Operations  
Phone Number: 317-233-9817  
Internal Control: Material Weakness

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 and Quasi Agencies, Chapter 1)

FINDING 2005 - CAFR-1, CAPITAL ASSETS

Auditee Contact Person: Steve Daniels  
Title of Contact Person: Deputy Auditor of Fiscal Operations  
Phone Number: 317-233-9817  
Internal Control: Material Weakness

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 previously agreed to assume the responsibility for maintaining those records. Procedures have been established which require all state agencies to send timely updates of purchases of land, equipment, buildings and related improvements, and retirement and sale of assets 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.

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

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 and Quasi Agencies, Chapter 1)

FINDING 2007 - CAFR-1, GRANT REPORTING

Auditee Contact Person:	Steve Daniels
Title of Contact Person:	Deputy Auditor of Fiscal Operations
Phone Number:	317-233-9817
Internal Control:	Material Weakness

The State of Indiana does not have an adequate process in place for the compilation of a complete and accurate schedule of federal awards (grant schedule). In addition to reporting federal grant activity in the Single Audit Report, this schedule is used in the calculation of accruals for grants receivable and deferred revenue in the financial statements.

The State's process for compiling the grant schedule requires each agency that receives federal financial assistance to prepare a schedule that reflects fiscal year grant activity. This schedule includes beginning cash balance, federal receipts, program expenditures, ending cash balance, and funds passed through to subrecipients, for each grant award. We found various errors in the agency-prepared grant schedules. These errors if left uncorrected would have resulted in the misstatement of the accruals for grants receivable and deferred revenue in the financial statements as well as incorrect grant schedule reporting. These errors are the result of a largely manual process that exists for the preparation of the schedules by agencies. Additionally, internal controls are not in place to provide a centralized review of the agency prepared schedules nor is there a centralized compilation of the various schedules into a comprehensive schedule for the State.

Adequate grant schedule reporting should be prepared to ensure that grant related activities are properly presented in the State's financial statements in accordance with standards issued by the Governmental Accounting Standards Board.

OMB Circular A-133 requires a recipient of federal awards to prepare appropriate financial statements, including the schedule of expenditure of federal awards.

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 and Quasi Agencies, Chapter 1)

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

FINDING 2008 - CAFR-1, CONSTRUCTION IN PROGRESS

Auditee Contact Person: Steve Daniels  
Title of Contact Person: Deputy Auditor of Fiscal Operations  
Phone Number: 317-233-9817  
Internal Control: Material Weakness

The Indiana Department of Administration (IDOA) and the Indiana Department of Transportation (INDOT) maintain databases of the State's construction in progress (CIP) activity. Procedures in place to report to the Auditor's office the activity and balances at year end were not adequate to ensure that construction in progress balances reported for external financial reporting were accurate. Our testing of INDOT construction in progress balances disclosed right of way projects that were completed but were not properly capitalized. Additionally, our testing of IDOA projects disclosed ongoing maintenance projects that were improperly capitalized. These errors resulted in a prior period adjustment to restate beginning CIP balances for IDOA and a recalculation of CIP balances for both IDOA and INDOT at year end for external financial reporting.

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

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 and Quasi Agencies, Chapter 1)

FINDING 2008 - CAFR-4, LOCAL OPTION INCOME TAX

Auditee Contact Person: Steve Daniels  
Title of Contact Person: Deputy Auditor of Fiscal Operations  
Phone Number: 317-233-9817  
Internal Control: Significant Deficiency

The State Budget Agency and the Department of Revenue maintain and provide information essential to the establishment of individual Trust Balance History Reports. These Reports track each county's beginning and ending Local Option Income Tax (LOIT) balances, collections, distributions, and interest earned. These individual Reports are provided to State Board of Accounts to be compiled and audited for external financial reporting in the State's CAFR. In compiling and auditing LOIT during fiscal year 2008, we found erroneous transactions totaling over \$683 million in overpayments that were not caught prior to payment due to lack of adequate payment approval controls but rather were reported by the counties upon receiving the excess payments. In fiscal year 2009, additional payment approval controls were implemented by the State. However, in compiling and auditing LOIT for fiscal year 2009, we found erroneous transactions totaling over \$2.7 million in under and overpayments that were not caught by the State prior to or subsequent to payment due to a lack of a reconciliation process in place for LOIT. This condition results in a lack of internal control over the State's LOIT.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An agency's control environment consists of the overall attitude, awareness and actions of management and the governing board or commission. This would include establishing and monitoring policies for developing and modifying accounting systems and control procedures. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

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

FINDING 2008 - CAFR-5, MEDICAID

Auditee Contact Person: Steve Daniels  
Title of Contact Person: Deputy Auditor of Fiscal Operations  
Phone Number: 317-233-9817  
Internal Control: Material Weakness

As reported in the prior audit, adequate procedures were not in place in fiscal year 2008 to properly report the Medicaid Assistance Fund transactions made by the Medicaid fiscal agent for accrual recognition or to display quality assessment fees as revenue. The State accounting records only post the net disbursement issued to fund the Medicaid checking account. In fiscal year 2009, adjusting entries were submitted by FSSA for external financial reporting to properly recognize accounts receivable, accounts payable and to display the quality assessment fees as revenues. However, we found that these adjustments omitted calculations and entries to record the associated expenses and receivables to the new ARRA Fund.

We also found that there is no state policy regarding recognition of the full accrual of Medicaid claims expenses. The adjustments submitted were found to have an inconsistent base applied, with the prior period adjustment for June 2008 being calculated based on nine months of subsequent claims history, and the June 2009 based upon only three months. The computations were not based upon actuarial methods to recognize incurred cost.

Adequate procedures should be in place to ensure accruals and other adjustments needed to fairly state Medicaid Assistance Fund activity and balances for external financial reporting in accordance with standards issued by the Governmental 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 and Quasi Agencies, Chapter 1)

FINDING 2009 - CAFR-1, UNEMPLOYMENT INSURANCE

Auditee Contact Person: Steve Daniels  
Title of Contact Person: Deputy Auditor of Fiscal Operations  
Phone Number: 317-233-9817  
Internal Control: Material Weakness

The Indiana Department of Workforce Development (IDWD) is the responsible agency for the collection of unemployment taxes and the payment of unemployment benefits. When the tax is collected by IDWD from an Indiana employer, IDWD receipts the monies into the state's records and then transfers the funds to the U.S. Department of the Treasury. The U.S. Department of the Treasury maintains the funds in a Trust Fund. When an individual is eligible to receive unemployment compensation, IDWD must draw down the funds from the U.S. Department of the Treasury to pay those claims. These funds are drawn down on a daily basis. In February 2007, IDWD no longer issued checks to claimants, but began issuing the unemployment compensation via a debit card. At that same time, IDWD ceased reporting the draw downs and the payment of unemployment benefits in the Auditor of State's records. The Unemployment Compensation Fund is the responsibility of the State of Indiana and is reported in the State's

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

Comprehensive Annual Financial Report (CAFR) as a proprietary fund. However, since IDWD does not record the draw downs from the U.S. Department of the Treasury and expenditures for the unemployment benefits, the State must make large adjustments in order to materially report the Unemployment Compensation Fund within the CAFR. IDWD did not receive approval from either the Auditor of State or Budget Agency to cease reporting these monies within the Auditor of State's records.

Adequate procedures should be in place to ensure accruals and other adjustments needed to fairly state Unemployment Insurance Fund activity and balances for external financial reporting in accordance with standards issued by the Governmental Accounting Standards Board.

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. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

The accounting system structure is defined as the methods and records (established by the Auditor of State) to identify, analyze, classify, record, and report the State of Indiana's transactions and to maintain accountability for the related assets and liabilities. The account structure for the state provides for the preparation of Indiana's comprehensive annual financial report in conformity with generally accepted accounting principles, as prescribed by Governmental Accounting Standards Board pronouncements. The Governmental Accounting Standards Board is the authoritative accounting and financial reporting standard setting body for governmental entities throughout the United States. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 2)

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) before the sequential number. This is due to the relationship between FSSA and the Department of Child Services (DCS). (See Note 7) Unless otherwise noted, prior report references are to the State of Indiana Single Audit Report for the period of July 1, 2007 to June 30, 2008, Report B34462.

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 listed below. 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
2003-FSSA-1	Foster Care Payments
2003-FSSA-16	Ongoing Verification of Provider Medical Licenses
2004-FSSA-5	Supervision of Local Offices of Family and Children (OFCs)

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

2004-FSSA-6 Death Verifications  
2004-FSSA-8 Provider Enrollment (HCBS Wavers, First Steps)  
2005-FSSA-1 Cash Management Documentation of Procedures  
2005-FSSA-4 PSC 272 Quarterly Reports  
2005-FSSA-5 Schedule of Federal Financial Assistance Reporting Errors  
2005-FSSA-10 Overpaid and Undocumented Manual Payments Issued  
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-23 AIMS Contractor Access Assignments and Controls Not Monitored  
2005-FSSA-30 Medicaid Bank Reconciliations  
2006-FSSA-2 C&Ts of Acute Care and Long Term Care Facilities  
2006-FSSA-3 Provider Enrollment Errors  
2006-FSSA-5 State Owned Intermediate Care Facility  
2006-FSSA-8 Medicaid Administration Grant-Expenditures Over Award  
2006-FSSA-9 Medicaid Administration Grant-CMS 64 Quarterly Reports  
2006-FSSA-11 TANF Eligibility Income Determinations  
2006-FSSA-12 TANF Eligibility Documentation  
2006-FSSA-13 TANF Eligibility-Verification  
2006-FSSA-14 TANF Allowable Cost  
2007-FSSA-1 Medicaid Grant Reporting Errors  
2007-FSSA-2 Inaccurate Grant Accounting Records  
2007-FSSA-6 Faculty Physician Access to Care Adjustments  
2007-IDHS-1 Reporting  
2008-FSSA-1 Medicaid Administration Grant-Period of Availability  
2008-FSSA-2 Medicaid Program Grant Accounting Records  
2008-FSSA-3 SCHIP Duplicate Expense  
2008-FSSA-4 Grant Errors In Medicaid Administration and SCHIP  
2008-FSSA-5 Grant Accounting Internal Control Environment  
2008-FSSA-7 Surveillance and Utilization Review Audit Files  
2008-FSSA-8 Duplicate Hospital Provider Records  
2008-FSSA-9 Pharmacy Facility Permits  
2008-FSSA-10 OMPP AIM Access, Training, and Controls

Prior audit findings regarding procedures, compliance, or internal controls that did not continue 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 listed below. They are disclosed in the Summary Schedule of Prior Audit Findings. These findings include:

2003-FSSA-6 Child Care and Development Fund (CCDF) - Monitoring of Registered Ministries  
2004-FSSA-4 Family and Social Services Advisory Committee  
2005-FSSA-2 Cash Management SCHIP Template  
2005-FSSA-13 Inpatient Hospital Duplicates not Detected  
2005-FSSA-27 Incorrect Rate Applied for Managed Care  
2006-FSSA-1 Contractor Staff Credential Verifications

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

2006-FSSA-6	Managed Care Payment Variances
2006-FSSA-7	Medicaid Grant Overstated Expenditures Reported
2007-IDHS-2	Cash Management Controls
2007-FSSA-3	Quality Assessment Fee Refunds
2007-FSSA-4	Review of Long-Term Care Facility Audits
2007-FSSA-5	On-Going Provider Federal Exclusion Verifications
2008-DCS-1	Inadequate Documentation
2008-ISDOH-1	Schedule of Federal Financial Assistance-Reporting Errors
2008-IDWD-1	Cash Management-Trade Adjustment Assistance
2008-IDWD-2	Cash Management-Career and Technical Education
2008-FSSA-6	Overpaid Capitation Rate

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 2009 - FSSA-1 through 2009 – FSSA-8 relate to programs administered by the Indiana Family and Social Services Administration (FSSA). Their response to the findings starts on page 296.

FINDING 2009 - FSSA-1, CHIP MATCHING RATE ERRORS

Federal Agency:	Department of Health and Human Services
Federal Program:	Children's Health Insurance Program
CFDA Number:	93.767
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Allowable Costs/Cost Principles; Matching
Internal Control:	Significant Deficiency

The Children's Health Insurance Program (CHIP) claims are processed and paid together with Medicaid claims by Hewlett Packard (HP), formerly known as EDS, the Medicaid fiscal agent contractor. Subsequently, HP issues a summary report of the CHIP expenses. FSSA Finance uses the summary reports to reduce the Medicaid fund expenses and to record the CHIP fund expenses. When the CHIP expenses are recorded the expenses are divided between the federal and state share. We found that the incorrect FMAP (Federal Medical Assistance Percentage) rate was applied to the September 2008 CHIP expenditures. The effective rate through September 30, 2008, was 73.88%. FSSA used a higher rate, which was effective for October 1, 2008, expenditures, of 74.98%. The incorrect rate was applied to total costs of \$9,137,793 which overstated the federal expense by \$100,515.73.

We also found that the expense adjustments were not always performed in a timely manner.

The error was neither prevented nor detected by an internal control. Controls were not present to ensure timely entries, or appropriate rates. The overstated federal expenditures of \$100,515.73 are considered questioned costs and may be required to be repaid to the federal government.

"We consider a State agency's expenditure for services under title I, IVA, IV-B, IV-D, IV-E, X, XIV, XVI (AABD), XIX, or XXI to have been made in the quarter in which any State agency made a payment to the service provider." 45 CFR 95.13(b)

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

The CMS notice of the FMAP rates issued November 19, 2007, stated that "The 'Enhanced Federal Medical Assistance Percentages' are for use in the State Children's Health Insurance Program under Title XXI, and in the Medicaid program for certain children for expenditures for medical assistance described in sections 1905(u)(2) and 1905(u)(3) of the Act." It also stated that "The percentages listed will be effective for each of the 4 quarter-year periods in the period beginning October 1, 2008 and ending September 30, 2009."

45 CFR 92.20 (a) states: "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 Finance review supporting grant accounting records on a regular and timely basis. Internal controls should be designed in order to ensure timely and accurate recording of expenditures. FSSA should process the necessary accounting adjustments to return the excess federal matching costs claimed.

FINDING 2009 - FSSA-2, CHIP PACKAGE C REPORTING

Federal Agency:	Department of Health and Human Services
Federal Program:	Children's Health Insurance Program (CHIP)
CFDA Number:	93.767
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Reporting
Internal Control:	Significant Deficiency

The following conditions were identified as related to CHIP package C:

Balancing Package C Expenditures

CHIP Package C expenditures are reported to FSSA from their Fiscal Contractor, Hewlett Packard (HP), formerly known as EDS, on a weekly basis. FSSA uses these financial reports to record CHIP C expenditures in the State's financial system. Package C expenditures are reported on the quarterly CMS 21 reports to the federal government based upon HP issued reports from the reporting subsystem MAR. Neither HP, nor FSSA performs a balancing or reconciliation of the FIN and MAR reports specifically for the Package C. We compared the financial reports (FIN) to the MAR reports for the fiscal year ended June 30, 2009, and found the MAR report to be greater by \$1,707,483. Timing differences between weekly report dates in the financial system and the monthly dates in the reporting system were not readily identifiable. We further questioned the accuracy of the expenses classified for CHIP due to an inconsistent recognition source for Package A, which uses monthly MAR reports. This causes uncertainty as to the accuracy and completeness of expenses claimed.

Premiums Reported

During state fiscal year 2009, we found that premiums were incorrectly reported during two quarters for CHIP II (Package C). Premiums are paid for children, whose parents make greater than 150% of poverty level. These premiums are recorded as a negative expenditure in accounting records

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

and on the CMS 21 Federal Report to reflect a reduction of expenses for the program. Premiums are recorded in the CHIP Expend/Allots worksheets. These are totaled quarterly and given to the reporting staff for input on the CMS 21. The total premiums reported for quarter ending December 31, 2008, were underreported by \$33,854, with the federal share underreported by \$25,384. Total premiums for quarter ending June 30, 2009, were underreported by \$54,953, with the federal share underreported by \$41,204. The total federal share was underreported for the fiscal year by \$66,588. Our testing found that incorrect amounts were provided to the reporting staff. Reporting staff did not verify formulas in the accounting records to ensure accurate amounts were reported.

The inaccurate reporting results in a significant control deficiency. The accounting activity for totaling premiums were not verified or reviewed by accounting staff, nor checked for accuracy by reporting staff.

45 CFR 92.20 (a) states: "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 Finance staff review the totals provided to the reporting staff for accuracy and have proper approval processes for ensuring all records provided for reporting are accurate. We also recommended the reporting staff review any grant accounting worksheet formulas for accuracy prior to preparing federal reports. Appropriate reporting adjustments should be made to reflect the reporting errors that were found. FSSA Finance should also balance or reconcile the FIN to MAR reports on a quarterly basis.

FINDING 2009 - FSSA-3. MONITORING OF PROCEDURE CODE RESTRICTIONS

Federal Agency:	Department of Health and Human Services
Federal Program:	Children's Health Insurance Program (CHIP), Medical Assistance Program
CFDA Number:	93.767, 93.778
Auditee Contact Person:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Internal Control:	Significant Deficiency

Indiana Medicaid's claims system, IndianaAIM, has the capability to restrict procedure codes systematically using edits based on the procedure code restriction screen. For each procedure code, claims can be limited to a specified gender, age range, quantity of units range, diagnosis code, program, place of service, provider specialty, revenue code, tooth, prior authorization required, lifetime frequency, etc. There are also certain restrictions detailed in 405 Indiana Administrative Code article 5.

We found certain procedure codes, for which it would seem logical to limit to factors such as those mentioned above or which were listed in the Indiana Administrative Code, that were not appropriately restricted or were inconsistently restricted when compared to similar procedure codes.

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

OMPP does not have monitoring controls in place to periodically review procedure code restrictions and associated system edits as maintained in IndianaAIM by the fiscal agent.

"For all claims, the agency must conduct prepayment claims review consisting of - . . . (ii) Checks that the number of visits and services delivered are logically consistent with the recipient's characteristics and circumstances, such as type of illness, age, sex, service location; . . ." 42 CFR §447.45(f)

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-OMPP establish controls to monitor system edits, audits, and procedure code restrictions. This would include a thorough review of procedure code restrictions currently in IndianaAIM to verify that they are appropriately restricted.

FINDING 2009 - FSSA-4, ARRA GRANT ACCOUNTING

Federal Agency:	Department of Health and Human Services
Federal Program:	Medicaid Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Material Weakness

Section 5001 of the American Recovery and Reinvestment Act (ARRA) provides States with an increased Federal Medical Assistance Percentage (FMAP) for 27 months between October 1, 2008 and December 31, 2010. The ARRA specifies the eligible expenditures and conditions under which the State may claim the increased FMAP. ARRA funding was available to states on February 25, 2009, for eligible expenses from the retroactive period beginning October 1, 2008. For both the retroactive period from October 1, 2008 through February 28, 2009, and period from March 1, 2009 through June 30, 2009, FSSA Finance did not accurately eliminate ARRA ineligible expenses in calculating the ARRA draw of federal funds. Disproportionate Share Hospital expenditures are specified as ineligible for the increased FMAP, as are expenditures that are already established at an enhanced FMAP, such as family planning services.

We found the following errors in the application of the increased ARRA federal matching rate:

1. The increased ARRA rate was applied to \$45,160,260 of Disproportionate Share Hospital (DSH) Payments overstating ARRA expenses by \$4,511,144.17.
2. The increased ARRA rate was applied to \$4,006,281 of Breast Cancer/Cervical Cancer Test claims and Family Planning Claims overstating ARRA expenses by \$373,339.
3. The increased ARRA rate was applied to \$2,551,792 of expenses for a state program, Assistance to Residents of County Homes (ARCH), overstating ARRA expense by \$238,026.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The ineligible costs identified total \$ 5,122,509 and are considered questioned costs that may be required to be refunded to the federal government with state funds.

The material weaknesses of internal control which remained in place for the Medicaid grant accounting are also considered to apply to the ARRA Medicaid, as it was accounted for within those records. These include: 2008 FSSA 2 MEDICAID PROGRAM GRANT ACCOUNTING RECORDS and 2008-FSSA-5 GRANT ACCOUNTING INTERNAL CONTROL ENVIRONMENT.

The FSSA finance calculation of ARRA expenses for the retroactive period included estimates. As of June 30, 2009, these estimates were not adjusted to actual. We could not trace some of the calculations to the actual grant accounting records.

The process FSSA finance used to apply the ARRA rate did not include an analysis of all grant accounting entry types. Nursing and Intermediate Care Facility Assessment adjustments increasing Medicaid expenses by \$60,804,394 were excluded from the ARRA calculation, understating ARRA expense by \$5,736,423. For the quarter ending March 31, 2009, ARRA eligible expenses exceeded the ARRA grant award. Medicaid finance did not request additional funding. As of February 28, 2010, the ARRA FMAP was not applied to \$17,865,104 of Medicaid expenses reported in March, causing an ARRA expense understatement of \$1,602,500. The ARRA draw process excluded other eligible expenses and included other errors for an additional net ARRA understatement of \$1,142,641. The total understatements were \$8,481,564.

We performed a recalculation of the ARRA for fiscal 2009. This indicated that the net total effect was a \$3,359,055 understatement of ARRA eligible expenses at June 30, 2009. This was the total of the net eligible costs unclaimed of \$8,481,564 less the ineligible costs of \$5,122,509, as outlined in the above paragraphs.

"As indicated in the fourth attestation under the grant award, the State must ensure that claims for the increased FMAP include only those expenditures for which it is applicable. Under section 5001(e); the increased FMAP is applicable generally to title XIX, but is not applicable to certain enumerated expenditures. The following list includes those expenditures and certain others to which the increased FMAP is inapplicable for other reasons:

1. Expenditures for disproportionate share hospital (DSH) payments;
2. Expenditures for payments made under title XXI;
3. Expenditures that are claimed based on the enhanced FMAP (described in section 2105(b) of the Social Security Act);
4. Expenditures that are not paid based on the FMAP, such as family planning services . . ." (Center for Medicaid and State Operations, SMD #09-005, ARRA #5)

"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 FSSA finance implement procedures to analyze in a timely manner all entries in the grant accounting records to ensure that requests for ARRA funds are accurate and complete. Adjustments should be recorded to correct identified errors and to return the federal share of questioned costs.

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(Continued)

FINDING 2009 - FSSA-5, MEDICAID ARRA IGT GRANTS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medicaid Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Allowable Costs/Cost Principles, Reporting
Internal Control:	Material Weakness

The State of Indiana established a new and separate fund within the state accounting system to track all American Recovery and Reinvestment Act (ARRA) revenues and expenditures. The ARRA share of qualified Medicaid expenditures are accounted for in two accounts within the 8000 ARRA fund, Medicaid FMAP (regular) 8000-105420 and Medicaid FMAP (IGT) 8000-105430.

Community Mental Health Centers are 100% reimbursed for eligible claims submitted for their Medicaid covered patients. The state share of Medicaid eligible claims submitted by Community Mental Health Centers (CMHCs) is provided (returned to the state) by the CMHCs through Intergovernmental Transfers (IGTs). Application of the increased ARRA rate to Medicaid claims, in effect lowers the State share. To compensate the CMHCs for ARRA funding which reduced the State share, in June 2009, FSSA Finance issued \$13.8 million in payments directly to the CMHCs from the ARRA designated Medicaid Fund, 8000-105430 Medicaid FMAP (IGT). A letter from the Indiana Department of Mental Health accompanied these payments stating "These funds have become available because of the retroactive increase in the FMAP which is part of the Federal Stimulus Package." The letter further stated that "The agency receiving recovery funds agrees that its use of these funds will be transparent to the public," and that "the use of these funds is strictly limited to the funding of activities that expand consumer access to mental health and addiction care," and requiring the CMHCs to agree to "develop and maintain a detailed plan documenting how these funds are to be used and submit that plan to DMHA, other branches of state government, and/or the federal government upon request; . . ."

From inception through June 2009, the Medicaid ARRA was accounted for in a separate column within the Medicaid grant accounting records with the transactions recorded into the Medicaid fund 3530. Medicaid drew \$396.2 million in ARRA federal funds based on Medicaid eligible claims. These receipts were fully transferred to the ARRA 8000 accounts. However, in the State's accounting system FSSA only transferred \$378.5 million of the ARRA expenses from the Medicaid fund to the ARRA fund. As of June 30, 2009, the grant accounting records reflect that the \$13.8 million payment to the CMHCs was substituted for \$13.8 million in qualified Medicaid ARRA expenses. An additional \$4 million of the \$396.2 million draw was paid to the CMHCs from the ARRA fund in July 2009. The effect is the appearance of a separate Medicaid ARRA grant and the overstatement of the State's share of Medicaid expenses in the State's accounting records.

The federal reports (CMS 64) for the Medicaid ARRA were based upon the Medicaid fiscal agent contractor's system of reporting, as designed for the program and did not incorporate the state disbursements to the CMHCs that were classified as ARRA in the state financial system. Thus different detail records were applied to support federal reporting than that of the state financial reporting.

"The expenditures and condition under which the State draws funds must be those for which the increased FMAP is applicable." (Center for Medicaid and State Operations, SMD #09-005, ARRA #5)

42 CFR 435.1002(a) states: ". . . Federal Financial Participation is available in expenditures for Medicaid services for all recipients whose coverage is required or allowed under this part."

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

45 CFR 92.20 (a) states: "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 ensure that the State's accounting records reflect that all Medicaid ARRA draws are supported exclusively by qualified Medicaid expenses. As qualified costs existed to support ARRA draws, the payments to the CMHC's should be reclassified as a state grant. FSSA determinations regarding the reclassification of the payments issued and directions to the CMHC's should be made upon appropriate legal basis for state grant consideration.

FINDING 2009 - FSSA-6, QUALITY ASSESSMENT FEE REFUNDS -  
INTERMEDIATE CARE AND NURSING FACILITIES

Federal Agency:	Department of Health and Human Services
Federal Program:	Medicaid Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Significant Deficiency

Intermediate Care facilities and Nursing facilities pay the State of Indiana quality assessment fees (QAF) as part of a program approved by the federal government. These fees are a source of state funding to provide for increased rates for recognized quality measures. Most of these fees are collected as deductions from Medicaid payments issued. Upon recording Medicaid expenditures, the net payment amount is recorded in the agency's grant records. The following quarter, the state records an adjustment to recognize the state fees collected, and increases the federal share to that of the gross payments issued. The adjustment amounts for both Intermediate Care facilities and Nursing facilities are taken from Accounts Receivable Reports provided by EDS, the Medicaid claims contractor. As reported in our prior finding 2007-FSSA-3, Quality Assessment Fee Refunds, the total adjustment each quarter should include total quality assessments, less assessment overpayments refunded by the state. It was brought to the attention of EDS, that the Intermediate Care Facility reports provided to the State through the end of SFY 2008 did not include the associated refunds. In SFY 2009, EDS reissued the Intermediate Care facility reports from SFY 2006 to current to include refunds issued. Due to a lack of communication regarding this change, FSSA finance did not deduct the refund amounts from Intermediate Care facility total assessments. The total effect of not accounting for the Intermediate Care facility refunds from SFY 2006 through SFY 2009 is an overstatement of federal share of \$772,090 to the Medicaid program, with the Medicaid ARRA overstated by \$ 5,879. Additionally, clerical errors caused incorrect refund amounts to be subtracted from the Nursing Facility assessments resulting in a further overstatement of federal share of \$420,919 to the Medicaid program. (See 2009-FSSA-4, ARRA GRANT ACCOUNTING, for explanation that ARRA was unclaimed for Nursing Facility assessment adjustments.)

We consider the total overstatement of federal expenditures of \$1,198,888 (\$1,193,009 for Medicaid and \$5,879 for Medicaid ARRA), to be questioned costs which may be required to be repaid to the federal government.

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(Continued)

"To be allowable under Federal awards, costs must meet the following criteria . . . (i). Be the net of all applicable credits." (US OMB Circular A-87 (C) (1))

We recommended that FSSA record the Intermediate Care facility and Nursing facility QAF adjustments net of the refunds issued. The identified questioned costs should be returned to the federal government.

FINDING 2009 - FSSA-7, MEDICAID ACCOUNTING RECORDS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medicaid Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Allowable Costs/Cost Principles; Reporting
Internal Control:	Significant Deficiency

As discussed in our prior finding 2008-FSSA-5, Grant Accounting Internal Control Environment, controls have not been designed to prevent or detect material errors in the accounting records. No review process or monitoring was in place to prevent or detect errors.

In our tests of the fiscal 2009 grant accounting we identified the following errors:

Understated Federal Expense:

First Steps is a State of Indiana program which through February 2009 used the Medicaid fiscal contractor, EDS, for claims payments and shared the Medicaid bank account. The electronic funds transfers issued for First Steps expenses were not included in the calculation of Medicaid federal expense used to draw federal funds. These were posted as 100% state expense. State accounting entries to transfer the First Steps expenses from Medicaid Assistance to the First Step program were made weekly. As reported in Finding 2008-FSSA-2 Medicaid Program Grant Accounting Records, part 6, during State Fiscal Year 2008, all the First Steps state transfer entries associated with the 2008 Medicaid grant, incorrectly divided the reversing expense entry between federal and state expense. However, no portion of the transfer received was owed to the federal government, as the expense was originally recorded correctly as state expense. Although a correction was made to the grant records for the error as calculated through June 30, 2008, the same error continued in State Fiscal Year 2009. Due to this error, at June 30, 2009, federal expenses were understated and state expenses were overstated by \$12,504,528.90.

Overstated Federal Expense

During fiscal 2009, two refunds were received for the settlements for the Faculty Physician Access to Care payments. We found that the refunds received were incorrectly classified as IGT payments and then recorded in the grant records as 100% state receipts. However, the refunds are for the total computable amount, which includes federal share refunded. Also, manual checks were issued to repay the IGT share of the refunds, which is 100% state. However, no entries were made to recognize this, and the disbursements then were included in regular program bank settlements with the federal share applied (plus ARRA). The total effect was to overcharge the Medicaid program grant expense by \$1,015,800 and the ARRA grant expense by \$21,694, for a total federal grant expense overcharge of \$1,037,494. The calculations are shown in the following chart:

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 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 (Continued)

CALCULATION OF FEDERAL EXPENSE CREDIT DUE

<u>Date</u>	<u>Description:</u>	<u>Total Amount</u>	<u>Federal Expense Credit Share</u>
08-06-08	Refund Deposit for 2006	\$ 591,928	\$ 370,606
04-09-09	Refund Deposit for 2007	584,371	366,342
08-21-08	Manual Check issued for state share	221,322	138,747
04-07-09	Manual Check issued for state share	218,029	140,105
	ARRA expense portion		<u>21,694</u>
Total Unrecorded Federal Expense Credit:			<u>\$ 1,037,494</u>

We could not readily ascertain if other settlements resulted in refunds that may have been misclassified as well.

We consider the total identified excess federal expense recorded of \$1,037,494 as questioned cost that may be required to be repaid to the federal government.

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

"To be allowable under Federal awards, costs must meet the following criteria . . . (i). Be the net of all applicable credits." (US OMB Circular A-87 (C) (1))

"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 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(a))

We recommended that FSSA ensure that the identified errors be corrected and that FSSA further review the fiscal 2009 activity to identify other settlement refund accounting transactions to ensure they were recorded in an accurate manner. Documented accounting entry examples for the Medicaid exception accounting such as settlement refunds should be developed. FSSA should then implement control procedures of training and adequate supervisory review to ensure accurate transaction description and accounting entries.

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(Continued)

FINDING 2009 - FSSA-8, MEDICAID ADMINISTRATION GRANT REPORTING AND AWARD

Federal Agency	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Allowable Costs/Cost Principles, Reporting
Internal Control:	Significant Deficiency

The Schedule of Federal Financial Assistance reports total disbursements that exceed the Medicaid Administration grant award for the federal fiscal year ended September 30, 2008. The disbursements reported in the Schedules of Federal Financial Assistance for this award totaled \$175,389,777. The grant award of \$175,402,000 was reduced by CMS on February 11, 2009, by \$38,496,430. As such the current award amount is shown as \$136,905,570. The excess of the federal costs over the grant award of \$38,484,207 may be required to be repaid to the federal government with state funds. This condition has also been reported in prior year's findings FINDING 2006 - FSSA-8, MEDICAID ADMINISTRATION GRANT - EXPENDITURES OVER AWARD and FINDING 2008 - FSSA-1, MEDICAID ADMINISTRATION GRANT - PERIOD OF AVAILABILITY.

FSSA Finance could provide no explanation for this decrease in the grant award. We obtained the related federal notification and correspondence directly from the federal government. The calculations show that the grant reduction was based upon the federal administration costs reported on the CMS 64 reports. An open FINDING 2007 - FSSA-1, MEDICAID GRANT REPORTING ERRORS reports the condition that the federal share of program costs remains unreconciled. We found that for the state fiscal year ended June 30, 2009, the grant schedule reported \$14,674,698 more in federal administration costs than that reported on the CMS 64. In addition, per the federal calculations and reports observed, FSSA had classified grant administrative costs as associated to prior years grant awards. Grant reporting to classify costs to other grant funding periods did not then correspond to the federal payment management system records, the state grant accounting or reporting in the Schedule of Federal Financial Assistance.

"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 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(a))

"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 continue to recommend that FSSA ensure that all costs reported be reconciled to the grant accounting records. FSSA should examine the grant reporting made and identify adjustments necessary to have the grant records correspond to the federal reports. Upon identifying any federal reporting corrections, requests to reinstate grant awards to their prior levels should be made.

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(Continued)

Finding 2009 – DCS -1 relates to a program administered by the Indiana Department of Child Services (DCS). Their response to the finding starts on page 301.

FINDING 2009 - DCS-1, SUBRECIPIENT MONITORING

Federal Agency:	Department of Health and Human Services - ACF
Federal Program:	Child Support Enforcement Program (IV-D)
CFDA Number:	93.563
Auditee Contact Person:	Anita Sallee
Title of Contact Person:	Accounting Operations Manager, Department of Child Services (DCS)
Phone Number:	317-234-5694
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Significant Deficiency

During our audit of the DCS Child Support Program, we noted that DCS does not adequately monitor the counties' use of Title IV-D Child Support incentive funds. Although DCS receives monthly statements detailing the disbursements of incentive funds and maintains a register for each county based on the monthly statements received, DCS does not require the counties to submit a statement for the months that incentive funds were not expended. Also, DCS does not perform a final accounting or reconciliation of each county's incentive balance at least annually. Under its current system, DCS does not have adequate assurance as to the actual incentive fund balance of each county and consequently cannot attest to the completeness, existence, and propriety of the incentive funds transactions conducted by the counties. This is a significant deficiency.

31 USC 7502(f)(2)(B) states, "Each pass-through entity shall monitor the subrecipient's use of federal awards through site visits, limited scope audits, or other means; . . ."

We recommended that DCS perform a final accounting or reconciliation of each county's incentive funds at least annually.

Findings 2009 - IDOE-1 through 2009 – IDOE-11 relates to programs administered by the Indiana Department of Education (IDOE). Their response to findings 2009 - IDOE-1 and 2009 - IDOE-2 starts on page 313. Their response to findings 2009 - IDOE-3 through and 2009 - IDOE-11 starts on page 321.

FINDING 2009 - IDOE-1, CASH MANAGEMENT

Federal Agency:	Department of Education
Federal Program:	State Fiscal Stabilization Fund-Education State Grants - Recovery Act
CFDA Number:	84.394A
Auditee Contact Person:	Lance Rhodes
Title of Contact Person:	Chief Financial Officer
Phone Number:	317-232-6792
Compliance Requirement:	Cash Management
Internal Control:	Significant Deficiency

During our audit of the Indiana Department of Education (IDOE), we found that IDOE disbursed federal funds to its subrecipients, in advance, without determining the cash needs of the subrecipients. This resulted in the subrecipients maintaining the federal funds for excessive days.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

31 CFR 205.11(a) states: "A State and a Federal Program Agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the State's payout of funds for Federal assistance program purposes, whether the transfer occurs before or after the payout of funds."

We recommended that IDOE determine the cash needs of its subrecipients in order to minimize the time elapsing between the transfer of the federal funds and the payout of those funds.

FINDING 2009 - IDOE-2, SUBRECIPIENT MONITORING

Federal Agency:	Department of Education
Federal Program:	State Fiscal Stabilization Fund - Education State Grants - Recovery Act
CFDA Number:	84.394A
Auditee Contact Person:	Lance Rhodes
Title of Contact Person:	Chief Financial Officer
Phone Number:	317-232-6792
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Significant Deficiency

During our audit of the Indiana Department of Education, we found that subrecipients of federal funds were not properly monitored by IDOE. IDOE did not properly identify the CFDA title and number or applicable compliance requirements to the subrecipient. This could result in subrecipients improperly spending grant funds.

OMB Circular A-133 Subpart D Section 400 provides that a pass-through entity is responsible for at the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.

We recommended that IDOE comply with OMB Circular A-133 and provide its subrecipients with all required information.

FINDING 2009 – IDOE-3, CASH MANAGEMENT ADVANCES

Federal Agency:	U.S. Department of Education
Federal Program:	Special Education Cluster (IDEA), Title I, Part A Cluster
CFDA Number:	84.027, 84.173, 84.391, 84.392, 84.010, 84.389
Auditee Contact Person:	Kent Hatcher
Title of Contact person:	Chief Financial Officer, IDOE
Phone Number:	317-234-6792
Compliance Requirement:	Cash Management
Internal Control:	Significant Deficiency

During our audit of Special Education Cluster (IDEA) and Title I, Part A Cluster, we found that the Indiana Department of Education (IDOE) disbursed federal funds to its subgrantees in advance without properly determining the cash needs of the subgrantees. IDOE did not ensure that the advance was for expenses occurring not more than three days after the disbursement of funds. We also found that IDOE did not have an adequate system of documentation to trace specific expenditures to its corresponding federal draw. This occurred due to a lack of formal written procedures and monitoring over Cash Management.

As a result, the time between funds disbursed to subgrantee and subgrantee's expenditure of the advance was not minimal. Subgrantees maintained cash on hand balances throughout the award period that earned interest.

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(Continued)

It was also determined that IDOE did not calculate the amount of interest earned by the subgrantees based on the advances of federal funds IDOE made to the subgrantees. Therefore, IDOE did not appropriately remit interest payments to the United States Department of Education (USDOE). These are significant control deficiencies

34 CFR 80.20(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."

34 CFR 80.20(a)(2) states in part: "A state must expend 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 to . . . 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."

31 CFR 205.11(a) states: "A State and a Federal Program Agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the State's payout of funds for Federal assistance program purposes, whether the transfer occurs before or after the payout of funds. (b) A State and a Federal Program Agency must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs."

31 CFR 205.12(b)(4) states: "Cash advance (pre-issuance or post-issuance) funding means that a Federal Program Agency transfers the actual amount of Federal funds to a State that will be paid out by the State, in a lump sum, not more than three business days prior to the day the State issues checks or initiates EFT payments."

34 CFR 80.37(4) states that States shall: "Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies."

31 CFR 205.19(a) states: "A State must calculate Federal interest liabilities and State interest liabilities for each Federal assistance program subject to this subpart A."

We recommended that IDOE consistently monitor the subgrantees in order to adequately assess their cash needs to minimize the time between funds disbursed to subgrantee and the subgrantee's expenditure of the advance as well as ensure that interest for the advance of federal funds be calculated and appropriately remitted to the USDOE. We recommended that IDOE develop formal written procedures over Cash Management to ensure that adequate supporting documentation of draws be maintained.

FINDING 2009 – IDOE-4, CASH MANAGEMENT TEMPLATE

Federal Agency:	U.S. Department of Education
Federal Program:	Title I, Part A Cluster
CFDA Number:	84.010, 84.389
Auditee Contact Person:	Kent Hatcher
Title of Contact person:	Chief Financial Officer, IDOE
Phone Number:	317-234-6792
Compliance Requirement:	Cash Management,
Internal Control:	Significant Deficiency

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(Continued)

During our audit of the Indiana Department of Education (IDOE), we found that no Title I, Part A Cluster clearance pattern template was created to support the Cash Management Improvement Act (CMIA) Agreement. As a result, we were unable to audit Title I, Part A Cluster Cash Management draws by verifying they were in accordance with an accurate clearance pattern. This is a significant control deficiency.

31 CFR 205.20 states in part: "States use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. A State must ensure that . . . (a) A clearance pattern must be auditable. (b) A clearance pattern must accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied."

34 CFR 80.40(a) states: "Monitoring by grantees. 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 IDOE develop formal written procedures on the creation of a clearance pattern template for Title I, Part A Cluster. IDOE also needs to implement procedures to adequately monitor to ensure that all necessary data is included in the computation of a clearance pattern.

FINDING 2009 – IDOE-5, PROCUREMENT, SUSPENSION AND DEBARMENT

Federal Agency:	U.S. Department of Education
Federal Program:	Special Education Cluster (IDEA), Title I, Part A Cluster
CFDA Number:	84.027, 84.173, 84.391, 84.392, 84.010, 84.389
Auditee Contact Person:	Kent Hatcher
Title of Contact person:	Chief Financial Officer, IDOE
Phone Number:	317-234-6792
Compliance Requirement:	Procurement, Suspension, and Debarment
Internal Control:	Significant Deficiency

During our audit of Indiana Department of Education (IDOE), it was determined that IDOE was not properly monitoring Special Education Cluster (IDEA) and Title I, Part A Cluster contracts to verify contractor's were not federally suspended and debarred. Suspension and debarment verifications were not performed by IDOE due to a lack of formal written procedures and controls were not in place over contacts. This is a significant control deficiency.

34 CFR 80.35 states: "Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension."

34 CFR 80.40(a) states: "Monitoring by grantees. 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 IDOE develop formal written procedures and proper monitoring controls over contracts to ensure that contractors that have been suspended or debarred are not paid with federal funds.

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

FINDING 2009 – IDOE-6, EARMARKING

Federal Agency:	U.S. Department of Education
Federal Program:	Special Education Cluster (IDEA)
CFDA Number:	84.027, 84.173, 84.391, 84.392
Auditee Contact Person:	Kent Hatcher
Title of Contact Person:	Chief Financial Officer, IDOE
Phone Number:	317-234-6792
Compliance Requirement:	Earmarking
Internal Control:	Significant Deficiency

During our audit of the Special Education Cluster (IDEA), we found that the Indiana Department of Education (IDOE) did not ensure that Local Education Agencies (LEAs) identified as having a significant disproportionality reserve the maximum amount of Special Education Part B funds (CFDA number 84.027) in order to provide coordinated early intervening services (CEIS) for children in the LEAs within those groups. Of the seven LEAs required to reserve the funds, we found that five did not set aside the maximum amount. IDOE approved LEA applications that did not allocate the required 15% for CEIS. This is a significant control deficiency.

34 CFR 300.646(b) states: "In the case of a determination of significant disproportionality with respect to the identification of children as children with disabilities, or the placement in particular educational settings of these children, in accordance with paragraph (a) of this section, the State or the Secretary of the Interior must—... (2) Require any LEA identified under paragraph (a) of this section to reserve the maximum amount of funds under section 613(f) of the Act to provide comprehensive coordinated early intervening services to serve children in the LEA, particularly, but not exclusively, children in those groups that were significantly overidentified under paragraph (a) of this section . . ."

We recommended that IDOE integrate the significant disproportionality identification process with the application approval process and adequately monitor these procedures to ensure that the necessary LEAs are meeting the federal requirement.

FINDING 2009 – IDOE-7, SUBRECIPIENT MONITORING

Federal Agency:	U.S. Department of Education
Federal Program:	Special Education Cluster (IDEA)
CFDA Number:	84.027, 84.173, 84.391, 84.392
Auditee Contact Person:	Kent Hatcher
Title of Contact Person:	Chief Financial Officer, IDOE
Phone Number:	317-234-6792
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Material Weakness

During our audit of the Special Education Cluster (IDEA), we found that the Indiana Department of Education (IDOE) did not appropriately monitor subrecipients. IDOE did not monitor to ensure that subrecipients complied with OMB Circular A-133 requirements or that the required subrecipient A-133 audits were completed. Therefore, subrecipient noncompliance could go undetected.

34 CFR 80.40(a) states: "*Monitoring by grantees.* 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."

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

We recommended that IDOE implement processes and procedures to adequately monitor subrecipients to assure compliance with applicable Federal requirements.

FINDING 2009 – IDOE-8, SUBRECIPIENT MONITORING CCR VERIFICATION

Federal Agency:	U.S. Department of Education
Federal Program:	Special Education Cluster (IDEA), Title I, Part A Cluster
CFDA Number:	84.027, 84.173, 84.391, 84.392, 84.010, 84.389
Auditee Contact Person:	Kent Hatcher
Title of Contact Person:	Chief Financial Officer, IDOE
Phone Number:	317-234-6792
Compliance Requirement:	Allowable Costs, Subrecipient Monitoring
Internal Control:	Significant Deficiency

During our audit of the Special Education Cluster (IDEA) and Title I, Part A Cluster, we found that the Indiana Department of Education (IDOE) did not ensure that Recovery Act subrecipients were registered with the federal Central Contractor Registration (CCR) database as required. This resulted in payments to unregistered subrecipients and, thus, we consider \$3,480,327 for Special Education Cluster (IDEA) and \$929,359 for Title I, Part A Cluster as questioned costs. This is a significant control deficiency.

2 CFR 176.50 (c) states: "Recipients and their first-tier recipients must maintain current registrations in the Central Contractor Registration (<http://www.ccr.gov>) at all times during which they have active federal awards funded with Recovery Act funds. A Dun and Bradstreet Data Universal Numbering System (DUNS) Number (<http://www.dnb.com>) is one of the requirements for registration in the Central Contractor Registration."

We recommended that IDOE determine before the award that subrecipients are registered in the CCR database.

FINDING 2009 – IDOE-9, SPECIAL TESTS AND PROVISIONS, REQUIREMENT 3

Federal Agency:	U.S. Department of Education
Federal Program:	Special Education Cluster (IDEA), Title I, Part A Cluster
CFDA Number:	84.027, 84.173, 84.391, 84.392, 84.010, 84.389
Auditee Contact Person:	Kent Hatcher
Title of Contact person:	Chief Financial Officer, IDOE
Phone Number:	317-234-6792
Compliance Requirement:	Special Tests and Provisions, Requirement 3
Internal Control:	Significant Deficiency

During our audit of the Special Education Cluster (IDEA) and Title I, Part A Cluster, we found that the Indiana Department of Education (IDOE) did not separately identify to each Local Education Agencies (LEAs), at the time of disbursement of funds, the federal grant award number and CFDA number. This is a significant control deficiency.

2 CFR 176.210(c) states: "Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds."

We recommended that IDOE separately identify to each subrecipient, and document at the time funds are disbursed, the Federal award number and CFDA number.

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

FINDING 2009 – IDOE-10, SCHEDULE OF FEDERAL  
FINANCIAL ASSISTANCE - REPORTING ERRORS

Federal Agency:	U.S. Department of Education
Federal Program:	Special Education Cluster (IDEA), Title I, Part A Cluster
CFDA Number:	84.027, 84.173, 84.391, 84.392, 84.010, 84.389
Auditee Contact Person:	Kent Hatcher
Title of Contact person:	Chief Financial Officer, IDOE
Phone Number:	317-234-6792
Compliance Requirement:	Reporting
Internal Control:	Material Weakness

During our audit of the Indiana Department of Education (IDOE), we found that the Schedule of Federal Financial Assistance (SFFA) had numerous errors for the Special Education Cluster (IDEA) and Title I, Part A Cluster. IDOE resubmitted the SFFA for audit to us multiple times. Errors were found in disbursements and pass-through amounts. Even though these errors were resolved, such materially significant errors in the future could result in a qualification of the SFFA. This also affects the reliability of how major programs are determined. The lack of formal written procedures and an inadequate review process of the SFFA contributed to the potential for errors. This is a material weakness.

34 CFR 80.20(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 IDOE develop formal written procedures in preparing the SFFA and institute a thorough review process of the SFFA to ensure accurate, current and complete disclosure of the financial results.

FINDING 2009 – IDOE-11, ACTIVITIES ALLOWED OR UNALLOWED

Federal Agency:	U.S. Department of Education
Federal Program:	Special Education Cluster (IDEA)
CFDA Number:	84.027, 84.173, 84.391, 84.392
Auditee Contact Person:	Kent Hatcher
Title of Contact Person:	Chief Financial Officer, IDOE
Phone Number:	317-234-6792
Compliance Requirement:	Activities Allowed or Unallowed
Internal Control:	Significant Deficiency

During our audit of the Special Education Cluster (IDEA), we found that the Indiana Department of Education (IDOE) contracted for \$710,000 in professional services to produce a system in which IDOE later considered unnecessary and subsequently terminated the contract. The system provided was for functions that were available through a preexisting IDOE system. In addition, we reviewed the supporting documentation and inspected the system delivered and found that the itemization of the invoices was inconsistent with the services actually provided. In total, \$523,000 was paid to the contractor through October 2009. This is a significant control deficiency. We consider this to be a questioned cost in the amount of \$523,000.

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

2 CFR 225 Appendix B 32.(a) states in part: "Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the governmental unit, are allowable, subject to subparagraphs b and c when reasonable in relation to the services rendered . . .

(b) In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:

(1) The nature and scope of the service rendered in relation to the service required . . .

(8) Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions) . . ."

We recommended that IDOE determine allowability based on the nature and scope of the service rendered in relation to the service required and ensure the adequacy of the contractual agreement for the service to the program.

Finding 2009 – IDHS -1 relates to a program administered by the Indiana Department of Homeland Security (IDHS). Their response to the finding starts on page 316.

FINDING 2009 - IDHS-1 REPORTING

Federal Agency:	U.S. Department of Homeland Security
Federal Program:	Public Assistance Grants
CFDA Number:	97.036
Auditee Contact Person:	Nancy Stevens
Title of Contact Person:	Controller, IDHS
Phone Number:	317-232-6199
Compliance Requirement:	Reporting
Internal Control:	Significant Deficiency

During our audit of the Indiana Department of Homeland Security (IDHS), we could not reconcile the quarterly federal Financial Status Report (Form 20-10) and the Schedule of Federal Financial Assistance (Schedule) to the agency's grant ledger. The net total under reported on the Form 20-10 was \$128,156.24. In addition, we found \$1,267,869 of receipts and disbursements on the Schedule that could not be verified to the correct disaster. There was no review process in place to ensure that postings to the grant ledger were correct. There were no reconciliations of the federal financial reports to supporting accounting records. In addition, there was no review and approval process by a responsible official before filing. This is a significant deficiency.

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 IDHS implement adequate controls to ensure accurate and complete disclosure of financial information on both the Form 20-10 and the Schedule.

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

Finding 2009 – ING -1 relates to a program administered by the Military Department of the State of Indiana (ING). Their response to the finding starts on page 318.

FINDING 2009 - ING-1, SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE-REPORTING ERRORS

Federal Agency:	United States Department of Defense
Federal Program:	National Guard Military Operations and Maintenance Projects
CFDA Number:	12.401
Auditee Contact Person:	Colonel John Bailey
Title of Contact person:	Controller
Phone Number:	317-247-3254
Compliance Requirement:	Reporting
Internal Control:	Material Weakness

During our audit of the National Guard Military Operations and Maintenance Projects grant program at the Indiana National Guard (ING), we found that the Schedule of Federal Financial Assistance had numerous errors and omissions in receipts, disbursements, and balances totaling \$4,900,491. This was due to erroneous omissions of transactions of the State Armory Board. Furthermore, only the federal portion of expenditures were posted to the grant ledger which prevented us from readily reconciling to the total expenditures on the official accounting record, the Auditor of State. A revised schedule was later submitted and was materially correct. Even though the errors were corrected, such errors could affect the reliability of how major programs are determined. The lack of adequate Schedule preparation procedures and an adequate overall review process of the Schedule contributed to the errors. This is a material 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 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."

We recommended that ING strengthen 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.

Finding 2009 – IDWD-1 and 2009 – IDWD-2 relates to programs administered by the Indiana Department of Workforce Development (IDWD). Their response to the finding 2009 - IDWD-1 starts on page 319. Their response to the finding 2009 - IDWD-2 starts on page 329.

FINDING 2009 - IDWD-1, INTERNAL CONTROL - UNEMPLOYMENT INSURANCE REPORTING

Federal Agency:	U.S. Department of Labor
Federal Program:	Unemployment Insurance
CFDA Number:	17.225
Auditee Contact Person:	Scott Sanders
Title of Contact Person:	Chief Financial Officer
Phone Number:	317-232-7472
Compliance Requirement:	Reporting
Internal Control:	Material Weakness

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

During our audit of the Indiana Department of Workforce Development (DWD) Unemployment Insurance (UI) grant we found expenses per DWD's grant accounting records that did not agree to expenses reported in the federal report, ETA 2112, or to expenses provided as combined State and Federal expenses for the Schedule of Federal Financial Assistance.

The Trust Fund Accounting Department of DWD maintains the detailed grant accounting records for the Indiana's Unemployment Trust Fund in an Oracle database separate from the State's accounting system. UI benefit expenses per the Oracle database were \$131,532,706 greater than UI Benefit expenses on the ETA 2112 reports for fiscal year 2009. Additionally, the total UI benefit expenses for fiscal year 2009 reported in the combined State and Federal Benefits for the Schedule of Federal Financial Assistance was \$29,247,436.46 less than the 2009 total UI benefit expenses per the ETA 2112 reports.

Per the UI Reports Handbook No. 401, the ETA 2112 reports should "accurately show the net result of all transactions in the three accounts comprising the state unemployment fund as they appear in the state's records."

29 CFR 92.20(a) states: "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 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."

We recommended that DWD implement a reconciliation process to verify that the amounts recorded on the ETA 2112 reports and Schedule of Federal Financial Assistance are accurate.

FINDING 2009 - IDWD-2- LACK OF PROCEDURES FOR CCR VERIFICATION

Federal Agency:	U.S. Department of Labor
Federal Program:	Workforce Investment Act
CFDA Number:	17.258, 17.259, 17.260
Auditee Contact Person:	Randy Gillespie
Title of Contact Person:	Chief Financial Officer
Phone Number:	317-232-7675
Compliance Requirement:	Allowable Costs, Subrecipient Monitoring
Internal Control:	Significant Deficiency

During our audit of the Workforce Investment Act Cluster at the Indiana Department of Workforce Development (IDWD), we found that IDWD did not have procedures in place to ensure that subrecipients were registered with the Central Contractor Registration (CCR) database as required by the U.S. Department of Labor (USDOL). This is a significant control deficiency

As a result, Recovery Act Funds, totaling \$1,349,310 were paid out to subrecipients without verifying their CCR status. This is considered a questioned cost.

2 CFR 176.50 (c ) states that "Recipients and their first-tier recipients must maintain current registrations in the Central Contractor Registration (<http://www.ccr.gov>) at all times during which they have active federal awards funded with Recovery Act funds. A Dun and Bradstreet Data Universal Numbering System (DUNS) Number (<http://www.dnb.com>) is one of the requirements for registration in the Central Contractor Registration."

We recommended that IDWD put in place procedures to verify that subrecipients have a current registration in the CCR system before paying out Recovery Act Funds.

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

Finding 2009 – INDOT-1 relates to a program administered by the Indiana Department of Transportation (INDOT). Their response to the finding starts on page 326.

FINDING 2009 - INDOT – 1, SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - ERRORS

Federal Agency:	U.S. Department of Transportation
Federal Program:	Highway Planning and Construction Cluster
CFDA Number:	20.205, 20.219
Auditee Contact Person:	Dan Brassard
Title of Contact person:	Chief Financial Officer, INDOT
Phone Number:	317-232-1472
Compliance Requirement:	Reporting
Internal Control:	Material Weakness

During our audit of the Indiana Department of Transportation (INDOT) Highway Planning and Construction Cluster, we initially found a material error of \$162,138,246 reported as Amount Passed Down to Subrecipients on the Schedule of Federal Financial Assistance (SFFA). This error is considered a material control weakness.

Beginning in 2009, INDOT began reporting funds passed through to subrecipients. The SFFA error included direct construction costs for local public agency projects paid by INDOT rather than only those INDOT approved pre-construction contract costs paid in full to the vendors by the local public agencies which INDOT reimbursed to the local agencies upon submission of a claim.

Subsequent to INDOT submitting a corrected SFFA, INDOT then reversed their 2009 position on subrecipient determination. The revised SFFA contained another \$36,590,698 error.

For such material errors to go undetected on two occasions reflected a lack of internal controls over 1) accurate compilation of the financial activity, 2) adequate review of the SFFA at all applicable levels within INDOT, as well as 3) internal communications related to changes in accounting procedures.

49 CFR Subtitle A, Part 18.20(a) states "A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds" and 18.20(b)(1) states "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 INDOT follow their formal written procedures in preparing the SFFA, implement a thorough review process, and resolve internal accounting procedure changes prior to submission of the SFFA to help ensure accurate, current and complete disclosure of the financial results.

STATE OF INDIANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 96 - FSSA (DCS)-33, FUND BALANCES -  
CHILD SUPPORT ENFORCEMENT FUND CENTERS

Federal Agency: Department of Health and Human Services - ACF  
 Federal Program: Child Support Enforcement Program (IV-D)  
 CFDA Number: 93.563  
 Auditee Contact Person: Peggy Boggs  
 Title of Contact Person: Financial Manager, Department of Child Services  
 Phone Number: 317-232-3450

**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 reconciliation 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	<u>286,574</u>
<b>Total</b>	<b><u>\$ 34,879,131</u></b>

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 2009:**

The balance in account 3510-150200 as of June 12, 2009, is \$3,664.21. The slight increase from September 30, 2008, is due to repayment money coming in to this fund account. As we identify which fund account this money needs to be moved to, we will be transferring the money out of the 3510-150200 fund account.

STATE OF INDIANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

The Child Support Bureau's Reconciliation Unit will continue the reconciliation process in an effort to bring this balance to zero. Processes and procedures are now in place to ensure that accounts performing similar purposes are reconciled periodically with the State's official accounting system. This finding remains open.

FINDING 99 - FSSA (DCS)-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:	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:	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.

STATE OF INDIANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

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 2009:**

Accounting Procedures and Controls

The Child Support Bureau has put manual processes in place to balance and reconcile child support receipts and disbursements processed at the State level. This is completed on a daily and monthly basis. Additionally, CSB has directed County offices to correct the inaccuracies of sub account balance, as required by 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 remains open because of inaccurate sub accounts balances on some of the county's cases. CSB staff will continue to work closely with the County offices on this issue by communicating with the counties via the field consultants, user meetings, newsletters and policy letters.

STATE OF INDIANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

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. This aspect of the finding remains open until CSB reconciles the balance in the 3510-150200 account in order to bring the balance down to zero. The CSB Accountant continues to work on the reconciliation of this account.

Security

Heidi Jordan is the DCS IT Information Security Manager.

The Child Support Bureau is responsible for assessing the security risks of ISETS yearly or when we complete major system changes or projects that modify our existing security setup.

This aspect of the finding remains open as it is perceived that some State users have more access than they need in various county systems. CSB will continue to review and monitor user IDs and profiles in the counties in order to limit access.

Child Support Data Supplied to the Welfare System

Transfer of 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 the 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 SSA). Considered closed.

FINDING 2000 - FSSA (DCS)-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	Rick Peterson
Title of Contact Person:	Assistant Deputy Director, CEU
Phone Number:	317-234-6910
Compliance Requirement:	Eligibility
Internal Control:	Significant Deficiency

**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.

STATE OF INDIANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

Paragraph 807 of the Manual requires form SF2973 (Application for Adoption Assistance) to be completed by the adoptive parent(s), and signed by the Director of the County Office of Family and Children (OFC), for each child prior to the final decree of adoption. However, in three (3) of the twenty-five (25) cases tested this form was executed after the final decree of adoption, and in two (2) cases the form was not found, for a total of 20% noncompliance.

Paragraph 808 of the Manual requires form SF2976 (Adoption Assistance: Child Certification) to be completed by the Director of the OFC for each child prior to the final decree of adoption. However, in four (4) of the twenty-five (25) cases tested this form was executed after the final decree of adoption, and in two (2) cases the form was not found, for a total of 24% noncompliance.

Paragraph 809 of the Manual requires form SF2974 (Adoption Assistance Agreement) to be completed by the adoptive parent(s) and signed by the Director of the OFC prior to the final decree of adoption. However, in four (4) of the twenty-five (25) cases tested this form was executed after the final decree of adoption for a 16% non-compliance. Also, paragraph 814 of the Manual requires this form to be renewed biennially and whenever there is a change in the amount of payment. However, in four (4) of the twenty-five (25) cases tested the current form was not found for a 16% noncompliance.

Paragraph 816.2 of the Manual requires that copies of forms SF2973, SF2974 and SF5374 be submitted to the Central Office Financial Management. From there they are routed to the Central Eligibility Unit for filing. The method used for filing documentation sent in by the OFC is by date received. In retrieving any case record it becomes impracticable to determine the date of receipt and, therefore, to be able to locate any particular record. In our testing for documentation controls we were not able to locate copies of documentation from the test cases that were to have been submitted to the Central Office by the OFC because of the filing method being used.

We recommended that FSSA complete and process forms in compliance with the Child Welfare Manual and maintain proper documentation to support the Adoption Assistance Program. We also recommended that documentation be filed in such a way that allows for an adequate audit trail.

**Status of Finding as of September 2009:**

An interim policy and new forms were published on the DCS Website in December 2008. New processes were outlined and a Computer Assisted Training program was developed. The Central Eligibility Unit (CEU) is responsible for determining if a child is eligible for a IV-E adoption subsidy or the state's new subsidy program. A new form with the results of the final eligibility determination is forwarded to the FCM who discusses the findings with the adoptive family. If the family is eligible for a subsidy, CEU completes the appropriate adoption assistance agreement (IV-E or State) and sends this agreement with the final eligibility agreement.

New CEU procedures for adoption have been developed which outline this procedure in detail.

The Centralized Eligibility Unit completes the Adoption Assistance Agreement and sends to the field to be signed by the adoptive parent. CEU now has files that contain the adoption agreement, copies of the adoption decree and other relevant information to begin adoption subsidies. This finding remains open.

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(Continued)

FINDING 2000-FSSA (DCS)-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:	Rick Peterson
Title of Contact Person:	Assistant Deputy Director, CEU
Phone Number:	317-234-6910
Compliance Requirement:	Activities Allowed or Unallowed
Internal Control:	Significant Deficiency

**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 amount paid by the counties over this limitation is to be borne by the county.

We found that two (2) of the twenty-five (25) payments tested were in excess of the 75% allowable amount. One, a case in Jennings County, was overpaid by \$248.02 during the month tested, and another, a case in Vigo County, was overpaid by \$142.97. Neither of these overpayments exceeded 100% of the foster care maintenance payment. We expanded our testing of payments in these two counties. In Jennings County we found the same amount of overpayment for the same child for the additional month tested. In Vigo County we found a different child was overpaid \$775.07 for the additional month tested. This overpayment was a violation of both the State 75% policy and the 100% Federal requirement. The allowable foster care maintenance payment at 100% was \$571.91 and so the overpayment exceeded the Federal threshold by \$203.16.

Through inquiry we found that the Central Office did not review for payments in excess of limitation either on a systematic or sample basis. Further, we found that while reviews are completed by the agency's three state-wide consultants, these reviews are completed on a special case basis rather than systematically.

We recommended that the payments from the AAP not exceed limitations. We also recommended that a system of review to detect payments in excess of limitations be implemented.

**Status of Finding as of September 2009**

The State made a decision in May 2009 to completely halt the ICWIS redesign and rewrite all ICWIS modules in their entirety. A project plan is currently being developed to encompass all redesign efforts previously developed for ICWIS. The new system being developed is called "Management Gateway for Indiana's Kids" –MaGIK. The expected completion date for this project is June, 2011. DCS intends to incorporate all redesign changes previously developed for ICWIS. A new policy has been put into place that allows for a negotiated subsidy up to 75% of the standard foster care per diem (18.75) even if they were receiving a higher amount while in foster care. CEU insures that the subsidy agreement does not reflect anything more than 75% of the standard foster care per diem (18.75). CEU staff complete the adoption assistance agreements when they complete the final eligibility determination when the child has been determined eligible. The only time this would be different is if an appeal was filed and the 75% of the standard foster care period was overturned to a higher amount. This is expected to be extremely rare.

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(Continued)

A system to review to detect payments in excess of limitations is currently being designed (KidTraks).

Payment to the adoptive parent cannot be reduced unless all parties are in agreement through an amendment to the subsidy. This finding remains open.

FINDING 2000 - FSSA (DCS)-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	Rick Peterson
Title of Contact Person:	Assistant Deputy Director, CEU
Phone Number:	317-234-6910
Compliance Requirement:	Eligibility
Internal Control:	Material Weakness

**Finding:**

42 USC 671 and 672, and the approved Indiana State Plan both state that Foster Care Program payments may be made only to properly licensed or approved providers. We reviewed ten foster children cases to determine if licensure controls were in place. We found that five providers were not properly licensed. We also were not able to determine for an additional case as the case file could not be found.

Through inquiry we found several control issues. During our audit period the automated system known as the Indiana Child Welfare Information System used for data eligibility collection (which includes licensing status) was not linked to either county or central office accounting systems. Reliance had to be placed on manual forms of communication to stop ineligible payments. In addition, the central office did not review to ensure that payments were made only to properly licensed or approved providers, either on a systematic or sample basis. Further, we found that while reviews are completed by the agency's three state-wide consultants, these reviews are completed on a special case basis rather than systematically.

We recommended that controls be implemented to ensure payments are made only to properly licensed or approved providers.

**Status of Finding as of September 2009:**

As noted above, DCS is now designing a new software system to replace the current ICWIS system. This will be replaced by MaGIK. The licensing status will be clearly identifiable throughout MaGIK through the changes made within this new system. DCS will be implementing some new changes in the fall of 2009, and the entire new system will be operational by 2011.

One of the functional requirements in this new build would send to the payment system the child's eligibility which would reflect any licensing or placement changes. The correct amount, account and sub account code would be selected by the system based on the FCM selecting the program the child is in relating to their placement and the child's eligibility. If the foster home of 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. This finding remains open.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

FINDING 2000 - FSSA (DCS)-5, CHILD SUPPORT ENFORCEMENT PROGRAM FEDERAL

Federal Agency:	Department of Health and Human Services - ACF
Federal Program:	Child Support Enforcement Program (IV-D)
CFDA Number:	93.563
Auditee Contact Person:	Donna Sobecki
Title of Contact Person:	Assistant Deputy Director, CEU and Cash Management, Department of Child Services
Phone Number:	317-234-5686
Compliance Requirement:	Reporting
Internal Control:	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 reconciliation 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 reconciliation 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.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

**Status of Finding as of September 2009:**

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 theWEAAC224 report have not been completed because of the extensive nature of the ISETS enhancements required. DCS will need to modernize 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 of these types of deficiencies in the system will be addressed through the modernization/ replacement of ISETS. This finding remains open.

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

Federal Agency:	Department of Health and Human Services
Federal Programs:	Foster Care Program
CFDA Numbers:	93.658
Auditee Contact Person	Rick Peterson
Title of Contact Person:	Assistant Deputy Director, CEU
Phone Number:	317-234-6910
Compliance Requirement:	Activities Allowed or Unallowed, Reporting
Internal Control	Significant Deficiency

**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 10 payments to verify allowability and found 2 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.

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(Continued)

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 2009:**

Beginning January 1, 2009, DCS began processing foster care claims through the new KidTraks system. The foster parent must submit a monthly invoice in order to be paid. The county bookkeeper reviews invoices and approves for payment. Once approved the payment is made via KidTraks. Parameters are in place in KidTraks to prevent duplicate payments. There are also parameters established in KidTraks to insure proper coding so that expenditures are reimbursed from the appropriate programs. Information from KidTraks is reported on federal reports.

This finding is still unresolved.

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:	Melanie Brizzi
Title of Contact Person:	Child Care Administrator
Phone Number:	317-234-3313
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Significant Deficiency

**Finding:**

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

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

**Status of Finding as of September 2009:**

The Bureau of Child Care (BCC) is utilizing multiple approaches to monitor allowable CCDF costs and to prevent fraudulent CCDF attendance claims within Indiana's child care providers, including Unlicensed Registered Ministries.

BCC uses several preventative approaches to ensure CCDF policy and procedure compliance from both parents and providers:

- Both providers and parents sign compliance agreements prior to enrolling in the CCDF program. These agreements ensure that participants are aware of the CCDF rules and agree to comply with them, as well as the possible consequences of failing to comply,
- Parents receive CCDF policy and procedure training from the local Intake office during the CCDF enrollment process. This is often in the form of a parent training video,
- Providers are required to maintain, and make available on request, written attendance records that can be utilized to verify CCDF claims, and
- Regional BCC CCDF policy consultants are continually training both parents and providers to ensure that these rules are fully understood.

Additionally, Indiana CCDF child care providers, including Registered Ministries, are being randomly audited by FSSA Audit. To date, they have audited over 400 providers. If questionable activity is uncovered by FSSA Audit the following steps are taken:

- If cards and/or card numbers are found in the possession of providers, the cards are deactivated and parents are required to come to the local CCDF Intake offices to obtain a new card. When parents are picking up their new cards, the Intake agent reviews the CCDF policies and procedures and consequences for noncompliance,
- Providers found to be in violation of CCDF policy and procedures are required to submit a Plan of Correction. BCC and FSSA Audit continue to review future swipe activity of these providers, using a data mining tool, to ensure that the Plan of Correction is being successfully implemented. If ongoing questionable activity is determined the case is referred to the Bureau of Investigations (BOI),
- If it is determined that inappropriate CCDF payment has been made a repayment is sought through a provider or parent repayment agreement, and
- Depending on the nature of the violation, providers and/or parents are referred to BOI for further action and investigation.

Once a case has been referred to BOI it is investigated by the CCDF fraud investigator and the BOI field investigators. BOI receives complaints from a variety of sources including BCC, FSSA Audit, the local Intake Agents, as well as from parents and other members of the community. Additionally BOI works in partnership with the Child and Adult Care Food Program (CACFP) to compare claims submitted by the provider. Often providers found to have fraudulent CCDF claims will also have fraudulent CACFP claims.

Indiana is continuing to pursue other effective approaches to minimizing unallowable CCDF costs. This includes the possibility of implementing a "one card solution" in which a client's TANF, SNAP and CCDF benefits are loaded on the same card. It is hoped that parents would be much more unlikely to leave their cards with child care providers if their benefits were available through the same card. The State had been working with JPMorgan to develop this one card solution; however, due to a number of delays in the development of the system, Indiana has decided to pursue an alternative approach.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

Additionally, BCC is in the process of promulgating CCDF regulations. These regulations would spell out in detail the consequences of repeated violations of CCDF rules, policies and procedures, including eventual termination from the program. The regulations will also include a formalized appeal process for parents and providers. The proposed CCDF regulations are currently being reviewed and edited. Full promulgation is expected to take at least 12 months. It is believed the promulgated rules would add a necessary level of authority to the current CCDF policy and procedures.

FSSA considers this finding resolved.

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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility
Internal Control:	Significant Deficiency

**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 2009:**

Detective control activities were developed and implemented to address the audit finding related to the current status of provider medical licensures not being verified by EDS on a consistent basis. EDS implemented change order 112 in 2004 to match active Medicaid providers with the Indiana Professional Licensing Agency database file on a monthly basis. Additional information was added to the reports with change order 1174, which was implemented May 2009. As a result of the file matching, the system

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(Continued)

generates 6 reports of providers and license numbers. EDS, the fiscal agent, researches the providers, terminates providers who do not provide updated licensure information to Medicaid, and performs any necessary recoupments. Only 2 of the 6 reports are being actively worked by EDS: matched non-pharmacy and matched pharmacy. The benefit of working the remaining reports and the system logic are being investigated by OMPP and EDS.

This finding is considered to be open due to uncertainties surrounding the remaining reports.

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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Activities Allowed or Unallowed
Internal Control:	Significant Deficiency

**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 . . ."

IC 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.

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(Continued)

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 affect 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 2009**

FSSA does not agree with this finding'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. This 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, rule-making 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:

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(Continued)

"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.*"

This finding is considered to be closed.

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, 93.778
Auditee Contact Person:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Activities Allowed or Unallowed, Eligibility
Internal Control:	Significant Deficiency

**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.

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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.

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(Continued)

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 2009:**

The implementation of IBM's eligibility modernization contract was cancelled on October 15th by Governor Mitch Daniels. A detailed plan will be presented by FSSA on December 14th, 2009, that will address how the Family Social Services Agency will address the remaining issues regarding the eligibility modernization of state's welfare system.

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 and 93.778
Auditee Contact Person:	Cathy Boggs
Title of Contact Person	Director of DFR, FSSA
Phone Number:	317-234-2373
Compliance Requirement:	Allowability, Eligibility
Internal Control:	Significant Deficiency

**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.

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(Continued)

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 4th quarter of 2004 to results for the 4th 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 could 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 2009:**

DFR receives a data match/alert from SSA. Those matches are translated into ICES alerts for the eligibility staff to work. With the termination of IBM's contract, the state is changing the eligibility process, which includes the staff responsible for working alerts. In the new Hybrid model, alerts will be worked at a Regional Change Center. A software tool is being implemented to allow staff insight into the due dates of the alerts and, with this tool, to have the capability of working overdue and those coming due tasks on a more timely basis. Hybrid implementation is beginning in the Vanderburgh Region and will be implemented across the rest of the state following the time the Hybrid solution is proven in the Vanderburgh Region.

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(Continued)

Once the date of death is applied in ICES, the date of death is forwarded to the AIM system that night.

This finding is unresolved.

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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility
Internal Control:	Significant Deficiency

**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 2009:**

The enrollment of rendering providers for First Steps was completed in February 2006. Records supporting the original Waiver Re-enrollment project cannot be located. Therefore, additional verification steps are necessary to ensure that all waiver providers have signed provider agreements on file.

This finding is considered to be open while additional steps are taken by EDS and OMPP to verify the waiver project.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

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:	Significant Deficiency

**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 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 expend 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 are maintained.

**Status of Finding as of September 2009:**

Prior to PeopleSoft/ENCOMPASS implementation on September 16, 2009, FSSA Accounting Operations had documented the procedures for reconciliation packets of expenditures to the corresponding Federal Draw and these procedures had been implemented within the department. The procedures tied together the reconciliation by funding source to the General Ledger transactions and the reconciliation of this information to the corresponding Federal draws each month. The procedures also include the review of reconciliation by supervisory personnel. These procedures are updated as needed based on changes in business processes and systems.

As of August 2009 the reconciliation packets include the following:

1. Auditor of State (AoS) Expenditures
2. People soft Expenditures – totals at bottom
3. Tab three – Reconciliation - totals at bottom
4. AoS to PeopleSoft Recon- totals at bottom
5. Expend vs allotments
6. FETS printout
7. GL-FDAATB (Agency Object Trial Balance)for last day of month from Alchemy
8. GL –AGOBTB (Agency Object Balance for the month)

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

Federal expenditures eligible for federal reimbursement through draws are recorded on the Allot vs. Expends maintained by Fund Center as of August 2009. The Allot vs. Expends reconciled to the Auditor of State expenditures serves as documentation for federal draws. As of September 30, 2009, PeopleSoft queries had been developed to determine expenditures eligible for federal reimbursement.

At the end of SFY 2009 this finding was still 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 Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Cash Management
Internal Control:	Significant Deficiency

**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 2009:**

The check clearance pattern (CCP) is entered annually into the Federal Expenditure Tracking System (FETS) to delay federal reimbursement until the average check clearance time has elapsed. The CCP for SFY 2009 currently in FETS has been verified against Exhibit II: List of Clearance Times in the Cash Management Improvement Act Agreement for SFY 2009. Calendar reminders have been set for all members of Cash Management as a reminder to update the CCP at the end of June each year. Future check clearance days will be calculated by PeopleSoft.

FSSA considers this finding resolved.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

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

Federal Agency:	Department of Health and Human Services
Federal Programs:	Title IV-D, Child Care Cluster
CFDA Numbers:	93.563, 93.575, 93.596
Auditee Contact Person:	David Nelson; Donna Sobeki
Title of Contact Person:	Director of Federal Funding, FSSA; Assistant Deputy Director, DCS
Phone Number:	317-234-5686
Compliance Requirement:	Reporting
Internal Control:	Significant Deficiency

**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 2009:**

FSSA

The PSC 272 Quarterly Federal Cash Transaction Report is manually completed based on selected reports from the FSSA Federal Expenditure Tracking System (FETS). A written procedure for preparing the PSC 272 was developed. The net federal share disbursements reported are reconciled by each reported award and in total for each PSC 272 report to FETS reports. The FETS reports were reconciled monthly by Cash Management to Financial Accountant prepared "Expends vs. Allotment" spreadsheets developed by Fund and Center and balanced to Auditor of State (AOS).

The development within PeopleSoft of Project reporting in the future will create transaction queries or reports that will be utilized to drive both deposits and expends. Formal procedures will be developed based on PeopleSoft Project implementation.

This finding remains open pending the PeopleSoft implementation of the ENCOMPASS project with AOS.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

DCS

The PSC 272 reports were completed based on a new report in the FETS system identified as the "FETS-Schedule of Federal Financial Assistance." The report can be run utilizing date ranges and captures data included in the FETS transaction processing. The report breaks out Federal Assistance reporting by Grantor Agency/Pin? CFDA#/ Grant number/Start Balance/ Deposits/Draws/Expend/End Balance/Account (fund center) with totals by Grantor Agency. The development within PeopleSoft of Project reporting in the future will create transaction queries or reports that will be utilized to drive both deposits and expends that will be invoiced in PeopleSoft and tracked utilizing PeopleSoft Account Receivable Module. The current reconciliation process is at the fund center level utilizing the Cash Management Accountants prepared reconciliation to the "Expend vs. Allots" spreadsheets maintained and submitted by the Fiscal Account Managers by fund center. These spreadsheets are reconciled to the balances in FETS system by transaction type and various federal system PIN number balances on a monthly basis. The Cash Management reconciliation is reviewed by the Assistant Deputy Director of Cash Management. The Assistant Controller completes a summary reconciliation of AOS, the Allot vs. Expend report and FETS. This reconciliation is done monthly for all the fund centers. This reconciliation is reviewed by the Controller. This finding will remain open pending the PeopleSoft implementation in the ENCOMPASS project with AOS.

FINDING 2005 - FSSA (DCS)-5, 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 of Federal Funding, FSSA; Assistant Deputy Director, DCS
Phone Number:	317-232-7088; 317-234-5686
Compliance Requirement:	Reporting
Internal Control:	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."

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(Continued)

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 2009:**

FSSA

The A-133 Schedule of Federal Financial Assistance report is manually completed based on selected reports from the FSSA Federal Expenditure Tracking System (FETS) and inputs from Financial Accountants for non-FETS tracked awards. A written procedure for preparing the A-133 was developed. The annual schedules were prepared from FETS reports that were reconciled by Cash Management monthly to Financial Accountant prepared "Expends vs. Allotment" spreadsheets developed by Fund and Center and balanced to Auditor of State (AOS). Control totals were developed within the A-133 schedule for review and reconciliation of the recorded data to FETS and non-FETS balances. The development within PeopleSoft of Project reporting in the future will create transaction queries or reports that will be utilized to drive both deposits, and expends. Formal procedures will be developed based on PeopleSoft Project implementation.

This finding remains open.

DCS

The A-133 Schedule of Federal Financial Assistance report for 2008 was manually completed based on selected reports from the FSSA Federal Expenditure Tracking System (FETS) and inputs from Financial Accountants for non-FETS tracked awards. A written procedure for preparing the 2008 A-133 was developed. Control totals were developed within the A-133 schedule for review and reconciliation of the recorded data to FETS and non-FETS balances. The development within PeopleSoft Project reporting in the future will create transaction queries or reports that will be utilized to drive both deposits and expenditures. Formal procedures will be developed based on PeopleSoft Project implementation. This finding remains open pending the PeopleSoft implementation of the ENCOMPASS project with AOS.

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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Significant Deficiency

**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:

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(Continued)

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 2009:**

Preventative and detective control activities were developed and implemented to address the audit finding related to the fiscal agent obtaining the Office of Medicaid Policy and Planning approval for all manual payments issued. The control activities are as follows:

The review of the Finance Operating Procedures Manual has been completed. Manual expenditures are addressed in Section 4 of the Manual. Manual expenditures to hospitals (for supplemental and DSH payments), FQHCs/RHCs (for federally required interim and finalized RBMC wraparound payments), nursing homes (for municipal UPL payments) and physician UPL payments are initiated and authorized by OMPP. After the payments are issued, OMPP reconciles the payment amount against what was initially authorized.

This finding is considered to be open pending the return of the balance of federal questioned costs.

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(Continued)

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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Significant Deficiency

**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.

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(Continued)

We recommended that FSSA ensure that system edits used in the identification of potential duplicate claims are reviewed for completeness and accuracy. We recommended 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 2009:**

OMPP reviewed the controls in place to identify inpatient duplicate hospital claims at the time of the audit finding. After a thorough review of operating procedures, OMPP implemented change order 1584 to address the mapping logic for discharged status on inpatient transfers. Patient status codes are used in system logic for pricing and processing institutional claims. All system, pricing and business processes utilizing discharge status code "05" were revamped in accordance with the newly created CMS new Patient Discharge Status definition.

Upon review and comparison to change order 1042, OMPP determined change order 1584 implemented in September 2009, more adequately addressed the logic criteria required in the audit finding. In addition to re-tooling the MMIS system logic, OMPP performed an internal audit comparing documented procedures to actual procedures performed.

OMPP Operations attended training with the EDS claims unit and provided appropriate direction of processing of duplicate edits for all claim types. Training was performed October 2009.

This finding is considered to be closed.

**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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions – Provider Health and Safety Standards
Internal Control:	Significant Deficiency

**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.

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(Continued)

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 2009:**

OMPP is working collaboratively with IDSH and EDS on an annual reconciliation process to ensure that providers have updated C&T documentation present in their enrollment file to demonstrate compliance with the EDS Provider Enrollment Type and Specialty Matrix document on the Indiana Health Coverage Program website. In addition to the aforementioned, mitigating controls, OMPP will conduct periodic desk reviews of the enrollment files to verify appropriate C&T documentation is current and meets health and safety standards.

This finding is considered to be open.

**FINDING 2005 - FSSA-16, TRACKING OF CERTIFICATION & TRANSMITTAL (C&T)**

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions – Provider Health and Safety Standards
Internal Control:	Significant Deficiency

**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.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

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 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: "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 2009:**

OMPP is working collaboratively with IDSH and EDS on an annual reconciliation process to ensure that providers have updated C&T documentation present in their enrollment file to demonstrate compliance with the EDS Provider Enrollment Type and Specialty Matrix document on the Indiana Health Coverage Program website. In addition to the aforementioned, mitigating controls, OMPP will conduct periodic desk reviews of the enrollment files to verify appropriate C&T documentation is current and meets health and safety standards.

This finding is considered to be open.

**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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility
Internal Control:	Significant Deficiency

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

**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 2009:**

OMPP continues to work toward identifying and implementing effective control activities to mitigate risk associated with this audit finding.

The finding remains unresolved.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility
Internal Control:	Significant Deficiency

**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 2009:**

On a monthly schedule, the system will review claims history to identify providers who have not submitted claims in the past 18 months. A report will be generated listing identified providers and the system will calculate and enter an end date 45 days from the date of the report. Letters will be systematically generated for identified providers, notifying them that their enrollment in the Indiana Medicaid program will be terminated due to their inactive status unless they take steps to prevent this action. Certain provider types will be exempted from the process.

CO 253 was put into production and the first report of inactive providers is set to run on October 1, 2009. Letters will be mailed to providers notifying them of the pending termination unless they take action to prevent, which would require manual override of the termination date entered by the system. This job will run monthly to keep enrollment information up-to-date.

This finding is considered to be open.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility
Internal Control:	Significant Deficiency

**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.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

**Status of Finding as of September 2009:**

CO 939 was cancelled on March 26, 2009. The CO was found to be inadequate in addressing the audit finding.

EDS Provider Enrollment Unit is investigating sources of licensure data to be used for regular monitoring of licenses of Out-of-State providers that are enrolled with the Indiana Medicaid program. Once reliable sources of information are identified, steps can be taken to systematically review enrollment information in AIM against the licensure data to provide for an on-going review process similar to the process used for in-state providers.

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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility; Allowable Costs/Cost Principles
Internal Control:	Significant Deficiency

**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.

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(Continued)

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 2009:**

Upon review of change order 939, it was deemed ineffective in mitigating the noted audit finding. EDS Provider Enrollment Unit has documented the monthly process to be followed by the unit when providers are identified as no longer having a valid license through the recurring IPLA data match and their enrollment is terminated based on working certain reports. Step 5 of this process instructs the analyst to "end date the provider's eligibility in IndianaAIM with the date IPLA states the provider's license expired." To ensure that this process is followed consistently and timely, OMPP and the Independent Quality Management Unit (IQMU) share responsibility for monitoring the EDS Provider Enrollment Unit to ensure consistent adherence with this practice. Change Order 1174, completed in May of 2008, made changes to the data matching reports to make the process more effective. Due to OMPP staff turnover, prior action which may have been taken on the questioned costs is unknown. However, as stated in the September 2009 status for 2003-FSSA-16, all reports are not being worked.

This finding is considered to be open.

**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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility
Internal Control:	Significant Deficiency

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

**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 2009:**

OMPP semi-annually reviews the Provider Enrollment Operating Procedures Manual to ensure documented procedures are in compliance with federal and state regulations. In addition, an Independent Quality Management Unit (IQMU) is in place.

This finding is considered open.

**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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions – ADP Risk Analysis and System Security Review
Internal Control:	Significant Deficiency

**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))

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(Continued)

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 2009:**

The access of EDS staff to AIMS is role based, approved by management, and is monitored by the EDS Security Coordinator. OMPP reviewed and approved the current policies and procedures related to EDS staff access to AIMS which includes periodic monitoring by EDS security staff to ensure that access is appropriate and is modified or terminated as required. EDS provides OMPP with updates regarding security as part of OMPP's monitoring of EDS compliance with HIPAA privacy and security regulations. OMPP is working to develop monitoring controls that will include quarterly reviews of the AIMS contractor access assignments.

OMPP has hired additional staff to work in the privacy/security area and whose duties include monitoring access assignment to IndianaAIM. OMPP conducts regular IndianaAIM audits, to be completed quarterly. It is this staff person's responsibility to assist with ensuring the audit of IndianaAIM access is completed.

In addition, Change Order (CO) 701, Security Website Request, was implemented in June 2007. With the implementation of this CO the website has automated the security request process.

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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Significant Deficiency

**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.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

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 2009:**

An OMPP policy-Capitation Rate Update is now in place that includes a review and validation of the capitation rates by five different individuals. Two HHW staff members review the capitation rate source document from the actuary, the capitation rate update form sent to EDS, and the Contract Amendment to ensure the rates listed on each document are the same. At EDS a specialist verifies the rates on the update form match the rates listed in the MCO contracts, enters the rates into IndianaAIM and does a 100% quality check on the rate cells. Another analyst then also does a 100% review to ensure the rates were entered correctly. EDS then sends the OMPP Operations Team a report of the AIM updates or screen shots from AIM. An Ops Team member does a 100% comparison of the rates on the actuary source document and the IndianaAIM rates to ensure they are the same. Approval is then sent to the EDS Managed Care Manager and the Capitation Rate Update Review Form is completed, signed by the OMPP staff member, scanned and stored in the HHW folder.

If at any point in the review process a discrepancy is found corrections are made and the review process is started from step 1.

An OMPP policy-Monthly Capitation Payment Review Process is now in place that ensures the financial payments made to each MCO/Region match the total capitation amount due to each MCO/Region. This is done by comparing two OnDemand reports. The MGD-0002-M, Capitation Listing, report is generated for each region of each MCO and lists the individual capitation amount due by member with a total given at the end of the report. The FIN-6006-W lists the electronic fund transfer amount for each region of each MCO. The amounts for each MCO/Region from the two reports are entered on an excel spreadsheet, Capitation Comparison, and verified to match.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

Part 2 of the Monthly Capitation Payment Review Process is a review done by the fiscal agent, currently EDS, on a sample of individual members. The sample is pulled from the capitation listing reports created during the monthly capitation payment process. Each MCO, Region, and Category Code combination is eligible to be included in the sample pull. The resulting sample includes each MCO and region and selected capitation category codes. The paid capitation amount as listed on the MGD-0002 Capitation Listing report for each member in the sample is checked for accuracy. The data is reported on an excel spreadsheet, Monthly Member Capitation Payment Sample Review.

Both reports are sent to the OMPP Operations Team. The reports are reviewed and verified for accuracy. The Operations Team completes the Monthly Capitation Reconciliation Form documenting the date the review was conducted and is signed by the staff member who completed the review. The form is scanned and stored in the HHW folder. If at any point a discrepancy is found research is done to determine the cause and validity. Any necessary corrections will be processed.

Based on the above and completion of the payment corrections this finding is resolved.

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:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	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.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

"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 2009:**

EDS has modified and strengthened their reconciliation process. They have provided us with documentation, updated at least annually, for all of their processes including the bank reconciliation process (Finance Operating Procedures Manual Volume 2, Chapter 2). This procedure outlines how the reconciliation is done and how outstanding issues are handled for each type of transaction. The reconciliation balances back to the bank balance, variances are identified and procedures followed to correct them.

EDS Medicaid bank statements delivered to FSSA are accompanied by a sign-off sheet signed by the EDS Medicaid Director of Finance stating that the bank reconciliation is accurate. A procedure was put in place within FSSA for both the OMPP/Medicaid supervisor and the Director of Accounting Operations to review the bank reconciliation from EDS and sign off. A gap in staffing has caused the review procedure to be incomplete.

FSSA considers this part of the finding remains open.

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(Continued)

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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions 1 – Utilization Control and Program Integrity
Internal Control:	Significant Deficiency

**Finding:**

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."

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(Continued)

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.

**Status of Finding as of September 2009:**

OMPP has implemented preventative controls to address the audit finding related to evaluating the minimum necessary qualification of contractor staff at Health Care Excel. On December 31, 2008, the Health Care Excel contract expired. Subsequently, the State issued an RFP requiring credentialed individuals in key positions.

Due to contract expiration of Health Care Excel along with the implementation of more restrictive RFP requirements, this finding is considered to be closed.

**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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions – Provider Health and Safety Standards
Internal Control:	Significant Deficiency

**Finding:**

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).

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(Continued)

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 IndianaAIM 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))

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(Continued)

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.

**Status of Finding as of September 2009:**

OMPP is working collaboratively with IDSH and EDS on an annual reconciliation process to ensure that providers have updated C&T documentation present in their enrollment file to demonstrate compliance with the EDS Provider Enrollment Type and Specialty Matrix document on the Indiana Health Coverage Program website. In addition to the aforementioned, mitigating controls, OMPP will conduct periodic desk reviews of the enrollment files to verify appropriate C&T documentation is current and meets health and safety standards.

This finding is considered to be open.

**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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility; Allowable Cost/Cost Principles
Internal Control:	Significant Deficiency

**Finding:**

Several errors were noted during our testing of provider enrollments at EDS, the Medicaid fiscal agent contractor. Of 26 provider enrollment files tested, 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:

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(Continued)

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 is misspelled in AIM when compared with the provider's license.

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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."

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(Continued)

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.

**Status of Finding as of September 2009:**

OMPP has designed a work process to address this audit finding. Additionally, every six months OMPP reviews and updates the Provider Enrollment Operation Manual which is the primary source for the work process flow. The workflow is a control used to address the issues noted in the audit finding. OMPP has a dedicated full-time staff person and the IQMU group to perform validation of between actual procedures performed and the documented work flows of the Provider Enrollment unit. Due to OMPP staff turnover and staff turnover in the fiscal agent's Provider Enrollment Supervisor position, prior action which may have been taken on the questioned costs, coordination with the Indiana Medicaid Fraud Control Unit (MFCU), and on the errors noted in the finding is unknown.

This finding is considered to be open.

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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Significant Deficiency

**Finding:**

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.

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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.

**Status of Finding as of September 2009:**

FSSA continues to investigate the reporting to determine if any additional corrections are needed. This finding remains unresolved.

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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Significant Deficiency

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**Finding:**

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 No. 901732788 was issued for \$14,402,041 and check No. 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 (b) (1): "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 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.

**Status of Finding as of September 2009:**

An OMPP policy-Monthly Capitation Payment Review Process has been implemented to ensure the financial payments made to each MCO/Region match the total capitation amount due to each MCO/Region. This is done by comparing two OnDemand reports. The MGD-0002-M report is generated for each region of each MCO and lists the individual capitation amount due by member with a total given at the end of the report. The FIN-6006-W lists the electronic fund transfer amount for each region of each MCO. The amounts for each MCO/Region from the two reports are entered on an excel spreadsheet, Capitation Comparison, and verified to match.

Part 2 of the Monthly Capitation Payment Review Process is a review done by the fiscal agent, currently EDS, on a sample of individual members. The sample is pulled from the capitation listing reports created during the monthly capitation payment process. Each MCO, Region, and Category Code combination is eligible to be included in the sample pull. The resulting sample includes each MCO and region and selected capitation category codes. The paid capitation amount as listed on the MGD-0002 Capitation Listing report for each member in the sample is checked for accuracy. The data is reported on an excel spreadsheet, Monthly Member Capitation Payment Sample Review.

CO 1161 implemented in July 2008 corrected errors in MGD-0002-M which in one part detailed the listing of capitation payments, and in another, summarized the payments. This correction of errors in report MGD-002 along with the monthly validation review of the capitation payment process described in the foregoing paragraph adequately address the audit finding.

This finding is considered to be closed.

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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:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Reporting
Internal Control:	Material Weakness

**Finding:**

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 thru 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.

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45 CFR 92.20 (b)(1) states: "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 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.

**Status of Finding September 2009:**

Quality Assessment Fees (QAF) for Medicaid participating nursing facilities are calculated and provided to EDS, the fiscal agent, to be offset from current claims for active providers in lieu of being billed to the nursing facilities. When the fees are offset against claim payments net expenditures are reduced. These offsets need to be reported in the State's financial records as an expenditure adjustment to correctly account for the federal funds. However, the MAR reports from EDS reflect actual claim expenditures before non-claim specific adjustments. The expenditure adjustments on the State's financials were added to the CMS-64 for QAF assessments resulting in double counting as the claim reduction was not included in the MAR reports used to compile most of the CMS-64.

1. Procedures are now in place to accurately record QAF offsets on the CMS-64.
2. A line 10a adjustment reducing expenditures on the CMS-64 for the QE September 30, 2007, was completed to correct prior reporting errors. Adjustments made on the CMS 64 in the quarters ending September 30, 2007, and March 31, 2008, corrected \$269,169,856 (\$169,138,368 federal) of the prior reporting errors from finding 2006-FSSA-7. Of the remaining \$11,809,498 of this finding \$7,756,202 was reported as a decreasing adjustment to Line 4B on the CMS-64 for the quarter ending December 31, 2008, and \$4,053,296 is on the CMS-64 for the quarter ending June 30, 2009, as a decreasing adjustment to line 5.

The finding should now be resolved.

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:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Allowable Costs/Cost Principles, Reporting
Internal Control:	Significant Deficiency

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(Continued)

**Finding:**

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 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 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(a))

"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.

**Status of finding as of September 2009:**

The federal Payment Management System does not allow entry of expenditures above the authorized grant amount. FSSA has implemented procedures whereas only expenditures posted during a federal fiscal year are drawn from that years grant. Supplemental Medicaid grant request for a current

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(Continued)

year grant award are submitted in lieu of using prior year grant funds which may still be authorized. These changes should allow a clear record of expenses charged to each Medicaid grant. In addition Accounting Operations, Federal Funding and the OMPP controller monitor Medicaid grant balances periodically and at year end.

This finding is still open.

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:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Reporting
Internal Control:	Significant Deficiency

**Finding:**

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.

**Status of Finding as of September 2009:**

The federal expenditures on the CMS-64 will not equal the cash expenditures reported on the agency's grant schedule. CMS requires prior year claim adjustments to be reported as prior period adjustments reported at prior year FMAP rates. There is no requirement to adjust the FMAP rates on the current funding of these adjustments. In addition, expenditures may be reported on the CMS-64 for CMS review prior to drawing federal funds.

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(Continued)

As part of the corrective action plan an executive summary reconciling all entries to the financial forms used to compile the CMS-64 was in put in place in the second quarter of SFY 2008. This summary along with workpapers are reviewed by the Director of Federal Funding to insure that the expenditures to be reported on the CMS-64 reconcile to the monthly financial reports for the quarter. The reconciliation is copied into the Narrative section of the CMS-64 submission. An e-mail approval of the reconciliation is sent to the Federal Funding Specialist prior to any submission of the CMS-64. Reconciliations between the Total Computable expenses reported on the CMS 64 and Total Computable expenses per the grant records are performed. A reconciliation process between the federal expenses reported on the CMS 64 and the grant records is being developed.

This finding remains open.

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:	Significant Deficiency

**Finding:**

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.

**Status of Finding as of September 2009:**

DFR is overhauling its eligibility determination process. On October 22, 2007, the IBM-led Coalition took over data gathering and case processing operations in eleven counties. The Coalition instituted call centers, case management software and other operational tools to centralize, systemize, and standardize the case processing process. These structural changes are intended to ensure that eligibility policies will be implemented consistently across the state. Under the contract, the IBM-led Coalition is responsible for ensuring that case actions are taken correctly.

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(Continued)

DFR completed its TANF quality control (QC) pilot project in the spring of 2009. In September 2009, QC will test a new tracking system for TANF applications. In November 2009, case changes, applications, and redeterminations taken in October 2009 will be sampled and reviews begun in November 2009. QC will continue monthly reviews from that point on. The reviews will only cover cases processed in the Modernized areas of the state and the cases subject to review are error prone cases with earnings, income other than employment, or currently serving a sanction. This issue remains unresolved as of September 30, 2009. FSSA paused the Modernization roll-out in June 2008 with roughly one third of the TANF caseload is in a Modernized county. Due to problems with timeliness and other issues, FSSA and the Coalition initiated a 12-week review of the Coalition's efforts. This review resulted in more than 200 recommended changes to improve training, reduce turnover, add 350 more employees and introduce more technology to speed up approval of welfare applications and reduce error rates.

Based upon this review, FSSA required the IBM Coalition to submit a corrective action plan (CAP) and a detailed project plan to address these issues. The Coalition's primary focus is on improving timeliness and data gathering accuracy. To meet these goals the Coalition has hired more staff, improved staff training and instituted a much more thorough Quality Assurance program. FSSA approved the CAP on July 2, 2009. The goal of the CAP is for the Coalition to show improvements by the end of September 2009. FSSA will evaluate the CAP results in October 2009 to determine how to proceed.

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/Impact Manager
Phone Number:	232-4240
Compliance Requirement:	Eligibility
Internal Control:	Significant Deficiency

**Finding:**

During our audit of FSSA, we tested two hundred forty TANF cases that received payment in August 2005. We could not find evidence supporting the following: in twenty eight individual case files 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 age 18 and a full-time student in secondary school, 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)."

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(Continued)

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.

**Status of Finding as of September 2009:**

DFR is overhauling its eligibility determination process. On October 22, 2007, the IBM-led Coalition took over data gathering and case processing operations in eleven counties. The Coalition instituted call centers, case management software and other operational tools to centralize, systemize, and standardize the case processing process. These structural changes are intended to ensure that eligibility policies will be implemented consistently across the state. Under the contract, the IBM-led Coalition is responsible for ensuring that case actions are taken correctly.

On October 22, 2007, the Coalition established a document imaging center that scans all collateral and written material provided by an applicant or recipient. At first, only cases in counties operating in the new system will use the document center, but all documents for all cases will be scanned once the Modernization roll-out has been completed. The scanned documents are attached to the electronic case file. Indiana is a member of 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 member states.

Presently, 43 states and U.S. territories are members of PARIS including all of Indiana's neighboring states. The PARIS data provides quarterly TANF, Food Stamp and Medicaid eligibility for TANF families. Although the eligibility data is not specific to a month, it does inform us of past TANF eligibility to be investigated.

FSSA and IBM-led Coalition are researching the best way to incorporate this information into the eligibility determination process. The issue regarding documentation of overall TANF history has been resolved with the creation of the ICES out-of-state cash assistance screen. The use of PARIS supplements the ICES screen.

DFR completed its TANF quality control (QC) pilot project in the spring of 2009. In September 2009; QC will test a new tracking system for TANF applications. In November 2009, case changes, applications, and redeterminations taken in October 2009 will be sampled and reviews begun in November 2009. QC will continue monthly reviews from that point on. The reviews will only cover cases processed in the Modernized areas of the state and the cases subject to review are error prone cases with earnings, income other than employment, or currently serving a sanction.

This issue remains unresolved as of September 30, 2009. FSSA paused the Modernization roll-out in June 2008 with roughly one third of the TANF caseload is in a Modernized county. Due to problems with timeliness and other issues, FSSA and the Coalition initiated a 12-week review of the Coalition's efforts. This review resulted in more than 200 recommended changes to improve training, reduce turnover, add 350 more employees and introduce more technology to speed up approval of welfare applications and reduce error rates.

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Based upon this review, FSSA required the IBM Coalition to submit a corrective action plan (CAP) and a detailed project plan to address these issues. The Coalition's primary focus is on improving timeliness and data gathering accuracy. To meet these goals the Coalition has hired more staff, improved staff training and instituted a much more thorough Quality Assurance program. FSSA approved the CAP on July 2, 2009. The goal of the CAP is for the Coalition to show improvements by the end of September 2009. FSSA will evaluate the CAP results in October 2009 to determine how to proceed.

FINDING 2006 - FSSA-13, TANF ELIGIBILITY - VERIFICATION

Federal Agency:	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/Impact Manager
Phone Number:	232-4240
Compliance Requirement:	Eligibility
Internal Control:	Significant Deficiency

**Finding:**

During our audit of FSSA, we tested two hundred forty 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 has 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 the 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.

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(Continued)

**Status of Finding as of September 2009:**

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 conviction information from the Indiana Department of Corrections; however, even though this information is not specific enough to determine if the conviction was due to receiving benefits in multiple states or for some other reason, individuals convicted welfare fraud felony or misdemeanor are ineligible for TANF benefits.

FSSA will modify the ICES system to collect data on welfare fraud convictions available from the DOC file. FSSA and IBM-led Coalition are researching the best way to incorporate this information into the eligibility determination process. 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 is exploring methods of getting this information from the Indiana Department of Corrections. FSSA and IBM-led Coalition are researching the best way to incorporate this information into the eligibility determination process.

This issue remains unresolved as of September 30, 2009.

**FINDING 2006 - FSSA-14, TANF ALLOWABLE COST**

Federal Agency:	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 Manager
Phone Number:	232-4240
Compliance Requirement:	Eligibility, Allowable Cost
Internal Control:	Significant Deficiency

**Finding:**

During our audit of FSSA, we tested two hundred forty TANF cases that received payment in August 2005. We found that in twenty two of the cases the payments had not been correctly calculated. This was due to income being reported during the Income Eligibility and Verification System (IEVS) data exchange not being verified and used in the calculation of income, or recipients are not being placed on sanctions for not participating in IMPACT. This resulted in overpayments due to not reducing or eliminating payments due to increase in income. In one case the data exchange indicated a full year of income, but not reduction in benefits were made by the caseworker. These weaknesses resulted in an overpayment of \$2,749 or 5.15% of 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.

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."

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(Continued)

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

**Status of Finding as of September 2009:**

DFR is overhauling its eligibility determination process. On October 22, 2007, the IBM-led Coalition took over data gathering and case processing operations in eleven counties. The Coalition instituted call centers, case management software and other operational tools to centralize, systemize, and standardize the case processing process. These structural changes are intended to ensure that eligibility policies will be implemented consistently across the state. Under the contract, the IBM-led Coalition is responsible for ensuring that case actions are taken correctly.

DFR completed its TANF quality control (QC) pilot project in the spring of 2009. In September 2009, QC will test a new tracking system for TANF applications. In November 2009, case changes, applications, and redeterminations taken in October 2009 will be sampled and reviews begun in November 2009. QC will continue monthly reviews from that point on. The reviews will only cover cases processed in the Modernized areas of the state and the cases subject to review are error prone cases with earnings, income other than employment, or currently serving a sanction.

This issue remains unresolved as of September 30, 2009. FSSA paused the Modernization roll-out in June 2008 with roughly one third of the TANF caseload is in a Modernized county. Due to problems with timeliness and other issues, FSSA and the Coalition initiated a 12-week review of the Coalition's efforts. This review resulted in more than 200 recommended changes to improve training, reduce turnover, add 350 more employees and introduce more technology to speed up approval of welfare applications and reduce error rates.

Based upon this review, FSSA required the IBM Coalition to submit a corrective action plan (CAP) and a detailed project plan to address these issues. The Coalition's primary focus is on improving timeliness and data gathering accuracy. To meet these goals the Coalition has hired more staff, improved staff training and instituted a much more thorough Quality Assurance program. FSSA approved the CAP on July 2, 2009. The goal of the CAP is for the Coalition to show improvements by the end of September 2009. FSSA will evaluate the CAP results in October 2009 to determine how to proceed.

**FINDING 2007 - FSSA-1, MEDICAID GRANT REPORTING ERRORS**

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Reporting
Internal Control:	Material Weakness

**Finding:**

We found the following material reporting errors in our testing of the federal expenditure reports, CMS 64 for the fiscal year ended June 30, 2007:

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1. Quarterly reports of Medicaid program expenditures were overstated during the state fiscal year ended June 30, 2007, by total costs of \$298,063,942.02, with the federal share overstated by \$187,372,294.80. This overstatement was due to unnecessary quality assessment adjustments applied in reporting expenditures effective for the quarters ended September 30, 2006 and March 31, 2007, which were included in the quarterly reports for September 2006 and March 2007. 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, compounded by FSSA finance clerical errors. Our prior finding 2006-FSSA-7, MEDICAID GRANT OVERSTATED EXPENDITURES REPORTED disclosed this same error. The unnecessary adjustments causing the reporting error continued.

The total overstated expenditures listed above also included clerical errors which duplicated the reported total costs by \$98,338,940.82, with a federal share of \$61,933,864.93. Some adjustments were included in both line 4B and line 3 of the CMS64 report. Other adjustments were included as both current period and prior period adjustments increasing claims. The clerical errors were all contained in the CMS64 report for the quarter ending September 30, 2006. 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.

2. Disproportionate share hospital payments totaling \$248,986,653, with a federal share of \$155,938,105, were not separately reported within the federal expenditure report as is required. During fiscal 2007, the Medicaid contractor began to issue these as manual checks or system check adjustments at the request of FSSA. The reporting system had not been updated to properly classify these payments.
3. The CMS 64 quarterly reports for the Medicaid Administration grants reported \$4,849,991 less in federal expenditures than the grant accounting records and the total reported in the Schedule of Federal Financial Assistance for the state fiscal year 2007. Reconciliations were not prepared. We could not determine the basis for the reports and whether adjustments were needed in the grant records to reduce the federal costs.

As the reports were overstated by a total amount that is material to the Medicaid program, the associated internal control weaknesses were considered material weaknesses. In addition to weaknesses reported previously, the control environment is considered lacking as the material concerns included in the prior report were not communicated and monitored for corrections. The weaknesses included in our prior report were 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 lacked documented supervisory reviews.

45 CFR 92.20 (a) states: "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."

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(Continued)

We recommended that FSSA ensure that the federal CMS reports be revised to correct the identified errors. The reports for the administration grant should be reviewed and reconciled to the grant accounting records with appropriate adjustments made. 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 program costs reported to the state grant accounting records. The costs reported for the Administration grant should be reconciled to the grant accounting records.

**Status of Finding as of September 2009:**

New staff was assigned to the Medicaid area in SFY 2007 to improve Medicaid reporting including increased emphasis on timely filling of the report to allow time for management review. At the beginning of SFY 2008, FSSA developed an executive summary form for use in the review process of the CMS-64. The Executive Summary provides a concise listing of items to be reported on the CMS-64 for the quarter. Prior to final submission the executive summary is matched to the total computable expenditures reported on the Summary page of the CMS-64. Use of the Executive Summary began with the QE9/30/07 submission and is now included in the narrative filed with the CMS-64 report. Procedures were implemented beginning with the QE3/31/08 CMS-64 to forward DSH reporting sections to Myers & Stauffer, the State's vendor for reviewing cost reports, to determine DSH eligible amounts, so they can concur that all DSH payments reported match to the payments calculated by Myers & Stauffer for the quarter. No entries into the MBES CMS-64 reporting system will be made until items have been included on the Draft Executive Summary for the quarter and an e-mail response from the Director or a Deputy Director of Federal Funding approving the entries has been received.

The control weaknesses identified in this report (lack of formal risk assessment, lack of communication of new transaction types or other reporting modifications, lack of analytical review procedures and documented supervisory reviews) have been addressed and the changes incorporated into the new procedures as an integral part of this process by the new Medicaid supervisory staff.

1. On the CMS-64 for the QE 3/31/08, FSSA submitted a Line 10B prior period decreasing adjustment for FFY 2006 to line 4B, ICF/MR, in the amount of \$192,015,568 and for FFY 2007 to line 3, Nursing Facility Services in the amount of \$69,648,321 and to line 4B, ICF/MR, in the amount of \$8,745,687. On the CMS-64 for QE12/31/08, FSSA submitted a line 10B decreasing adjustments for line 4B ICF/MR to correct the remaining reporting errors from this portion of the finding.

This part of the finding is considered resolved.

2. FSSA made adjustments to the CMS-64 for the QE 3/31/08 removing expenditures from Line 1A and adding to Line 1B Inpatient Hospital Services. – DSH Adjustment Payments. This adjustment corrects the misreporting in SFY 2007.

This part of the finding is considered resolved.

3. The federal expenditures on the CMS-64 will not necessarily equal the cash expenditures reported on the agency's grant schedule. Occasionally 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. FSSA reviewed the CMS-64 submissions for SFY 2007 and compared them to the agency's financial records to determine if

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(Continued)

any prior year adjustments or advance claims were made resulting in the difference between the grant records and the CMS-64. Reconciliations between the Total Computable expenses reported on the CMS 64 and Total Computable expenses per the grant records are performed. A reconciliation process between the federal expenses reported on the CMS 64 and the grant records is being developed.

This portion of the finding remains open.

FINDING 2007 – FSSA -2, INACCURATE GRANT ACCOUNTING RECORDS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Allowable Costs/Cost Principles, Reporting
Internal Control:	Significant Deficiency

**Finding:**

The grant accounting records maintained by FSSA Finance are entitled Federal Expends and Allotments. These spreadsheets contain columns which are used to classify state accounting transactions into the federal and state cost components, as well as the federal program grant award funding period. The federal expenses are periodically summarized and recorded into the Federal Expense Tracking System (FETS), which is utilized to draw federal funds and is the source of the Schedule of Federal Financial Assistance.

We found that the federal costs per the grant accounting records (expends/allots) for the Medicaid program did not agree to those reported in the Schedule of Federal Financial Assistance for the fiscal year ended June 30, 2007. The total federal costs of the grant accounting records exceeded those of the Schedule of Federal financial assistance by \$26.7 million. These were comprised of material variances between grant program years of funding as follows. Fiscal 2007 federal expenditures recorded in the detail records for the 2006 grant year exceeded that of the FETS and the Schedule of Federal Financial Assistance by \$103.7 million. The federal expenditures recorded for the 2007 grant year were \$77 million less than the FETS and Schedule of Federal Financial Assistance. We identified errors in the grant accounting records maintained for the Medicaid Indigent Care Trust fund/center which occurred upon recording transfer transactions between state fund/centers. These are detailed as follows:

- The detail records overstated federal Medicaid costs (Program Year (PY) 2007) by \$13.3 million when a prior fiscal year payment was again recorded as a grant expense upon transfer of the activity to the Indigent Trust Fund.
- Another transfer between state accounts was also recorded in the detail records in error between different program years of funds which understated federal Medicaid costs (PY 2007) by \$85.9 million and overstated federal PY 2006 by \$86.4 million. The overstatement to PY 2006 for this transaction included an additional \$507,473 in matching costs.

The detail accounting records (fed expends/allots) had a remaining unaccounted for variance of \$12.9 million federal costs which exceeded the FETS and the Schedule of Federal financial assistance.

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(Continued)

Other inaccuracies and timing differences were also observed within the accounting records which could cause less federal share to have been claimed by the State.

FETS entries provided for audit were largely incomplete as certain grant records were omitted. However, we could ascertain from summary reports that the above errors were solely recorded within the underlying records.

Regular reconciliations between the supporting accounting records and the grant schedule were not done.

The conditions noted above result in a significant control deficiency.

"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 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(a))

We recommended that FSSA Finance reconcile and review supporting grant accounting records on a regular and timely basis during the fiscal year. We further recommended that FSSA Finance reconcile the balances in the detail accounting records as of June 30, 2007, to the Federal Expenditure Tracking System (FETS) to determine the cause of the \$12.9 million variance.

**Status of Finding as of September 2009:**

FSSA reviewed and corrected the SFY2007 Allot vs Expends to federal expenditures recorded in FETS for Medicaid Assistance and the Medicaid Indigent Care Trust Fund. During this review it was discovered that entries were made into the federal allotment column whereas the entries should have been entered as federal expenditures. Correcting entries were made to the Allot vs. Expends and adjustments were made to federal draws to correct differences.

Temporary control procedures have been established to validate all entries into FETS to the detailed accounting records for each federal grant at the end of each month. A standardized Allot v Expends has been issued which is submitted monthly to the Federal Funding Department. Federal Funding enters federal expenditures from the Allot vs. Expends and FETS into an Excel spreadsheet for comparison. The Federal Funding Specialist reviews the Accounting Operations recon packet and meets with the accountant to attempt to reconcile any differences. After PeopleSoft conversion, September 16, 2009 queries will be utilized to monitor federal project expenditures to expenditures entered into FETS. A variance between detail accounting records and the Schedule of Federal Financial Assistance remains.

The finding is still open.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

FINDING 2007 - FSSA -3, QUALITY ASSESSMENT FEE REFUNDS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Allowable Costs/Cost Principles, Reporting
Internal Control:	Significant Deficiency

**Finding:**

Nursing facilities pay the State of Indiana quality assessment fees (QAF) as part of a program approved by the federal government. These fees are a source of state funding to provide for increased rates for recognized quality measures. Most of these fees are collected as deductions from Medicaid payments issued. Upon recording Medicaid expenditures, the net payment amount is recorded in the Agency's grant records. The following quarter, the State records an adjustment to recognize the state fees collected and increase the federal share to that of the gross payments issued. The adjustment amount is taken from the total nursing facility QAF accounts receivable collected from a report issued by EDS, the Medicaid claims contractor. Another section of the report lists nursing facility QAF overpayments refunded by the State. EDS informed us that the refunds had not been deducted from the collections reported. As such, the total adjustment each quarter should include total nursing facility quality assessments less the nursing facility QAF overpayments refunded by the State. However, as of June 30, 2007, the QAF accounting adjustments had not been reduced by the amounts reported as QAF refunds. The total effect of not accounting for the refunds in the QAF adjustment entries, from the inception of the QAF program in the State fiscal year ended June 30, 2006 through June 30, 2007, is an overstatement of federal share of \$5,193,387. This results in a significant control deficiency.

We consider the overstatement of \$5,193,387 of federal expenditures to be questioned costs which may be required to be repaid to the federal government.

"To be allowable under Federal awards, costs must meet the following general criteria . . . (i). Be the net of all applicable credits." (US OMB Circular A-87 (C) (1))

We recommended that FSSA record the QAF adjustments net of the refunds issued.

**Status of Finding as of September 2009:**

Procedures were modified to reduce offsets by the QAF refund amounts each quarter. A template which subtracts the refunds from the QAF assessment collections is being used to calculate the amount to be adjusted on the state's financial records and draw additional federal funds.

An adjusting entry was made in the agency's financial records on March 26, 2009, resulting in the return of \$5,195,373 in federal funds for this finding. This amount was reported as a Line 10B prior period decreasing adjustment on the CMS-64 for the quarter ending March 31, 2009.

This finding is considered to be closed.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

FINDING 2007 - FSSA-4, REVIEW OF LONG-TERM CARE FACILITY AUDITS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions 2 – Inpatient Hospital and Long-Term Care Facility Audits
Internal Control:	Significant Deficiency

**Finding:**

FSSA-OMPP has a contractor that performs Medicaid-participating long-term care (LTC) facilities audits. These audit results may affect rates paid to LTC facilities. OMPP had a monitoring control in place that a copy of all completed LTC facility audit reports from the contractor are to be sent to OMPP's Compliance Division. OMPP Compliance is to consider the number and severity of adjustments indicated in the reports and use professional judgment to evaluate the continuing appropriateness of the internal risk level assigned to each facility. The assigned risk level is used to determine the timing of subsequent audits based on established rotation criteria.

We found that the OMPP had not reviewed all the LTC audit reports. The OMPP employee responsible for review estimated that 25% of audit reports received from June through December 2006 were reviewed but no audit reports were reviewed from January through June 2007. In a typical year, approximately 700 LTC audits were performed by the contractor.

The OMPP determined the audit risk level and timing based upon a spreadsheet prepared by the contractor listing the number, but not dollar amount, of adjustments. The spreadsheet did not include the number or severity of internal control findings, which could have impacted the risk assessment.

The conditions noted above result in a significant control deficiency.

42 CFR §447.253(g) states that: "The Medicaid agency must provide for periodic audits of the financial and statistical records of participating providers."

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 OMPP restore their review of audit reports. The amounts of adjustments identified in the audit reports, internal control findings, and severity of identified adjustments should be reviewed when re-evaluating risk assessments. Indication of review of audit reports should be marked on a permanent record to demonstrate: that all facility risk levels have been reviewed and evaluated; when the last audit report was received; when the last update to the risk level was made; and who updated the record.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

**Status of Finding as of September 2009:**

In January 2009, OMPP developed a risk assessment tool for Long-Term Care Facilities. An essential part of the risk assessment tool is as follows:

- Review prior audit findings
- Develop an understanding of reimbursement rate increase as a result of prior period adjustments
- Review the change in per diem cost that is under limits
- Review the number of years since the last facility audit
- Evaluate of the nursing facility report card
- Ascertain an internal control questionnaire from the facility

The assessment tool weights each of the aforementioned categories and provides the State with an overall risk level specific to that facility. Every Long-Term Care Facility is subjected to an annual risk assessment. The State prepares the audit schedule based upon the outcome results of the risk assessment.

This finding is considered to be closed.

**FINDING 2007 - FSSA-5, ON-GOING PROVIDER FEDERAL EXCLUSION VERIFICATIONS**

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions 4 - Provider Eligibility, Activities Allowed or Unallowed
Internal Control:	Significant Deficiency

**Finding:**

Controls are inadequate to ensure that each current active provider and the specific individuals and entities which the provider are required to disclose, had not attained federal exclusion status after the date of the most recent documented verification. The potential effect of continued active enrollment is improper payment to a provider after any disclosed individual or entity acquires federal exclusion status.

The EDS (Medicaid claims contractor) Provider Enrollment unit enrolls providers and maintains provider files. Providers are required to make disclosures of specific individuals and entities on the provider application. None of the individuals or entities required to be disclosed may be federally excluded. Prior to active enrollment of the provider, staff queries the federal Office of the Inspector General (OIG) exclusion database for all disclosed individuals and entities to make this eligibility determination and retains evidence in the provider's hardcopy file. Subsequent to initial enrollment, the federal exclusion verification procedure is only performed when a provider file update is necessary. Among other things, an update is necessary if an additional location is added, ownership changes, or recertification procedures are required due to the provider type or state of licensure. Evidence of verifications performed for provider file updates were not retained.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

When notifications of federal exclusions are received by the EDS Provider Enrollment unit, the name is queried in the AIMS, the Medicaid claims processing system, to identify if there was a match and, if found, to then begin the termination process. However, there were no comparisons made to OIG's full list of federal exclusions.

Additionally, disclosure information on the provider application was not entered electronically. This decreased the potential capability for systematic identification of affected providers upon learning of a federal exclusion of a disclosed individual or entity.

The conditions noted above result in a significant control deficiency.

42 CFR §1002.211(a) states: "Except as provided for in Sec. 1001.1901(c)(3), (c)(4) and (c)(5)(i) of this chapter, no payment may be made by the State agency for any item or service furnished on or after the effective date specified in the notice by an excluded individual or entity . . ."

We recommended that FSSA-OMPP strengthen procedures in place to ensure that no OIG excluded providers and those individuals and entities which the provider is required to disclose are actively enrolled in the Indiana Medicaid program. Sufficient evidence of all OIG federal exclusion verifications should be retained in the hardcopy provider file. We further recommended that individuals disclosed on the provider application be captured electronically for systematic identification of all interests for which a federally excluded individual or entity may have in providers actively enrolled in the Indiana Medicaid program.

**Status of Finding as of September 2009:**

OMPP implemented change order 245 on January 12, 2009, that modified the MMIS to download data from the OIG website monthly and perform a match against the provider enrollment information in Indiana AIM. Potential matches undergo further review by analysts in the Provider Enrollment Unit to verify information matches. This procedure provides assurance that no OIG excluded providers are actively enrolled in the Indiana Medicaid Program.

This finding is considered to be closed.

**FINDING 2007 - FSSA-6, FACULTY PHYSICIAN ACCESS TO CARE ADJUSTMENTS**

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Significant Deficiency

**Finding:**

FSSA-OMPP is authorized by the approved state plan to make adjustments to payments for services provided by faculty physicians to Medicaid recipients. These payments are made in order to maintain adequate access to such care, and in recognition of additional costs incurred in providing faculty physician services to Medicaid patients. There are two physician groups that were identified as qualified to receive these payments as faculty of the School of Medicine.

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(Continued)

The approved state plan, attachment 4.19B part V, 1.a. specifies the calculation method as follows:

". . . adjustments to payments for faculty physician services will be made quarterly by the office in an amount not to exceed the lesser of billed charges or an amount equal to the difference between:

- i. The amounts paid for services rendered to Medicaid recipients pursuant to the RBRVs fee schedule and
- ii. The amounts that are the usual charges as defined in c. below, for the same services."

Usual charges are defined for calendar years beginning after December 31, 2003, as "an amount equal to the amount of the immediately preceding calendar year's usual charges, increased by an amount that is equal to the applicable Medicare Sustainable Growth Factor as calculated pursuant to the formula at 42 USCS 1395w-4(f)(2)."

The plan further provides that results of an annual review will be applied to the quarterly payments for the following calendar year. Examples were given which indicate that payment reductions would occur if performance levels are not met.

Payments issued for the faculty physician access to care adjustments for calendar 2006 and 2007 were based upon estimates. The estimated payments for 2006 were the 2005 payments multiplied by the percentage change between 2004 and 2005. The estimated payments for 2007 were the 2006 estimate multiplied by the same percentage change between 2004 and 2005. The two faculty physician groups experienced rates of change between 2004 and 2005 of 17% increase and 15.5% decrease, respectively.

There also were no state contracts with the provider entities even though the payment adjustments were only based upon estimates, and as such could result in amounts owed back to the program.

During fiscal 2007, a total of \$41,666,667 was paid for 2006 and 2007 estimated faculty physician access to care adjustments. The federal share of these costs was \$26,087,500. By February 2008 the actual payments owed for these periods had not yet been calculated, nor had the effect of the performance measures been applied. Due to the use of the estimates only, we were unable to determine the accuracy of the payments issued. As a result, we consider the federal share of the amounts paid to be questioned costs which may be required to be repaid to the federal government.

The conditions noted above result in a significant control deficiency.

"The plan must describe the policy and the methods to be used in setting payment rates for each type of service included in the State's Medicaid program." 42 CFR 447.201 (b)

Indiana Code 4-13-2-14.2 requires that state agency contracts be in writing. Indiana Code 4-13-2-1-20 generally prohibits advance payments without the approval of the State Budget Agency.

We recommended that FSSA ensure that the faculty physician service adjustments are calculated in accordance with the approved state plan provisions. The amounts calculated for 2006 and 2007 should then be compared to the payments that were issued, with collection sought for any excess payments issued. Written state contracts should be issued to the faculty physician groups to specify the terms of the access to care adjustment payments and to document the performance attributes referred to in the plan.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

**Status of Finding as of September 2009:**

As noted above, OMPP believes that using estimates for the quarterly payments is reasonable based on the language in the state plan, Page 1c of section 4.9 B of the Indiana Medicaid State Plan. The calendar year 2006 year-end settlement was completed in August 2008, and the calendar year 2007 year-end settlement was completed in April 2009. One provider received additional payments for both years, while the other owed money to the State for both years and has repaid the amounts due. Quarterly payments of \$34.5 million were made for calendar year 2008, and the year end settlement calculation will be completed following the providers' one year claims filing period.

Since the CY 2006 and 2007 settlements have been finalized, and the money owed to the state has been returned, OMPP believes this finding should be resolved and intends to appeal this matter to CMS. As our opinions differ on this matter, the finding remains open.

FINDING 2007 - IDHS-1, REPORTING

Federal Agency:	U.S. Department of Homeland Security
Federal Program:	Homeland Security Cluster
CFDA Number:	97.067, 97.004
Auditee Contact Person:	Nancy Stevens
Title of Contact Person:	Controller, IDHS
Phone Number:	317-232-6199
Compliance Requirement:	Reporting
Internal Control:	Material Weakness

**Finding:**

During our audit of the Indiana Department of Homeland Security (IDHS), we could not reconcile the quarterly federal Financial Status Reports (SF 269A) and the Schedule of Federal Financial Assistance (Schedule) to the agency's grant ledger. The net total over reported on the SF 269A was \$1,791,704.85. In addition, we found \$2,064,896 of disbursements on the Schedule that could not be verified to the correct grant year. There was no review process in place to ensure that postings to the grant ledger were correct. There were no reconciliations of the federal financial reports to supporting accounting records. In addition, there was no review and approval process by a responsible official before filing. This is a material weakness.

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 IDHS implement adequate controls to ensure accurate and complete disclosure of financial information on both the SF 269A and the Schedule.

**Status of Finding as of September 2009:**

To address the differences noted by SBOA on the SF269A and to verify disbursements on the Schedule to the correct grant year, IDHS retained the services of Crowe Horwath, LLP to perform an audit of IDHS processes and internal controls. Processes and internal controls were implemented in June 2009 which will prevent or identify differences between the federal grant ledger, the SF 269A and

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(Continued)

ENCOMPASS. Beginning in November 2009, the grant ledger has been balanced with the Auditor of State. Starting in January 2010, the Accountant III began preparing the SF 269A with the Controller providing review and approval of the reconciliations and reports on behalf of IDHS. IDHS's grant ledger is currently being reviewed to improve the reconciliation template for balancing and audit purposes and procedures are currently being documented for the preparation, review and approval of the SF269A and the Schedule.

This finding will be resolved for the SFY 2010 A-133 audit.

FINDING 2007 - IDHS-2, CASH MANAGEMENT CONTROLS

Federal Agency:	U.S. Department of Homeland Security
Federal Program:	Homeland Security Cluster
CFDA Number:	97.067, 97.004
Auditee Contact Person:	Nancy Stevens
Title of Contact Person:	Controller, IDHS
Phone Number:	317-232-6199
Compliance Requirement:	Cash Management
Internal Control:	Significant Deficiency

**Finding:**

During our audit of the Indiana Department of Homeland Security (IDHS), IDHS could not provide adequate documentation to reconcile federal draw-downs to the supporting disbursements in the agency's grant ledger. This incomplete audit trail was due to incomplete grant ledger records. Thus, we could not verify whether IDHS received any advance federal funding which would result in interest due the federal government. This is a significant control deficiency.

28 CFR 66.20(a) states: "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 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."

We recommended that IDHS maintain accurate grant ledger records to ensure that federal draw-downs are correct.

**Status of Finding as of September 2009:**

The draw process was refined during the audit of processes and internal controls. Draws are done biweekly, and the grant ledger is clearly marked to identify the charges included in the draw. Beginning in January 2008, the grant ledger has been balanced with the Auditor of State. In December, 2008, the Accountant III started making the federal draws, with guidance from the Controller. To ensure adequate support is maintained for the draw downs, all disbursement activity is recorded on the grant ledger and the draw down payment history is printed from the PARS website. Both items are verified with the Auditor of State's records for verification prior to processing draws. Controls have been implemented to ensure updates to the grant ledger are not destroying historical data. The federal grant ledger is printed and attached to the SF 269 to verify the amount reported and the information used to document

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(Continued)

the report. An electronic copy of the spreadsheet is prepared quarterly and kept on file. IDHS's grant ledger was reviewed in June 2009 to improve the reconciliation template for balancing and audit purposes and procedures are being documented for the preparation, review and approval of the grant ledger.

This finding is resolved.

FINDING 2008 - FSSA-1, MEDICAID ADMINISTRATION GRANT - PERIOD OF AVAILABILITY

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Allowable Costs/Cost Principles, Period of Availability, Reporting
Internal Control:	Significant Deficiency

**Finding:**

The grant accounting records show that the federal share of expenses for the Medicaid Administration Grant 05 07 05 IN 5048 exceeded the grant award by \$14,017,440 at the grant cutoff date of September 30, 2007. Additional grant money was not requested. Instead, these Medicaid Administration expenses, which were disbursed during the 2007 grant award period, were transferred to the 2008 Medicaid Administration Grant 05 08 05 IN 5048 in October 2007.

We found that grant expenses incurred during the 2007 grant year, including the \$14,017,440 transfer of expenses to the 2008 grant, exceeded the final adjusted grant award by \$36,649,415. Our prior finding 2006-FSSA-8, Medicaid Administration Grant – Expenditures Over Award, and its status reported at September 2007 indicate a pattern of post-grant funding reductions which occurred for the grant periods ended September 30, 2005 and 2006. At September 30, 2007, the 2007 grant award per the Federal Payment Management System was \$122,591,000. After the 2007 grant 05 07 05 IN 5048 expired on September 30, 2007, CMS decreased the grant award by \$22,631,975. FSSA Finance could provide no explanation for this decrease in the grant award. Related federal notifications or correspondence were not provided for audit. This is an indication of insufficient verification of grant award amounts.

We have found the control environment lacking for the Medicaid program during fiscal 2008. As such, the related training, oversight, information and communication and control procedures were not designed in order to prevent or detect errors. It does not appear that new staff or managers were aware of period of availability requirements for grant accounting. We are also not aware of budget to actual or forecast reports which would be used to monitor the grant balance for Medicaid administration.

We consider \$14,017,440 of the disbursements from the 2008 Medicaid Administration Grant 05 08 05 IN 5048 to be associated with expenses before the period of availability of this grant. We consider these questioned costs which may be required to be repaid to the federal government.

We consider the federal expenditures reported in excess of the grant award of \$22,631,975 to be questioned costs which may be required to be repaid to the federal government.

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(Continued)

"Any cost allocable to a particular Federal award or cost objective under the principles provided for in the Circular may not be charged to other Federal awards to overcome deficiencies, to avoid restrictions imposed by law or terms of the Federal awards or for other reasons." (US OMB Circular A-87, Attachment A (C) (3) (c))

"Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period." (45 CFR 92.23 (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 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(a))

"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 grant period of availability be monitored, and when necessary, a grant award increase for Medicaid Administration costs be sought. 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. Federal awards and changes recorded to them should be verified to the associated requests and notifications, which should be retained and available for audit.

**Status of Finding as of September 2009:**

The federal Payment Management System does not allow entry of expenditures above the authorized grant amount. FSSA has implemented procedures whereas only expenditures posted to a federal fiscal year are drawn from that years grant. Supplemental Medicaid grant request for a current year grant award are submitted in lieu of using prior year grant funds which may still be authorized. These changes should allow a clear record of expenses charged to each Medicaid grant. In addition Accounting Operations, Federal Funding and the OMPP controller monitor Medicaid grant balances periodically and at year end.

This finding is still open.

**FINDING 2008 - FSSA-2. MEDICAID PROGRAM GRANT ACCOUNTING RECORDS**

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Allowable Costs/Cost Principles; Cash Management; Reporting
Internal Control:	Material Weakness

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(Continued)

**Finding:**

FSSA Finance maintains the grant accounting records in spreadsheets entitled Expend/Allots. Entries record the federal and state share of each source document and track expenses by the federal program year. The federal expenses are to be periodically summarized and recorded on the Federal Expense Tracking System (FETS), which is utilized to draw federal funds and is the source of the Schedule of Federal Financial Assistance.

We identified the following errors in the grant accounting records maintained for the Medicaid Assistance program:

1. We found that throughout fiscal 2008 largely only one type of transaction was being recorded as expense into the FETS and having associated federal funds provided. The daily transfers required to fund the Medicaid bank account were posted to FETS, but the other accounting entries were omitted. The omitted entries for the 2008 Medicaid Grant include additional expenses totaling \$190,384,855 as well as expense credits for program reimbursements which totaled \$205,195,109. These are considered material to the program and could result in interest owed to the federal government for days in which federal receipts exceeded expenses. The expend/allots records indicated a positive cash balance of federal funds held for a majority of the time from September 2007 through June 2008. At June 30, 2008, federal expenses were overstated by \$14,810,254 due to this error.
2. Other undocumented variances exist between expenses recorded on FETS as compared to the detail recorded on expend/allots from both the 2007 and 2008 Medicaid grants, resulting in further overstatement of federal expenses of \$914,430.
3. The federal share of certain repayments of Medicaid funds entitled CMIA-90 was recorded into the grant records as federal revenue instead of as a reduction of expenses. From August 2007 through June 2008, \$13,686,895 (federal) was recovered through CMIA-90 refunds and not returned until September 30, 2008.
4. During fiscal year ended June 30, 2008, the refunds associated with Nursing Facility Quality Assessment Fees (QAF) were not deducted from assessment fee collections when recording adjustments in the grant accounting records. This condition was reported in our prior finding 2007 - FSSA-3, Quality Assessment Fee Refunds. The federal share of expenses was overstated by an additional \$2,137,907 for the fiscal 2008 refunds omitted.
5. The federal share of expenses transferred from Medicaid to SCHIP for May and June 2007, was recorded inappropriately as an increase of federal revenue in the fiscal 2008 grant accounting records, instead of an expense credit. The transfer for May 2007 was not owed, as it had already been recorded during fiscal 2007. (See also 2008 - FSSA-3, SCHIP DUPLICATE EXPENSE). As of June 30, 2008, the federal expenses in the accounting records for Medicaid were overstated by \$4,012,932. Subsequent correcting entries over compensated the return of federal share by applying the total cost amount. As of September 30, 2008, the federal share of Medicaid expenses for this was understated by \$9,449,483.

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(Continued)

6. First Steps is a State of Indiana program which uses the Medicaid fiscal contractor, EDS, for claims payments and shares the Medicaid bank account. The electronic funds transfers issued for First Step expenses are not included in the calculation of Medicaid federal expense used to draw federal funds. They are posted as 100% state expense. State accounting entries to transfer the First Steps expenses from Medicaid Assistance to the First Step program are made weekly. During State Fiscal Year 2008, all the First Steps state transfer entries associated with the 2008 Medicaid grant, incorrectly divided the reversing expense entry between federal and state expense. However, no portion of the transfer received was owed to the federal government, as the expense was originally recorded correctly as state expense. Due to this error, at June 30, 2008, federal expenses were understated and state expenses were overstated by \$24,639,072.
7. Disproportionate Share Hospital repayments of \$119,548,587 (federal share) were received on May 23, 2008. This was not recorded as such in the accounting records. Instead, on May 28, 2008, an apparent reduction in the federal share requested for the bank deposit occurred. The calculations of the draw reduction were not fully evidenced or reconciled. We calculated that the reduction of the federal expense applied was \$121,013,089. As such, the effect was to understate federal expenses by \$1,464,502.
8. An intergovernmental transfer check received December 19, 2007, representing 100% state share was posted in the detail accounting record (expend/allots) as federal funds received. This was discovered as a reconciling item between FETS and expend/allots. The records at June 30, 2008, remained in error overstating federal balances and understating the state revenue and balance by \$2,350,530.
9. In researching special hospital payments completed during fiscal 2008, we identified that no accounting entry had been recorded to recognize \$6,381,051 of federal cost for a payment issued July 28, 2006. This overstated the state costs and understated the federal costs for the state fiscal year 2007.

The inaccurate accounting records caused the schedule of federal financial assistance for the Medicaid program to be in error. The errors described above caused the schedule of federal financial assistance to overstate Medicaid program federal expenses by \$9,458,844.

As was discussed in our prior finding 2007 - FSSA-2, Inaccurate Grant Accounting Records, neither regular, nor complete, reconciliations between the supporting accounting records and the grant schedule were done. Supervisory review of accounting procedures was incomplete. The omitted federal grant accounting entries described in number one, include transactions that are individually significant to the program, with cumulative totals that are material.

"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 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(a))

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

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With respect to cash management, ". . . grantees and subgrantees shall disburse program income, rebates, refunds, contract settlements, audit recoveries and interest earned on such funds before requesting additional cash payments." (45 CFR 92.21 (a)(2))

We recommended that FSSA Finance reconcile and review supporting grant accounting records on a regular and timely basis during the fiscal year. Adjustments should be recorded to correct identified errors. Procedures should be implemented to ensure that the requests for federal funds are accurate and complete.

**Status of Finding as of September 2009:**

On September 16, 2009, an accounting system was implemented to allow tracking of expenditures and a consistent method of determining federal share of expenditures. As statewide and FSSA processes are developed appropriate controls to enable management oversight may be put in place.

FSSA Accounting Operations reviewed the SFY 2008 financial records and made adjustments and corrections to the items in the original findings as noted below.

1. This was discovered by Accounting Operations and fixed in the State Fiscal Year 2009 accounting records prior to the SBoA audit. The correction was part of a line by line examination and revision of the SFY 2008 Allot vs Expends. New guidelines have been put into place regarding supervisor review. Accounting Operations developed a review packet required to be completed by each accountant for each fund center (prior to ENCOMPASS conversion). In the monthly reconciliation packet was a review and balancing between the expends verse allotments worksheet and FETS. These packets were reviewed by the Supervisors and the Accounting Manager. The method of adjusting the SFY 2008 Allot vs. Expends and the corrections made in SFY 2009 will be explained to the SBoA. This part of the finding remains open.
2. This part of the finding remains open.
3. The adjustment was entered into FETS prior to the grant ending to reduce draws of federal grant funds. The entries were originally booked on the expenses versus allotments not as a reduction of expenditures but as federal and State revenue based on AoS requirements that prior year revenue must be transferred as revenue. This reduced the need to draw federal funds.
4. The Qualify Assessment fee audit finding as booked on the Medicaid Assistance expenditure versus allotments on March 26, 2009, for the dollar amount of \$2,135,920.32 based on the FMAP for the year of the 2007.
5. The current reconciliation between the CHIP Package A and the CMS 64-21 for the waiver is identifying differences between EDS's reporting of Package A for the CMS 64-21 and what the State has booked in the accounting system. This part of the finding remains open.
6. The correction to restate federal expends by a \$24,639,072.12 increase on the Medicaid Assistance Expends vs Allotments was made April 8, 2009.

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(Continued)

7. The reduction to federal expenditures on May 28, 2008, of \$121,013,089 was an adjustment to total payments issued on May 23, 2008. The funding on May 27<sup>th</sup> and May 28<sup>th</sup> must be reviewed in total and compared to the payments issued. The FSSA supporting spreadsheet has been supplied to SBoA and FSSA will explain the funding and adjustments to agree on the correct number if any further adjustment is needed. This part of the finding remains open.
8. A correction to the SFY 2009 Allot vs Expends was entered on June 1, 2009, to reduce federal allotments (revenue) by \$2,350,530 and increase state allotments by the same amount.
9. Certified Public Expenditures (CPE) were previously not entered into the financial system as part of a payment. With the implementation of Project Costing CPEs may be recorded in the financial system. This part of the finding remains open.

This finding is still open.

FINDING 2008 - FSSA-3, SCHIP DUPLICATE EXPENSE

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Health Insurance Program
CFDA Number:	93.767
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Allowable Costs/Cost Principles; Reporting
Internal Control:	Material Weakness

**Finding:**

The State Children's Health Insurance Program (SCHIP) claims are processed and paid together with Medicaid claims by EDS, the Medicaid fiscal contractor. At the end of the month, EDS issues a summary report of the SCHIP expense. FSSA Finance uses the summary report to reduce the Medicaid fund expenses and increase the SCHIP fund expenses, in order to properly classify the program expenses as well as to apply the higher SCHIP federal match rate. Adjusting entries to move SCHIP expenses from Medicaid Assistance to SCHIP Assistance were not made during the first five months of the state fiscal year 2008. When adjusting entries were made in December 2007, the May 2007 adjustment, which had already been made in June 2007, was duplicated. As a result, federal expenses in the SCHIP Assistance fund are overstated by \$5,210,759. An additional \$13,109 is also in question as the federal expense recorded for the months of June through September 2007 had the higher matching rate applied which became effective October 1, 2007. The overstated federal expenses of SCHIP total \$5,223,868. The overstated expenses were also included in the total reported in the Schedule of Federal Financial Assistance as of June 30, 2008.

We consider the duplicate expense amount overcharged to the federal government to be material to the program. The error was neither prevented nor detected by an internal control. Controls were not present to ensure timely entries, with application of cutoff procedures to ensure prior period costs are not recorded twice in error.

The overstated federal SCHIP expenses of \$5,223,868 are considered questioned costs which may be required to be repaid to the federal government.

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(Continued)

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

45 CFR 92.20 (a) states: "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 Finance reconcile and review supporting grant accounting records on a regular and timely basis during the fiscal year. Internal controls should be designed in order to apply cutoff procedures to ensure prior period costs are not recorded twice in error. FSSA should process the necessary accounting adjustments to correct the identified errors.

**Status of Finding September 2009:**

The current reconciliation between the CHIP Package A and the CMS 64-21 for the waiver is identifying differences between EDS's reporting of Package A for the CMS 64-21 and what the State has booked in FETS. As part of the new PeopleSoft procedures being developed to regularly record periodic adjustments.

This finding is still open.

**FINDING 2008 - FSSA-4, GRANT ERRORS IN MEDICAID ADMINISTRATION AND SCHIP**

Federal Agency:	Department of Health and Human Services
Federal Program:	Medicaid Assistance Program; State Children's Health Insurance Program
CFDA Number:	93.778, 93.767
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Allowable Costs/Cost Principles; Reporting
Internal Control:	Significant Deficiency

**Finding:**

For the state fiscal year ended June 30, 2008, total computable expenses for Medicaid administrative grants were reported on the CMS 64 at \$27,997,955 greater than the expend/allot accounting records. Conversely, the federal share was reported on the CMS 64 at \$10,625,868 less than the expend/allots accounting records. We identified an error made in compiling the report which overstated total costs by \$10,321,964. This was caused by use of a detail transaction list that contained an error and had not been reconciled to the summary totals in expend allots. Another calculation error was made in May 2008 that understated the federal share reported for contract costs by \$11,993,248. The unidentified variance for total costs reported may be due to local program expenses recognized which are not included within the state's grant accounting records.

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(Continued)

We further identified errors in claiming the full federal administrative costs. The state reimburses the federal share of certain administrative expenses for Community Mental Health Clinics, recognizing that the local expenditures have provided the matching funds. The invoices then already have the federal matching rate applied. Due to a clerical error, the federal matching rate was applied a second time, resulting in an understatement of federal expense. The adjusting entry made to correct the error did not include all the invoices incorrectly posted. At June 30, 2008, federal expenses remain understated by \$3,265,517 (for Grant 5 08 05 IN 5048).

The expend/allots are similarly maintained for the State Children's Health Insurance Program (SCHIP) with detail and summary spreadsheet tabs. We found that the federal cash balance of the 2006 grant was overstated by \$2,400,000. This was caused by an understatement of the December 5, 2007, weekly total and federal expense amounts posted. This was a transcription error as the detail tab for the period was found to have included the full costs.

The conditions noted above result from a significant control deficiency. The detail accounting records and reports were not required to be balanced, and there was an incomplete supervisory review process. The accounting process also has not been designed to record and account for the noncash transactions necessary to recognize the local program expenditures within financial reports.

"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 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(a))

We recommended that FSSA Finance ensure that procedures are in place to regularly balance detail and summary accounting records for the Medicaid administration and SCHIP grants. Adjustments should be made to correct the errors detected in the Medicaid administration expenses recognized and reported, and in the SCHIP records. We also recommended that the costs reported for the Administration grant be reconciled to the grant accounting records. Consideration should be given to creating accounts necessary to classify, compile and accurately report the recognized local program expenditures.

**Status of Finding as of September 2009:**

FSSA is working toward consistent processes for recording Medicaid and CHIP expenditures. With the implementation of PeopleSoft expenditures can be recorded to projects based on the match rate to be assigned to the transaction. This allows approval and review of expenditures to ensure the proper federal match rate is being applied.

This finding remains open.

**FINDING 2008 - FSSA-5. GRANT ACCOUNTING INTERNAL CONTROL ENVIRONMENT**

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program; SCHIP
CFDA Number:	93.778, 93.767
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Federal Funding, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Allowable Costs/Cost Principles; Reporting
Internal Control:	Material Weakness

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

**Finding:**

During our audit of FSSA, we found multiple control deficiencies which when combined were considered to be a material weakness in the control environment for the grant accounting maintained for the Medicaid and State Children's Health Insurance Programs. A lack of control consciousness is indicated by the deficiencies identified in various other components of internal control. There was inadequate documentation of the components of internal control. Internal controls were not developed, reviewed or monitored for the grant accounting records. There was a lack of written accounting procedures for the grant records. Controls had not been designed to prevent or detect material errors within the grant accounting records or reports. Current fiscal year program findings indicate material errors which were not detected in the course of business. Previously reported internal control deficiencies were also not corrected.

All accounting staff assigned to Medicaid and SCHIP had changed in fiscal 2008. There were new staff in accounting entry and supervisor positions. There were a limited number of staff assigned considering the volume, and number of accounting systems and reports involved. There were a total of two to three accountants assigned to grant accounting and reporting. These new staff had to learn the grant accounting requirements as well as the systems involved. The staff are also responsible for monitoring the fiscal agent and the bank account. Due to a lack of procedures, schedules and limited number of experienced staff, multiple material errors were made in the grant accounting records as well as in federal reporting. There also were ongoing out of balance conditions, and the fiscal agent records were insufficiently monitored. The limited staff size also did not allow for a proper segregation of duties. We observed that the same person was performing duties such as handling receipts, preparing source documents, posting and reconciling records, largely without evidenced supervision. Grant accounting entries were not evidenced as reviewed. Some accounting entries were not adequately supported by actual entry forms, or calculations. Adjustments were at times combined with daily activity and not adequately documented. Reconciliations between the summary and detail grant accounting records were not performed during the fiscal year. Accounting entries necessary to return federal funds were delayed up to eight months. Even cursory review of the records detected operational errors as cash balances were indicated for the federal balance of the Medicaid and SCHIP programs.

FSSA did not monitor the fiscal agent balancing between its financial system and its reporting system. The balancing information had not been requested or provided to FSSA for the state fiscal year ended June 30, 2008.

Other program analysts and managers assigned by OMPP were also newly employed or assigned during fiscal 2008. These analysis processes are based upon claims information from the fiscal agent and were not designed to incorporate use of the grant accounting records. As such, the analysis did not serve as a compensating control mechanism.

"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 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(a))

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(Continued)

"Each agency, department, quasi, 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.
4. To properly utilize the state accounting system.
5. Maintain an effective and accurate accounting system for subsidiary and supplementary records.
6. Maintain and make available for audit, documentation supporting the validity and accountability of monies received or disbursed.
7. Perform duties in accordance with statute, regulations, state policy, contract provisions, and federal requirements as applicable." (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

"The federal government has communicated through the OMB Circular A-133 Compliance Supplement the theory that there are five components that comprise an internal control. These are: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. The existence of these components are markers that are used during an audit of a federal program to determine the completeness and effectiveness of internal controls. The Supplement describes each component in detail as well as provides possible characteristics that might identify the existence of each of these components. These components should be readily identifiable when establishing and implementing internal controls, especially for controls that impact a federal program." (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

We recommended that FSSA develop, review and monitor internal controls for the Medicaid and State Children's Health Insurance Fund grant accounting. Accounting procedures should be designed to prevent or detect errors or irregularities in the course of business. Duties should be assigned in a manner to ensure a proper segregation of duties. Staff size, qualifications and training programs should be reviewed in order to ensure that the controls can be effectively implemented.

**Status of Finding as of September 2009:**

FSSA is working toward consistent processes for recording Medicaid and CHIP expenditures. Processes are being put in place with the new PeopleSoft accounting system to address internal control issues. With an accounting system in place as of September 16, 2009, processes will be able to be established to allow review of all transactions and adjusting entries for proper internal controls.

This finding remains open.

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(Continued)

FINDING 2008 - FSSA-6, OVERPAID CAPITATION RATE

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:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Significant Deficiency

**Finding:**

Capitation rates for Managed Care contracts are calculated based on an actuary study. These rates are approved by CMS prior to use. As stated in Finding 2005 - FSSA-27, Incorrect Rate Applied for Managed Care, FSSA did not have a process in place to verify the rates were accurately entered into, or paid by the AIMS computer system.

We again found that an incorrect rate was entered and paid for managed care. The rate effective for January through June 2008, for Anthem's Northwest Region (1), Package A Child Ages 6-12 rate was \$83.69 per contract amendment 2. The rate we verified as entered into AIM was \$92.31. This is a difference of \$8.63 over the contract rate for each person. The overpayment occurred in August 2008, when the rate was adjusted retroactively in the computer. We were informed that this error occurred perhaps when fiscal agent staff were entering new contract rates for the July 1, 2008, contract amendment. The August 2008 Capitation Payment Listing Summary reports the payment adjustment was applied for 29,340 member months. At the excess rate of \$8.63, the total overpayment is \$253,204. The federal share of the total overpayment is considered questioned costs which may be required to be repaid to the federal government. Upon our inquiry, EDS recognized this error and was planning to enter a correction for a computer adjustment in April 2009.

FSSA and EDS did not have a process in place to detect these errors. FSSA does not perform a review of rates paid per the capitation reports once they are processed. When we began our audit tests, several reports were missing or incomplete. The fiscal agent located and completed these at our request.

"All payments under risk contracts and all risk-sharing mechanisms in contracts must be actuarially sound." (42 CFR 438.6 (c) (2))

"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 expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal contract 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 again recommended that OMPP implement a process to ensure the accuracy of rates placed in AIM and a process to check rates once reports are ran. Totals from the reports are used to pay the MCO's monthly and should include accurate totals. An adjustment to correct the overpaid amount should be processed.

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(Continued)

**Status of Finding as of September 2009:**

The specific capitation rate errors cited in this audit were corrected on March 2, 2009. The corrected capitation payments were processed on April 15, 2009.

Part 2 of the Monthly Capitation Payment Review Process is a review done by the fiscal agent, currently EDS, on a sample of individual members. The sample is pulled from the capitation listing reports created during the monthly capitation payment process. Each MCO, Region, and Category Code combination is eligible to be included in the sample pull. The resulting sample includes each MCO and region and selected capitation category codes. The paid capitation amount as listed on the MGD-0002 Capitation Listing report for each member in the sample is checked for accuracy. The data is reported on an excel spreadsheet, Monthly Member Capitation Payment Sample Review.

This finding is considered closed.

FINDING 2008 - FSSA-7, SURVEILLANCE AND UTILIZATION REVIEW AUDIT FILES

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions 1 – Utilization Control and Program Integrity
Internal Control:	Significant Deficiency

**Finding:**

The FSSA Office of Medicaid Policy and Planning (OMPP) contracted with Health Care Excel (HCE) to conduct the required Surveillance and Utilization Review (SUR) audits. The contractor was to perform claims utilization analysis to identify aberrant behavior as an indication of potential fraud and abuse. On-site audits of provider medical records were also then performed. Following the contract expiration, December 31, 2008, all files, databases and records were transmitted to OMPP. While these were generally made available to us, the staff was no longer available when we tested this function in 2009. As such, we were unable to make appropriate inquiries of contractor staff to verify the continuance of prior controls.

We tested a sample of audits to ensure the reports issued were accurate and complete and that the audits had consistently applied control procedures and appropriate methodology. There were 263 audits started during our audit period, of which 15 were selected for testing. Several documents or information necessary to support the work performed and the effectiveness of the contractor's services were missing from files tested, as described below.

- Recoupment files were missing for 5 of 13 (38%) cases tested that were identified for recoupment. Recoupment files generally contain a case activity log, a Provider Repayment Election Form (PREF) completed and signed by the provider to indicate provider's intentions with regard to repayment of the identified overpayments and interest, copies of the check and the daily check log, and a date stamp indicating the date that payment is received.

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(Continued)

- There was no evidence of internal supervisory review for 4 of 15 cases (27%). For one closed case, there was no supervisory review documented for any part of the case. For two cases, there was no documentation of supervisory review to approve closure of the case. For one case, there was no evidence of supervisory review for the final determination letter.
- Indiana Medicaid Fraud Control Unit (MFCU) releases were not documented for 2 of 15 cases (13%). The MFCU is a unit of the Office of the Indiana Attorney General. MFCU releases are obtained to allow HCE to proceed with a specified course of action (on-site audit, preliminary findings, recoupment, etc.) at each case milestone so that MFCU investigative activities are not jeopardized. According to the Memorandum of Understanding between FSSA's OMPP and the Office of the Indiana Attorney General, if HCE does not receive a response from MFCU within 10 business days after a list of proposed actions are sent, HCE may continue with the specified course of action. However, this practice is rare. There was no documentation in the files that this approach was taken.
- There was no evidence of the interest calculation to support the final determination letter for 3 of 13 cases (23%) which were identified for recoupment. For one of those cases, an OMPP employee also allowed the provider to change the interest due from \$6,891.86 to \$6,631.56 without any calculation or basis stated.
- One case did not contain evidence that the case objectives were met despite the case having been closed. The objectives of this type of case include the examination of medical records for early intervention of errors for new providers. There was no evidence that any medical records were either requested or reviewed. The extent of the information contained in the case file was a fax which stated that there was a phone interview to gain basic information regarding the operations and that the reviewer drove by the location after office hours.

At June 30, 2008, the contractor's records show a total of \$24.4 million as outstanding balances for 145 providers. These include 99 provider cases listed as awaiting state hearings and appeals dating back to 1999. OMPP is currently conducting follow-up with cases which were active as of when the contract ended. Furthermore, the federally mandated SUR function was contracted to EDS, the Medicaid fiscal agent, which only required SUR review of only 1 audit per month beginning in January 2009.

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; . . ."

42 CFR § 456.4 states that: "(a) 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."

Per IC 12-15-13-3(g): "If interest on an overpayment to a provider is due from the provider, the secretary [defined in IC 12-7-2-172 as the Secretary of FSSA] may, in the course of negotiations with the provider regarding an appeal filed under subsection (b), reduce the amount of interest due from the provider."

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(Continued)

Per IC 12-15-23-5: "If the administrator and a provider fail to enter into an agreement not more than sixty 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."

We recommended that FSSA develop and document a full control structure for the required surveillance and utilization review function. The open case files should be reviewed to identify the accuracy of the information and action necessary to collect amounts due the program or properly document uncollectable amounts. Interest calculations should be in accordance with IC 12-15-13-3 and documented. Outstanding audit cases that are not awaiting appeal should be certified to the Medicaid Fraud Control Unit in accordance with IC 12-15-23-5.

**Status of Finding as of September 2009:**

The Program Integrity Department (PI) has been charged with the responsibility of monitoring SUR activities for the Medicaid program. From July 1, 2008 until December 2008, Health Care Excel performed SUR related duties for both fee for service and pharmacy claims. The HCE contract was allowed to expire on December 31, 2008. On January 1, 2009, OMPP entered into a one year contract with EDS to perform the following SUR related functions: prepayment review, SUR audits, and SUR Hotline. Additionally, at this time, OMPP entered into a one year contract with Health Management System (HMS) to perform pharmacy concurrent audit reviews, desk reviews and onsite audits. During 2009, the OMPP issued two separate RFP's to replace the services performed by Health Care Excel. After the first RFP, a vendor was selected to continue performing pharmacy SUR work. After careful consideration of the respondents to the RFP, OMPP made the decision to transition fee for service SUR work in house.

In addition to the SUR related work EDS and HMS were performing, PI reviewed HCE open case files for accuracy. The department utilized nursing staff to review HCE audit findings. The department continued to follow up on HCE open audits and provide education to providers. The PI department performed a review of new providers. One new provider was selected to perform a "door knock" visit. However, for safety reasons, the PI department was advised not to proceed. The PI department made MFCU referrals based on utilization reviews. During this time, EDS performed utilization reviews of providers and recommend providers for audit. The providers they presented were submitted to MFCU for audit approval. However, due to an open investigation on the providers which was underway with MFCU, we did not receive approval from MFCU to move forward with the audits.

In May 2009, the department initiated 12 providers self audits after identifying aberrant billing patterns. The data utilized for the formation of audits was a combination of HCE and current utilization reviews. During this time, the department followed up on provider/member concern line inquiries and placed new providers on prepayment review.

OMPP continues to work toward audit resolution for this audit finding. The audit status remains open at this time.

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FINDING 2008 - FSSA-8, DUPLICATE HOSPITAL PROVIDER RECORDS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions 4 – Provider Eligibility, Allowable Costs/Cost Principles
Internal Control:	Significant Deficiency

**Finding:**

EDS, the Indiana Medicaid fiscal agent contractor, enrolls providers and assigns provider numbers which are referenced on claims. In testing this process, we identified that a new provider number was issued in May 2008 to a large hospital for its north Indianapolis facility. However, the previously assigned provider number for this hospital (location B of the east facility) remained open. As a result, the new provider number and location B were both open for billings during an overlapping time period beginning with an effective date of December 18, 2007. Both provider numbers were actively being used to file claims.

On December 18, 2007, the north hospital began operating under its own separate facility license issued by the Indiana State Department of Health. It also obtained a new tax identification number, National Provider Identifier (NPI), and Medicare number. At first, the new information was simply entered into the previously assigned location B provider profile. A May 7, 2008, email from a hospital representative described the history, issues, and potential impacts of various courses of action. As a result of the licensure change, the representative stated the correct resolution for their provider profile is to show an eligibility termination date of December 17, 2007, for location B, and to show an effective date of December 18, 2007, for the new provider number for the north hospital. EDS did not follow this course of action.

Further, when examined on April 15, 2009, the name and address for the hospital location B had been changed and now duplicates that of location D of the east facility, which is for the inpatient psychiatric unit located at the north hospital's campus. We were informed that the provider enrollment staff changed the name and service location address for location B but we did not receive information regarding the purpose or authority for this change.

An application for new enrollment was received by EDS during May 2008 to create a provider number for the north hospital alone. The disclosures section was inconsistent with the remainder of the application; resulting in uncertainty as to if the disclosures were current. The disclosures section was handwritten and used an old application form (June 2005) while the remainder of the application was typed and used the most recent application form (October 2007). The form requirements varied between the two versions as the more recent form required the signature of the disclosed person. The enrollment staff did not question the inconsistency. The enrollment staff also did not conduct the required query for federal exclusion of those disclosed until after we inquired. The relationship of the network hospitals was not clear from the disclosures.

The AIM system records for the B location showed that 3,734 claims were paid for dates of service from December 18, 2007 through April 15, 2009, for a total amount of \$2,377,046.58. We cannot readily ascertain if these duplicate other claims were submitted under either the new hospital number or for location D. Also, we are not certain at which location these claims were rendered.

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A facility which has more than one open provider number available to use for the same purpose does not allow appropriate application of surveillance and utilization review procedures. Furthermore, an inconsistent assignment of the location codes would deter claim analysis procedures. Additionally, because the provider's name and service location were changed for location B, there is an inadequate audit trail. The eligibility for location B should have been terminated without changing the provider name or address to that of a different facility.

42 CFR § 447.45 (f) 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."

42 CFR § 456.23 states: "The agency must have a post-payment review process that— (a) Allows State personnel to develop and review— . . . (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 § 456.4 states: "(a) The agency must— (1) Monitor the statewide utilization control program; (2) Take all necessary corrective action to ensure the effectiveness of the program; . . ."

42 CFR § 455.104 states: "(a) The Medicaid agency must require each disclosing entity to disclose the following information in accordance with paragraph (b) of this section: (1) The name and address of each person with an ownership or control interest in the disclosing entity or in any sub-contractor in which the disclosing entity has direct or indirect ownership of 5 percent or more; (2) Whether any of the persons named, in compliance with paragraph (a)(1) of this section, is related to another as spouse, parent, child, or sibling. (3) The name of any other disclosing entity in which a person with an ownership or control interest in the disclosing entity also has an ownership or control interest. This requirement applies to the extent that the disclosing entity can obtain this information by requesting it in writing from the person. The disclosing entity must—(i) Keep copies of all these requests and the responses to them; (ii) Make them available to the Secretary or the Medicaid agency upon request; and (iii) Advise the Medicaid agency when there is no response to a request. (b) (1) Any disclosing entity that is subject to periodic survey and certification of its compliance with Medicaid standards must supply the information specified in paragraph (a) of this section to the State survey agency at the time it is surveyed. The survey agency must promptly furnish the information to the Secretary and the Medicaid agency... (3) Updated information must be furnished to the Secretary or the State survey or Medicaid agency at intervals between recertification or contract renewals, within 35 days of a written request."

We recommended that the hospital location B be terminated effective December 17, 2007. We recommended that a comparison, and recoupment, if necessary, occur for claims paid under the provider numbers for locations B, D, and that of the new north hospital number. We recommended that situations considered new or rare be monitored closely by OMPP to ensure that federal and state regulations are met, the action is applied consistently with the use of thorough documentation, and the desired outcome is achieved. We also recommended that the most recent provider enrollment forms be required and obtained for the north hospital. The relationship of the network hospital structure should be identified and the required searches of the US Office of Inspector General federal exclusion database should be performed.

**Status of Finding as of September 2009:**

A claim analysis is underway for location B, D, and the north hospital provider number. Once the claim analysis is complete, OMPP can determine if terminating the location B back to December 17, 2007, is appropriate.

STATE OF INDIANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

The current platform to address ongoing issues and concerns includes a bi-weekly meeting with the enrollment unit to review OMPP goals and identified issues. This meeting allows opportunity for new and rare enrollment related items to be addressed. This will include identifying providers with multiple provider numbers with a single location.

As noted in the June 2009 status update, the enrollment forms were reviewed and found to be appropriate. EDS has also validated the hospital structure is consistent with the current enrollment documentation.

This finding is considered open and will be closed once the claim analysis for location B, D and north Hospital provider number is completed and appropriate determination can be made.

FINDING 2008 - FSSA-9, PHARMACY FACILITY PERMITS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions 4 – Provider Eligibility, Allowable Costs and Cost Principles
Internal Control:	Significant Deficiency

**Finding:**

Pharmacies participating in Indiana Medicaid are enrolled into AIM as a facility billing unit, using the pharmacy facility permit number issued by the Indiana Professional Licensing Agency (IPLA), for Indiana locations. AIM data for pharmacies is compared monthly with IPLA permit data in order to timely detect errors in recording AIM information and to identify unlicensed facilities. However, we found that the reports generated from the process were not being used to research and correct the pharmacy records or provider status in AIM. Nonmatched reports list pharmacy permits or pharmacist licenses which cannot be matched to the IPLA license file. Providers continue to appear on the monthly reports until action is taken in AIM or the status according to IPLA changes. The reports for the fiscal year ended June 30, 2008, largely listed the same findings each month. Each monthly report listed approximately 700 pharmacies whose AIM records did not agree to the IPLA. We found several errors and recurring entries listed which indicate that the non-matched pharmacy report has not been worked by EDS staff to research and correct errors.

We researched seventeen pharmacies on the June 2008 nonmatched pharmacy report with Indiana permits and identified problems with each as follows:

- There were ten pharmacies without an active IPLA permit but were active in AIM to bill. The IPLA permit numbers have been in "closed facility" status since as long ago as December 31, 2001. In March 2009, six of these had the AIM provider profile terminated after we notified EDS that the nonmatched report did not appear to have been worked. The Indiana Medicaid program is vulnerable to making inappropriate payments to providers which are active in AIM but do not have an active pharmacy permit.

STATE OF INDIANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

- There were four providers for which the permit number recorded in the provider's profile in AIM belongs to another pharmacy. Of these, one provider's actual IPLA permit is no longer active. As the correct permit number is not recorded in AIM, the reports will fail to identify if the actual facility is closed. The Indiana Medicaid program is also vulnerable to making inappropriate payments to providers which are active in AIM but do not have an active pharmacy permit.
- There were three providers with an active permit but the incorrect permit number was entered into AIM. As the correct permit number is not recorded in AIM, the reports will fail to identify if the actual facility is closed.

42 CFR §447.45(f) (1) (i) 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; . . ."

Indiana Code 25-26-13-20(a) and (b) states: "(a) A person desiring to open, establish, operate, or maintain a pharmacy shall apply to the board for a pharmacy permit on a form provided by the board . . . (b) If the applicant desires to open, establish, operate, or maintain more than one (1) pharmacy, he must file a separate application for each. Each pharmacy must be qualified by a different pharmacist." Indiana Code 25-26-13-21(a) states: "A pharmacy permit is not transferable as to location or ownership."

We recommended that FSSA and the fiscal agent use the reports generated to timely detect and correct inaccurate or unlicensed pharmacy facility permit numbers. A process to regularly archive inactive provider files in AIM should be implemented so that data comparisons between the AIM data and licensing data from IPLA are more effective. For closed pharmacies, the claims should be researched to identify and recoup payments made for any dates of service after a license or permit for the facility is no longer active. Such research and determinations should then be documented and retained for audit.

**Status of Finding as of September 2009:**

EDS is creating a business process to research discrepancies between Pharmacy permits in AIM vs permit numbers with the Indiana Professional Licensing Agency (IPLA). These business processes will be documented in the Provider Enrollment Procedures manual.

Inactive providers' enrollment record is end dated in AIM and viewable by individuals granted AIM access. This ensures the inactive provider is "archived" for the appropriate document retention time frame.

A claim analysis will be conducted to identify potential claim payment recoveries for providers who should have been end dated based on IPLA information. A claim analysis process will be included in the Provider Enrollment Procedures Manual.

This finding remains unresolved.

STATE OF INDIANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

FINDING 2008 - FSSA-10, OMPP AIM ACCESS, TRAINING AND CONTROLS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Terri Willits
Title of Contact Person:	Director of Finance, OMPP
Phone Number:	317-234-5553
Compliance Requirement:	Special Tests and Provisions – ADP Risk Analysis and System Security Review
Internal Control:	Significant Deficiency

**Finding:**

We found that the authorization forms for access to the claims processing system, AIM, were not retained by OMPP prior to May 2008. The former state employee who processed these was contacted and indicated that the AIM Request Access forms were shredded, without maintaining an electronic copy. The forms are to document the system access as authorized by the employee's supervisor, and list the employee's social security number and mother's maiden name. According to the OMPP HIPAA Security Policy and Procedure Manual, the forms are to be signed by the supervisor, submitted to the security coordinator and retained. They also are to have the signed confidentiality policy agreement attached. Without the forms, the access granted through OMPP is not evidenced as properly authorized. This primarily includes OMPP staff as well as some contractor's staff access as managed by OMPP.

The forms we observed as retained subsequent to May were not all signed by supervisors as they had been emailed from off-site contractors. The email was not retained with the forms. Also, there is no complete listing of all supervisors, for the state and contractors, who are approved to grant system authorizations. An improper request would not be detected under this process.

OMPP also maintains a system for privacy and security training courses which can be accessed on the internet. OMPP policy requires the training. The system used retains a record of those entered for accessing the courses, and the completion status. There is no control in place to verify the required training has been successfully completed prior to granting AIM access. There also is no follow up or comparison to ensure the training is completed. We compared eight staff listed with AIM access to the training system and found one who had never been entered to access the training courses. Another two staff had only completed one training segment each. On a regular basis, only two of the four on-line courses are now required.

OMPP did not have an officially named security administrator for the Medicaid program. After March 5, 2008, following a resignation, there was no longer a dedicated position assigned as privacy and security coordinator either. The duties were assumed by the Controller and a fiscal analyst, with the training administered by the receptionist.

"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 OF INDIANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

"State ADP security requirements shall include the following components: (i) Determination and implementation of appropriate security requirements as specified in section (f) (1) of this section. (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; . . . and H) Designation of an Agency ADP Security Manager." (45 CFR 95.621 (f) (2))

"A covered entity must train all members of its workforce on the policies and procedures with respect to protected health information required by this subpart, as necessary and appropriate for the members of the workforce to carry out their function within the covered entity." (45 CFR 164.530(b) (1))

The OMPP HIPAA Security Policy and Procedure Manual specifies the following:

- "Access to electronic PHI will be granted to authorized OMPP staff members. Prior to receiving access, approval must be obtained by the appropriate management, and all authorizations will be maintained by the OMPP Security Coordinator (and/or Privacy Coordinator)." (Section 5)
- "The OMPP Security Coordinator will be responsible for ensuring that all staff, including existing staff and new staff that will join OMPP in the future, participates in a security awareness and training program, and receive a passing score on the post-training evaluation. Training components will address, in detail, all components contained in this manual.

New staff members will be required to receive training within the first two weeks of employment." (Section 6)

- "All OMPP staff will be trained and certified on the security policies and procedures as contained in this manual. The OMPP Security Coordinator will maintain records of such training. . . . Documentation will be maintained by the OMPP Security Coordinator for six years from the date of its creation or the date when it last was in effect, whichever is later. (Section 14)

We recommended that FSSA obtain and retain the security access forms and confidentiality agreements for all who have been granted access to AIM or its related software reporting or test systems. This would include a process to identify and confirm those supervisors who may properly authorize such requests. A procedure should be implemented to ensure that all staff with access have completed the required training in privacy and security policies. Furthermore, an agency ADP Security Manager should be officially designated for the Medicaid program in accordance with 45 CFR 95.621. Such manager should be sufficiently qualified not only to develop and monitor the state's own policies and procedures, but also to oversight the risk assessment process for the security of the entire AIM system as managed by contractors.

**Status of Finding as of September 2009:**

The OMPP has completed an initial reconciliation of all privacy/security training completed with AIM access. This reconciliation will be performed on a quarterly basis and results will be shared with appropriate staff for action, if necessary.

The OMPP is in the process of reviewing the IndianaAIM Access form for completion. The OMPP will maintain electronic copies of IndianaAIM access forms and any supporting documentation in a secure location. Access will be limited to two OMPP staff. IndianaAIM access and HIPAA training will be renewed annually.

STATE OF INDIANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

OMPP Finance will collaborate with state departments and contractors to obtain a list of management personnel. As part of the completion review mentioned above, the list of authorization management personnel will be cross referenced to the IndianaAIM request form. The aforementioned controls outlined above will detect and prevent improper access to IndianaAIM and ensure system users are properly trained in HIPAA compliance.

This finding remains unresolved.

FINDING 2008 - DCS-1, INADEQUATE DOCUMENTATION

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, Division of Child Services
Phone Number:	317-232-4758
Compliance Requirement:	Activities Allowed or Unallowed
Internal Control:	Control Deficiency

**Finding:**

During our audit of Department of Child Services (DCS) Child Support Program, we found multiple disbursements to County Clerks and County Prosecutors that had no source documentation such as paid bills. Furthermore, although DCS has an agreement with the County Clerks and County Prosecutors requiring the subgrantees to submit source documentation, DCS was not enforcing it. As a result, we could not trace 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. This is a control deficiency.

45 CFR 92.20(a) states: "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 -- ... (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 (b) states: "The financial management systems of other grantees and subgrantees must meet the following standards: (6) *Source documentation*. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

We recommended that DCS accounting procedures be sufficient to 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 by enforcing the submission of proper source documentation by County Clerks and County Prosecutors to support disbursements. We further recommended that claims from subgrantees without the proper source documentation not be paid.

STATE OF INDIANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

**Status of Finding as of September 2009:**

The federal government allows supporting documentation to reside with the other government agencies. The agreement between DCS and the local offices indicates that they do not have to supply the receipts, payroll records, etc. to DCS. The exception is that they must submit documentation for travel reimbursement and capital outlay expenses. DCS will require documentation for all travel reimbursements and capital outlay expenses.

This finding is considered resolved.

FINDING 2008 - ISDOH-1, SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE-REPORTING ERRORS

Federal Agency:	Department of Agriculture
Federal Program:	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
CFDA Number:	10.557
Auditee Contact Person:	Allen Collier
Title of Contact Person:	Director of Finance
Phone Number:	317-233-7852
Compliance Requirement:	Reporting
Internal Control:	Material Weakness

**Finding:**

During our audit of the Indiana State Department of Health (ISDOH) we found that the Schedule of Federal Financial Assistance had multiple errors. The largest was an omission of \$38,382,543 as amount passed down to sub recipients for the WIC 2007 program. ISDOH did not clearly define their sub recipients. These errors if left uncorrected would have resulted in material misstatement to the Schedule. The insufficient controls and lack of an adequate overall review process of the Schedule contributed to the potential of errors. This is a material 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 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."

We recommended that the ISDOH strengthen 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 financial results.

**Status of Finding as of September 2009:**

The ISDOH response committed...*to have one accounting person (Accountant or Controller) prepare the report and another accounting person (either another Controller or the Director of Finance) review sub-recipient vs. vendor determinations and figures before the report is submitted.*

STATE OF INDIANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

ISDOH has complied with this commitment. The Schedule of Federal Financial Assistance report for FY09 was produced by ISDOH Accountant Mike Fouts and was reviewed before submission by ISDH Controller Derek Deuth. ISDOH considers this finding resolved with these controls.

FINDING 2008 - DWD-1, CASH MANAGEMENT - TRADE ADJUSTMENT ASSISTANCE

Federal Agency:	U.S. Department of Labor
Federal Program:	Trade Adjustment Assistance
CFDA Number:	17.245
Auditee Contact Person:	Scott Sanders
Title of Contact Person:	Chief Financial Officer
Phone Number:	317-232-7472
Compliance Requirement:	Cash Management
Internal Control:	Control Deficiency

**Finding:**

During our audit of the Department of Workforce Development (DWD), we found that DWD maintained federal funds drawn down for the Trade Adjustment Assistance grant for an excessive period of time prior to expending those funds. The funds were maintained at the agency for an average of 20 days before they were expended.

31 CFR 205.11(a) states: "A State and a Federal Program Agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the State's payout of funds for Federal assistance program purposes, whether the transfer occurs before or after the payout of funds."

We recommended that DWD draw down the federal funds either after the State pays out of the funds or within a couple of days of payout of the funds.

**Status of Finding:**

In our follow-up on this issue, DWD found that the Trade Adjustment Assistance (TAA) programmatic funds were erroneously drawn to cover TAA administrative expenses. The TAA program funds are booked in Auditor of State AOS fund/center f/c 6000/182400 when they are received, while the admin expenses and funds are booked in AOS f/c 6710/151000. Once this was identified, DWD took action to correct the issue and our controls to prevent this from occurring in the future.

In an over-all attempt to improve our Cash Management efforts, DWD implemented a new Cash Management Plan effective January 2009. This revised plan includes linking cash draws to GL entries that adjust expenses between funding sources as well as FIFO'ing expenses between grants.

**"Other Draws**

Monthly, the amounts charged to projects by JV, ID Bill, GL Adjustments and Allocations should be reviewed to determine totals by Project. Once a month these totals can also be processed through the Federal System, if needed, to adjust the amounts draw for each program. (Source of information to be determined, Ex: Budget, Les Williams & ARU)"

STATE OF INDIANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

With this monthly review adjusted draws are made in a regular timely manner, as needed. In addition to the above change, the Analysis and Reconciliation Unit has changed its review of cash balances to include the AOS f/c as well as the funding source. We will continue to monitor this process and follow the established Cash Management Plan.

This finding is considered resolved.

FINDING 2008 - DWD-2, CASH MANAGEMENT - CAREER AND TECHNICAL EDUCATION

Federal Agency:	Department of Education
Federal Program:	Career and Technical Education -- Basic Grants to States
CFDA Number:	84.048
Auditee Contact Person:	Scott Sanders
Title of Contact Person:	Chief Financial Officer
Phone Number:	317-232-7472
Compliance Requirement:	Cash Management
Internal Control:	Control Deficiency

**Finding:**

During our audit of the Department of Workforce Development (DWD), we found that DWD maintained federal funds drawn down for the Career and Technical Education -- Basic Grants to States grant for an excessive period of time prior to expending those funds. The funds were maintained at the agency for an average of 119 days before they were expended.

31 CFR 205.11(a) states: "A State and a Federal Program Agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the State's payout of funds for Federal assistance program purposes, whether the transfer occurs before or after the payout of funds."

We recommended that DWD draw down the federal funds either after the State pays out of the funds or within a couple of days of payout of the funds.

**Status of Finding:**

In our follow-up on this issue, DWD found that the excess cash draw in this instance was a result of the Grant Close-out process. When closing out a grant, DWD uses the FIFO (First In First Out) method of accounting which moves expenses from current year funds to the oldest available grant funds. When expenses were FIFO'ed to the expiring grant, the related cash that had been drawn when the expenditures were initially made, was not adjusted to match the change in the expenditures.

To finalize the close-out of a grant you must balance your cash draws and expenditures reported in the grant. At that time, all funds reported as expended must be drawn. When the funds were drawn to close out the grant, an adjusting entry should have been made in the GAP system (the federal system from which DOE funds are drawn) which would have returned the current year funding that had previously been drawn.

STATE OF INDIANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)

A review of our system reflected that we did not have a link between General Ledger (GL) entries, such as FIFO'ing expenses, and our cash draw process. This omission in our procedures was identified by our internal audit procedures in November of 2008 and corrected prior to the SBOA finding.

In an over-all attempt to improve our Cash Management efforts, DWD implemented a new Cash Management Plan effective January 2009. This revised plan includes linking cash draws to GL entries that adjust expenses between funding sources as well as FIFO'ing expenses between grants.

**"Other Draws**

Monthly, the amounts charged to projects by JV, ID Bill, GL Adjustments and Allocations should be reviewed to determine totals by Project. Once a month these totals can also be processed through the Federal System, if needed, to adjust the amounts draw for each program. (Source of information to be determined, Ex: Budget, Les Williams & ARU)"

With this monthly review, adjusted draws are made in a regular, timely manner, as needed. We will continue to monitor this process and follow the established Cash Management Plan.

This finding is considered resolved.

STATE OF INDIANA  
SECTION II CORRECTIVE ACTIONS

The following are the corrective actions for Section II Findings.



# AUDITOR OF STATE

**Tim Berry**

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<http://www.in.gov/auditor>

March 23, 2010

Ms. Jennifer Marshall, CPA  
Indiana State Board of Accounts (SBOA)  
302 W. Washington Street  
Indiana Government Center South, Suite E418  
Indianapolis, IN 46204

Dear Ms. Marshall:

This letter provides official responses (statuses) for current and prior year financial statement findings for inclusion in the State's Single Audit Report for the fiscal year ended June 30, 2009.

**FINDING 2003 - CAFR-1, LEASES (US HHS Recommendation Code 209926100)**

Auditee Contact Person: Steve Daniels  
Title of Contact Person: Deputy Auditor of Fiscal Operations  
Phone Number: 317-233-9817  
Internal Control: Material Weakness

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 and Quasi Agencies, Chapter 1)

**Status of Finding as of March 2010:**

The State of Indiana implemented ENCOMPASS (Enterprise Common Processing and Analytics Systems) as its new statewide financial management system on September 16, 2009. This new system establishes common standards for accounting structures to enable streamlined financial processing and reporting. This system provides a mechanism for leases to be properly reported and recorded by the State's business units. The actual operating environment within ENCOMPASS that business units are now experiencing should assist in correcting this finding.

The Indiana Department of Administration (IDOA), Procurement Division, is responsible by state law to maintain the State's lease records. IDOA has issued the "Lease Guide for EPro and Purchasing Users" that establishes the framework of procedures that business units of the State are to adhere to for recording and reporting of leases in ENCOMPASS. These procedures include a requirement that users entering a purchasing transaction into the system are required to

click a checkbox if the acquisition of an asset is through a lease. Upon a user successfully recording a lease into the system, the user must submit a Lease Order Form to IDOA for review and determination of the lease as a capital or operating lease. Procedures and job aids which take a user step by step from initiation of a lease transaction to its ultimate recording in the system exist.

Staff of the IDOA, Auditor of State (AOS), Office of Management and Budget (OMB)/State Budget Agency (SBA), and State Board of Accounts (SBOA) are continuing to meet, research and work towards putting procedures in place that will enable complete and accurate lease records for financial reporting. The anticipated date for completely resolving this finding is with the fiscal year ending June 30, 2011.

FINDING 2005 - CAFR-1, CAPITAL ASSETS (US HHS Recommendation Code 220913100)

Auditee Contact Person: Steve Daniels  
Title of Contact Person: Deputy Auditor of Fiscal Operations  
Phone Number: 317-233-9817  
Internal Control: Material Weakness

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 previously agreed to assume the responsibility for maintaining those records. Procedures have been established which require all state agencies to send timely updates of purchases of land, equipment, buildings and related improvements, and retirement and sale of assets 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 and Quasi Agencies, Chapter 1)

**Status of Finding as of March 2010:**

The State of Indiana implemented ENCOMPASS (Enterprise Common Processing and Analytics Systems) as its new statewide financial management system on September 16, 2009. This new system establishes common standards for accounting structures to enable streamlined financial processing and reporting. The State's business units are required to record and report their asset acquisitions in ENCOMPASS Asset Management (AM). Procedures and job aids exist for assisting business units' users for properly recording and reporting assets in AM. The State through its Government Management Information Systems (GMIS) project office (part of the Indiana Office of Technology) provides regular asset management training opportunities for users and will continue to do so for now. The actual operating environment within ENCOMPASS that business units are now experiencing should assist in correcting this finding.

A revised and updated State capital asset policy was issued in July 2009 and is available on the AOS' website. The availability of this policy was communicated to all business units' CFOs/controllers/financial staff through ENCOMPASS Town Hall meetings and is also referenced in the Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies. The purposes of the policy include stressing the importance of safeguarding the investments of the citizens of the State of Indiana and assigning accountability and responsibility to report capital assets. The policy changed the State's capital asset threshold to \$500.00 and incorporated the implementation of GASB number 51, Accounting and Financial Reporting for Intangible Assets.

The AOS provided fiscal year 2009-2010 closing instructions to business units on March 2, 2010. These instructions reminded them to have all fixed asset additions, retirements, and changes made in ENCOMPASS with complete chartfield information by July 3, 2010. The AOS also recently sent another reminder communication to business units informing them that their retroactively reportable and current year acquired/placed into service intangible assets should also be in ENCOMPASS.

The anticipated date to resolve this finding is with the fiscal year ending June 30, 2011.

**FINDING 2007 - CAFR-1, GRANT REPORTING (US HHS Recommendation Code 209922100)**

Auditee Contact Person: Steve Daniels  
Title of Contact Person: Deputy Auditor of Fiscal Operations  
Phone Number: 317-233-9817  
Internal Control: Material Weakness

The State of Indiana does not have an adequate process in place for the compilation of a complete and accurate schedule of federal awards (grant schedule). In addition to reporting federal grant activity in the Single Audit Report, this schedule is used in the calculation of accruals for grants receivable and deferred revenue in the financial statements.

The State's process for compiling the grant schedule requires each agency that receives federal financial assistance to prepare a schedule that reflects fiscal year grant activity. This schedule includes beginning cash balance, federal receipts, program expenditures, ending cash balance, and funds passed through to subrecipients, for each grant award. We found various errors in the agency-prepared grant schedules. These errors if left uncorrected would have resulted in the

misstatement of the accruals for grants receivable and deferred revenue in the financial statements as well as incorrect grant schedule reporting. These errors are the result of a largely manual process that exists for the preparation of the schedules by agencies. Additionally, internal controls are not in place to provide a centralized review of the agency prepared schedules nor is there a centralized compilation of the various schedules into a comprehensive schedule for the State.

Adequate grant schedule reporting should be prepared to ensure that grant related activities are properly presented in the State's financial statements in accordance with standards issued by the Governmental Accounting Standards Board.

OMB Circular A-133 requires a recipient of federal awards to prepare appropriate financial statements, including the schedule of expenditure of federal awards.

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 and Quasi Agencies, Chapter 1)

**Status of Finding as of March 2010:**

Business units that receive federal funds are required to prepare a Schedule of Federal Financial Assistance accurately and timely upon the close of each fiscal year end. These schedules are required to be provided to the SBOA as part of their annual statewide single audit conducted pursuant to OMB (Federal Agency) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Requirements for business units receiving federal financial assistance are provided in Chapter 7 (Federal Financial Assistance) of the Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies).

The State's new statewide financial accounting system, ENCOMPASS, was designed to account and report federal financial assistance received by business units using the Project Costing module. An 'Expenditure of Federal Awards' report (SOIPC102) was developed within this module that contains some of the information (Business Unit number, Catalog of Federal Domestic Assistance (CFDA) number, Source, Program Title, Project ID, Grant Number, Grant Award Amount, Receipts, and Disbursements) required by the business to complete their Schedule of Federal Financial Assistance. The report needs to be modified so that it includes all of the information required to complete the schedule. The report modifications needed are the inclusion of beginning and ending cash balances, amount passed down to subrecipients, and the PeopleSoft and CAFR fund numbers. A GMIS issue will be submitted that requests that the system report that produces the schedule be modified to encompass all needed information. In addition, for the report to be produced accurately agencies must populate all needed fields in this module.

The AOS and OMB/SBA will require business units to develop and maintain procedures for the preparation and timely submittal of an accurate annual Schedule of Federal Financial Assistance. Business units will be required to provide their internally approved procedures to the AOS and OMB/SBA by April 28, 2010.

AOS and the OMB/SBA will instruct business units to prepare and provide their fiscal year 2010 Schedule of Federal Financial Assistance accurately and timely by August 25, 2010 to the SBOA, AOS, and OMB/SBA. Each business unit will be reminded that they are accountable and responsible for conducting a complete and thorough review of their schedule for accuracy prior to its submittal to the SBOA, AOS, and OMB/SBA.

FINDING 2008 - CAFR-1, CONSTRUCTION IN PROGRESS

Auditee Contact Person: Steve Daniels  
Title of Contact Person: Deputy Auditor of Fiscal Operations  
Phone Number: 317-233-9817  
Internal Control: Material Weakness

The Indiana Department of Administration (IDOA) and the Indiana Department of Transportation (INDOT) maintain databases of the State's construction in progress (CIP) activity. Procedures in place to report to the Auditor's office the activity and balances at year end were not adequate to ensure that construction in progress balances reported for external financial reporting were accurate. Our testing of INDOT construction in progress balances disclosed right of way projects that were completed but were not properly capitalized. Additionally, our testing of IDOA projects disclosed ongoing maintenance projects that were improperly capitalized. These errors resulted in a prior period adjustment to restate beginning CIP balances for IDOA and a recalculation of CIP balances for both IDOA and INDOT at year end for external financial reporting.

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

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 and Quasi Agencies, Chapter 1)

**Status of Finding as of March 2010:**

The State issued a revised Capital Asset Policy in July 2009 applicable to all State of Indiana business units. This policy includes work (construction)-in-progress sections applicable to IDOA's and INDOT's reporting of CIP balances and information. The section applicable to IDOA reads:

*Work-in-progress consists of all design, consultant, and/or construction projects in progress that will lead to either a new capital asset or one that will increase the useful life, functionality, or efficiency of an existing capital asset. Work-in-progress does not include completed construction projects. The capitalization threshold of \$500.00 or more applies to work-in-progress construction projects. Maintenance and preventative maintenance projects for capital assets are not to be included in work-in-progress. Work-in-progress is required by GASB standards to be reported as a capital asset in the government-wide financial statements published in the CAFR.*

*Pursuant to state law, the Public Works Division (PWD) of the Indiana Department of*

*Administration manages almost all of the work-in-progress construction projects undertaken by business units. The PWD is responsible for issuing and mailing to a public works contractor, along with the purchase order from the business unit, the letter of authority to proceed. They are also responsible for reviewing and approving all requisitions, purchase orders, and payments made in a capital project on the ENCOMPASS system. The BU is responsible for setup and maintenance of capital projects, including finalizing and moving to Asset Management when complete. Expenditures of capital projects not completed at year end are to be considered as work-in-progress for the CAFR.*

The section in the updated policy applicable to INDOT reads:

*INDOT shall maintain records to facilitate reporting RoW and infrastructure subsystem work-in-progress as capital assets.*

*For incomplete capital projects, project costs shall be accumulated, recorded, and reported as work-in-progress. The capitalized costs associated with infrastructure assets shall be categorized between "in progress" and "completed" for all eligible costs incurred during the specified reporting period. Work-in-progress shall be accumulated and retained in ENCOMPASS' project costing module with sufficient detail to support future update to the roads and bridges inventory. The date on the letter relieving the contractor from further obligation will serve as the date that triggers the transfer of a project from work-in-progress to a complete and capitalized project. The project will be reported as capitalized at the end of each current quarter.*

*INDOT will provide the Auditor of State's office with annual reporting from ENCOMPASS of RoW and infrastructure work-in-progress. This annual report is due on July 31 of each fiscal year.*

The AOS and OMB/SBA will meet with IDOA and INDOT staff responsible for reporting CIP balances for inclusion in the CAFR. The objectives of these meetings will be to continue discussions and efforts towards identifying improvements that can be made for accurately reporting their respective CIP balances. Both IDOA and INDOT will be reminded of the need for them to prepare and strengthen internal reviews of their CIP reports for completeness and accuracy which includes correctly identifying projects as capital or maintenance prior to submittal to the AOS.

#### FINDING 2008 - CAFR-4, LOCAL OPTION INCOME TAX

Auditee Contact Person: Steve Daniels  
Title of Contact Person: Deputy Auditor of Fiscal Operations  
Phone Number: 317-233-9817  
Internal Control: Significant Deficiency

The State Budget Agency and the Department of Revenue maintain and provide information essential to the establishment of individual Trust Balance History Reports. These Reports track each county's beginning and ending Local Option Income Tax (LOIT) balances, collections, distributions, and interest earned. These individual Reports are provided to State Board of Accounts to be compiled and audited for external financial reporting in the State's CAFR. In

compiling and auditing LOIT during fiscal year 2008, we found erroneous transactions totaling over \$683 million in overpayments that were not caught prior to payment due to lack of adequate payment approval controls but rather were reported by the counties upon receiving the excess payments. In fiscal year 2009, additional payment approval controls were implemented by the State. However, in compiling and auditing LOIT for fiscal year 2009, we found erroneous transactions totaling over \$2.7 million in under and overpayments that were not caught by the State prior to or subsequent to payment due to a lack of a reconciliation process in place for LOIT. This condition results in a lack of internal control over the State's LOIT.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An agency's control environment consists of the overall attitude, awareness and actions of management and the governing board or commission. This would include establishing and monitoring policies for developing and modifying accounting systems and control procedures. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

**Status of Finding as of March 2010:**

SBA staff will develop and begin performing monthly reconciliations that reconcile the certified and any adjusting distributions issued to counties to the actual distributions made per ENCOMPASS. The formulation of a documented reconciliation process including completion of the first one to cover distributions made for the period from July 1, 2009 through February 28, 2010 will be completed by March 31, 2010. Monthly reconciliations thereafter will be completed by the tenth day of the following month. By the third business day of each month the AOS' Director of Settlements shall forward to the SBA's Assistant Director of Tax and Revenue an itemized list of certified and adjusting distributions made to each county during the previous month. The SBA's Assistant Director of Tax and Revenue shall forward copies of completed reconciliations to the AOS' Director of Settlements by the fifteenth day of each month. The reconciliations provided to the AOS' Director of Settlements will note any prior month distribution made in error along with the needed correction. The Director of Settlements in the Auditor of State's office will make any needed correction to distributions by the end of each month.

The SBA will research the \$2.7 million in under/over payments and if any corrections to distributions are necessary, they will be made by May 31, 2010.

**FINDING 2008 - CAFR-5, MEDICAID (US HHS Recommendation Code 212923100)**

Auditee Contact Person: Steve Daniels  
Title of Contact Person: Deputy Auditor of Fiscal Operations  
Phone Number: 317-233-9817  
Internal Control: Material Weakness

As reported in the prior audit, adequate procedures were not in place in fiscal year 2008 to properly report the Medicaid Assistance Fund transactions made by the Medicaid fiscal agent for accrual recognition or to display quality assessment fees as revenue. The State accounting records only post the net disbursement issued to fund the Medicaid checking account. In fiscal year 2009, adjusting entries were submitted by FSSA for external financial reporting to properly recognize accounts receivable, accounts payable and to display the quality assessment fees as

revenues. However, we found that these adjustments omitted calculations and entries to record the associated expenses and receivables to the new ARRA fund.

We also found that there is no state policy regarding recognition of the full accrual of Medicaid claims expenses. The adjustments submitted were found to have an inconsistent base applied, with the prior period adjustment for June 2008 being calculated based on nine months of subsequent claims history, and the June 2009 based upon only three months. The computations were not based upon actuarial methods to recognize incurred cost.

Adequate procedures should be in place to ensure accruals and other adjustments needed to fairly state Medicaid Assistance Fund activity and balances for external financial reporting in accordance with standards issued by the Governmental 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 and Quasi Agencies, Chapter 1)

**Status of Finding as of March 2010:**

AOS and OMB/SBA staff with the assistance of the SBOA's CAFR Auditor-in-Charge will continue to work with FSSA staff to improve upon the progress made last year so that their submittal of accruals and other adjusting entries for the Medicaid Assistance Fund and any associated fund is correct for proper reporting in the CAFR. Our work will include investigating the adoption of a state policy for the full accrual recognition of Medicaid expenses that will materially report incurred, but not yet paid, claims as of each fiscal year end based on actuarial methods. Medicaid and any associated fund adjustments and accruals will either be made prior to fiscal year end in ENCOMPASS or provided within a reasonably timely period subsequent to fiscal year end by FSSA to AOS, OMB/SBA, and the SBOA.

**FINDING 2009 - CAFR-1, UNEMPLOYMENT INSURANCE**

Auditee Contact Person: Steve Daniels  
Title of Contact Person: Deputy Auditor of Fiscal Operations  
Phone Number: 317-233-9817  
Internal Control: Material Weakness

The Indiana Department of Workforce Development (IDWD) is the responsible agency for the collection of unemployment taxes and the payment of unemployment benefits. When the tax is collected by IDWD from an Indiana employer, IDWD receipts the monies into the state's records and then transfers the funds to the US Department of the Treasury. The US Department of the Treasury maintains the funds in a Trust Fund. When an individual is eligible to receive unemployment compensation, IDWD must draw down the funds from the US Department of the Treasury to pay those claims. These funds are drawn down on a daily basis. In February 2007, IDWD no longer issued checks to claimants, but began issuing the unemployment compensation via a debit card. At that same time, IDWD ceased reporting the draw downs and the payment of unemployment benefits in the Auditor of State's records. The Unemployment Compensation Fund is the responsibility of the State of Indiana and is reported in the State's Comprehensive

Annual Financial Report (CAFR) as a proprietary fund. However, since IDWD does not record the draw downs from the US Department of the Treasury and expenditures for the unemployment benefits, the State must make large adjustments in order to materially report the Unemployment Compensation Fund within the CAFR. IDWD did not receive approval from either the Auditor of State or Budget Agency to cease reporting these monies within the Auditor of State's records.

Adequate procedures should be in place to ensure accruals and other adjustments needed to fairly state Unemployment Insurance Fund activity and balances for external financial reporting in accordance with standards issued by the Governmental Accounting Standards Board.

The Auditor of State system and reports issued constitute 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. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

The accounting system structure is defined as the methods and records (established by the Auditor of State) to identify, analyze, classify, record, and report the State of Indiana's transactions and to maintain accountability for the related assets and liabilities. The account structure for the state provides for the preparation of Indiana's comprehensive annual financial report in conformity with generally accepted accounting principles, as prescribed by Governmental Accounting Standards Board pronouncements. The Governmental Accounting Standards Board is the authoritative accounting and financial reporting standard setting body for governmental entities throughout the United States. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 2)

**Status of Finding as of March 2010:**

AOS and IDWD are currently working to re-establish recording draw downs from the UI Trust Fund and unemployment benefit expenditures on the State's statewide accounting system (now ENCOMPASS). IDWD plans to have all draw downs and benefit payments for fiscal year 2010 activity recorded to ENCOMPASS by June 30, 2010.

If you have any questions or require further information, please contact Steve Daniels, Deputy Auditor of Fiscal Operations, at 233-9817 or via email at [sdaniels@auditor.in.gov](mailto:sdaniels@auditor.in.gov).

Sincerely,



Tim Berry  
Auditor of State  
State of Indiana



Ryan Kitchell  
Director  
Office of Management and Budget



"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

Anne Wallermann Murphy, Secretary

March 26, 2010

Bruce Hartman, SBOA State Examiner  
Indiana State Board of Accounts  
200 W. Washington St. Rm. 212 State House  
Indianapolis, IN 46204

Dear Mr. Hartman:

Thank you for your work in preparing the SFY 2009 A-133 Audit report and for closing twelve of the Prior Year Findings.

In addition to the twelve closed findings, FSSA considers the following Prior Year Findings closed with one exception, 2007-FSSA-2, which is partially closed:

1. Finding 2005-FSSA-5: Grant Schedule/Medicaid, IV-D, CCDF

FSSA Response:

FSSA currently has written procedures for the preparation of the Schedule of Federal Financial Assistance report. No issues at this time. FSSA considers this issue closed.

2. Finding 2006-FSSA-8: Medicaid Administration Grant Expenditures Over Award

FSSA Response:

FSSA does not agree with the finding, as CMS works through a close out process at the end of the Federal Fiscal Year in which they adjust the most recently ended grant award to expenditures reported on the CMS-64. CMS adjusts the prior grant award for prior period expenditures reported on the CMS-64. Prior to FFY 2010, CMS operated on a pool authorization and adequate funding remains in the MT pool to cover all reported costs. CMS verified this process in correspondence dated March 11, 2010 to the Director of Federal Funding, which was shared with the SBoA on March 24, 2010.

3. Finding 2007-FSSA-2: Inaccurate Grant Accounting Records

FSSA Response:



Reconciliation and Review Recommendation – Resolved

A report showing federal expenditures calculated from expenditures posted in PeopleSoft compared to the federal expenditures posted to the Federal Expenditure Tracking System (FETS) is generated and reviewed monthly. Differences between the two systems are followed up with the accountant assigned to the grant project. This control is designed to ensure that expenditures in FETS used to complete the A-133 grant schedule reconcile to the grant records in the PeopleSoft accounting system.

Reconciling Balances as of June 30, 2007 Recommendation – Open

Cause of variance still under investigation.

4. Finding 2007-FSSA-6: Faculty Physician Access to Care Adjustments

FSSA Response:

Since the CY 2006 and 2007 settlements have been finalized, and the money owed to the state has been returned, OMPP believes this finding resolved and intends to appeal this matter to CMS. FSSA considers this finding closed.

5. Finding 2008-FSSA-1: Medicaid Administration Grant – Period of Availability

FSSA Response:

FSSA does not agree with the finding, as CMS works through a close out process at the end of the Federal Fiscal Year in which they adjust the most recently ended grant award to expenditures reported on the CMS-64. CMS adjusts the prior grant award for prior period expenditures reported on the CMS-64. Prior to FFY 2010, CMS operated on a pool authorization and adequate funding remains in the MT pool to cover all reported costs. CMS verified this process in correspondence dated March 11, 2010 to the Director of Federal Funding, which was shared with the SBoA on March 24, 2010.

For the new findings for SFY 2009, FSSA disagrees with the following findings:

1. Finding 2009-FSSA -1: CHIP Matching Rate Errors

FSSA Response:

FSSA does not agree with this finding. As stated in the State Board of Accounts finding “We consider a State agency’s expenditure for services under title I, IVA, IV-B, IV-D, IV-E, X, XIV, XVI (AABD), XIX, or XXI to have been made in the quarter in which any State agency made a payment to the service provider.” 45 CFR 95.13(b). Capitation payments to providers for CHIP services were paid in October 2008. Therefore, the

September expenditures referred to in this finding are actually October 2008 expenditures for which the correct enhanced FMAP was applied.

2. Finding 2009-FSSA-8: Medicaid Administration Grant Reporting and Award

FSSA Response:

FSSA does not agree with the finding, as CMS works through a close out process at the end of the Federal Fiscal Year in which they adjust the most recently ended grant award to expenditures reported on the CMS-64. CMS adjusts the prior grant award for prior period expenditures reported on the CMS-64. Prior to FFY 2010, CMS operated on a pool authorization and adequate funding remains in the MT pool to cover all reported costs. CMS verified this process in correspondence dated March 11, 2010 to the Director of Federal Funding, which was shared with the SBoA on March 24, 2010.

In the exit conference your office requested corrective action plans and responses for the Prior Year and Current Year open findings and these are attached.

If you have any questions or comments, please feel free to contact us.

Regards,



Megan Ornellas  
Chief Financial Officer

FSSA A-133 PRIOR FINDINGS

OPEN  
SFY 2009

Finding Number	Finding Title	Internal Control	Federal Program	CFDA Number	FSSA Response	Remain Open or Considered Closed
2003-FSSA-16	Ongoing Verification of Provider Medical License	SD	Medicaid	93.778	The status of the audit findings is unresolved. OMPP is working to develop the appropriate controls to address the audit finding.	Open
2004-FSSA-5	Supervision of Local Offices of Family and Children (OFCs)	SD	CHIP, Medicaid	93.767, 93.778	Finding remains unresolved. FSSA is waiting on new eligibility system after the cancellation of the IBM contract.	Open
2004-FSSA-6	Death Verifications	SD	CHIP, Medicaid	93.767, 93.778		Open
2004-FSSA-8	Provider Enrollment (HCBS Waivers, First Steps)	SD	CHIP, Medicaid	93.767, 93.778	This finding is considered to be open while additional steps are taken by HP and OMPP to verify the waiver project.	Open
2005-FSSA-1	Cash Management Documentation of Procedures	SD	various (system)	93.778	FSSA Accounting Operations has developed a process for reconciling project expenditures from PeopleSoft to federal draw. The process will be enhanced to trace back to specific expenditures as the accounting staff becomes comfortable with the new accounting system. Finding remains open until reconciliation project is complete.	Open
2005-FSSA-4	PSC 272 Quarterly Reports	SD	Child Support, Child Care Cluster	93.563, 93.575, 93.596	FSSA has written procedures for completing the PSC-272 report, now known as SF-425. FSSA accounting operations is implementing a project reconciliation process to ensure expenditures entered into FETS are reflective of PeopleSoft expenditures. Finding will remain open until reconciliation project is complete.	Open
2005-FSSA-5	Grant Schedule/Medicaid, IV-D, CCDF	MW	Child Support, Child Care Cluster, Medicaid	93.778, 93.563, 93.575, 93.596	FSSA currently has written procedures for the preparation of the Schedule of Federal Financial Assistance report. No issues at this time. FSSA considers this issue closed.	Closed
2005-FSSA-10	Overpaid and Undocumented Manual Payments Issued	SD	CHIP, Medicaid	93.767, 93.778	OMPP will obtain the workpapers from SBOA on the identified overpayments. Based upon examination of the workpapers, OMPP shall make a payback determination.	Open
2005-FSSA-15	C&T Process - Monitoring of Contractor	SD	Medicaid	93.778	The status of the audit findings is unresolved. OMPP is working to develop the appropriate controls to address the audit finding.	Open
2005-FSSA-16	Tracking of Certification and Transmittal (C&T)	SD	Medicaid	93.778	The status of the audit findings is unresolved. OMPP is working to develop the appropriate controls to address the audit finding.	Open
2005-FSSA-17	Contractor Monthly Status Report Statistics	SD	Medicaid	93.778	OMPP will inventory all fiscal agent contract requirements and determine a schedule for monitoring selected service levels. OMPP intends to include First Data, a contractor to the State, in oversight activities. First Data's duties include validating the appropriateness and accuracy of the methodologies and data sources the fiscal agent uses in reporting contractual compliance via the fiscal agent's monthly status report. First Data will also validate the information reported in the fiscal agent's monthly status report is accurate. The fiscal agent retains reports, documents, and the methodologies used to calculate the statistics presented in the monthly status report on a shared drive accessible by First Data. First Data will report their reviews and findings to OMPP via a monthly status report. If a piece of information in the fiscal agent's monthly status report is found to be inaccurate, First Data will report the finding to OMPP and recommend a resolution. OMPP will review First Data's monthly status report and document any recommendations made. OMPP will document decisions and any actions taken as a result of First Data's recommendations.	Open
2005-FSSA-18	Inactive Provider Records	SD	Medicaid	93.778	The status of the audit findings is unresolved. OMPP is working to develop the appropriate controls to address the audit finding.	Open
2005-FSSA-19	Ongoing Out-Of-State License Verification	SD	Medicaid	93.778	EDS Provider Enrollment Unit is investigating sources of licensure data to be used for regular monitoring of licenses of Out-of-State providers that are enrolled with the Indiana Medicaid program. Once reliable sources of information are identified, steps can be taken to systematically review enrollment information in AIM against the licensure data to provide for an on-going review process similar to the process used for in-state providers.	Open
2005-FSSA-20	Timely Follow-up of License Termination	SD	CHIP, Medicaid	93.767, 93.778	Upon review of change order 939, it was deemed ineffective in mitigating the noted audit finding. EDS Provider Enrollment Unit has documented the monthly process to be followed by the unit when providers are identified as no longer having a valid license through the recurring IPLA data match and their enrollment is terminated based on working certain reports. Step 5 of this process instructs the analyst to "end date the provider's eligibility in IndianaAIM with the date IPLA states the provider's license expired." To ensure that this process is followed consistently and timely, OMPP and the Independent Quality Management Unit (IQMU) share responsibility for monitoring the EDS Provider Enrollment Unit to ensure consistent adherence with this practice. Change Order 1174, completed in May of 2008, made changes to the data matching reports to make the process more effective. Due to OMPP staff turnover, prior action which may have been taken on the questioned costs is unknown. However, as stated in the September 2009 status for 2003-FSSA-16, all reports are not being worked.	Open
2005-FSSA-21	Provider Enrollment - Contractor Monitoring	SD	Medicaid	93.778	The status of the audit findings is unresolved. OMPP is working to develop the appropriate controls to address the audit finding.	Open
2005-FSSA-23	AIMS Contractor Access Assignments and Controls Not Monitored	SD	CHIP, Medicaid	93.767, 93.778	The status of this finding remains unchanged. We continue to work toward implementing adequate internal controls to resolve this finding.	Open
2005-FSSA-30	Medicaid Bank Reconciliations	MW	CHIP, Medicaid	93.767, 93.778	FSSA continues to work on reconciliation between payments issued by the fiscal agent, expenditures reported on the CMS-64 and Medicaid expenditures in the State's financial system. FSSA considers this finding to be open until the reconciliation process is complete.	Open
2006-FSSA-11	TANF Eligibility Income Determinations	SD	TANF	93.558	This issue remains unresolved as of February 28, 2010 pending the outcome of the Hybrid pilot and eventual statewide rollout.	Open
2006-FSSA-12	TANF Eligibility-Documentation	SD	TANF	93.558	This issue remains unresolved as of February 28, 2010 pending the outcome of the Hybrid pilot and eventual statewide rollout.	Open
2006-FSSA-13	TANF Eligibility-Verification	SD	TANF	93.558	This issue remains unresolved as of February 2010. In January 2010, FSSA started a pilot for a Hybrid model in the Vanderburgh Region. The Hybrid model refocuses responsibility on the local staff for customer service and case processing while keeping the computer system support, such as electronic case files and internet applications, with the State assuming direct oversight of all contractors. Once the Hybrid pilot and statewide rollout has been completed, DFR will submit an ICES enhancement to establish a data match with the Indiana Department of Corrections.	Open
2006-FSSA-14	TANF Allowable Cost	SD	TANF	93.558	This issue remains unresolved as of February 28, 2010 pending the outcome of the Hybrid pilot and eventual statewide rollout.	Open
2006-FSSA-2	C&TS Of Acute Care and Long Term Care Facilities	SD	Medicaid	93.778	The status of the audit findings is unresolved. OMPP is working to develop the appropriate controls to address the audit finding.	Open
2006-FSSA-3	Provider Enrollment Errors	SD	CHIP, Medicaid	93.767, 93.778	The status of the audit findings is unresolved. OMPP is working to develop the appropriate controls to address the audit finding.	Open
2006-FSSA-5	State Owned Intermediate Care Facility	SD	Medicaid	93.778	FSSA continues to investigate the reporting to determine if any additional corrections are needed. This finding remains unresolved.	Open
2006-FSSA-8	Medicaid Administration Grant Expenditures Over Award	SD	Medicaid	93.778	FSSA does not agree with the finding, as CMS works through a close out process at the end of the Federal Fiscal Year in which they adjust the most recently ended grant award to expenditures reported on the CMS-64. CMS adjusts the prior grant award for prior period expenditures reported on the CMS-64. Prior to FFY 2010, CMS operated on a pool authorization and adequate funding remains in the MT pool to cover all reported costs. CMS verified this process in correspondence dated March 11, 2010 to the Director of Federal Funding, which was shared with the SBOA on March 24, 2010.	Closed

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**FSSA A-133 PRIOR FINDINGS  
OPEN  
SFY 2009**

Finding Number	Finding Title	Internal Control	Federal Program	CFDA Number	FSSA Response	Remain Open or Considered Closed
2006-FSSA-9	Medicaid Administration Grant – CMS 64 Quarterly	SD	Medicaid	93.778	Medicaid Administration expenditures are reported on the CMS 64.10. Beginning with the QE 12/31/2009 the CMS-64.10 has been completed from data posted to PeopleSoft. Each Medicaid Administrative expenditure is recorded to the appropriate project indicating the grant year and the FFP. The activity chartfield within PeopleSoft is used to indicate the appropriate category or line of the CMS-64.10 to be used. Additionally the source chartfield is used to indicate the waiver form to be used for reporting waiver admin if appropriate. Numbers are entered into the CMS-64 from a query of PeopleSoft expenditures by Project Activity and Source chartfields. Any adjustments to these numbers are documented and maintained with the report file.	Open
2007-FSSA-1	Medicaid Grant Reporting Errors	MW	Medicaid	93.778	The federal expenditures on the CMS-64 will not necessarily equal the cash expenditures reported on the agency's grant schedule. Occasionally 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. FSSA reviewed the CMS-64 submissions for SFY 2007 and compared them to the agency's financial records to determine if any prior year adjustments or advance claims were made resulting in the differences between the grant records and the CMS-64. Beginning for the quarter ending 12/31/09 the CMS-64 is completed using numbers entered from a query of PeopleSoft expenditures by Project Activity and Source chartfields. Any adjustments to these numbers are documented and maintained with the report file.	Open
2007-FSSA-2	Inaccurate Grant Accounting Records	SD	Medicaid	93.778	Reconciliation and Review Recommendation - Resolved A report showing federal expenditures calculated from expenditures posted in PeopleSoft compared to the federal expenditures posted to the Federal Expenditure Tracking System (FETS) is generated and reviewed monthly. Differences between the two systems are followed up with the accountant assigned to the grant project. This control is designed to ensure that expenditures in FETS used to complete the A-133 grant schedule reconcile to the grant records in the PeopleSoft accounting system. Reconciling Balances as of June 30, 2007 - Open Cause of variance still under investigation.	Open & Closed
2007-FSSA-6	Faculty Physician Access to Care Adjustments	SD	Medicaid	93.778	Since the CY 2006 and 2007 settlements have been finalized, and the money owed to the state has been returned, OMPP believes this finding resolved and intends to appeal this matter to CMS. FSSA considers this finding closed.	Closed
2008-FSSA-1	Medicaid Administration Grant - Period of Availability	SD	Medicaid	93.778	FSSA does not agree with the finding, as CMS works through a close out process at the end of the Federal Fiscal Year in which they adjust the most recently ended grant award to expenditures reported on the CMS-64. CMS adjusts the prior grant award for prior period expenditures reported on the CMS-64. Prior to FFY 2010, CMS operated on a pool authorization and adequate funding remains in the MT pool to cover all reported costs. CMS verified this process in correspondence dated March 11, 2010 to the Director of Federal Funding, which was shared with the SBoA on March 24, 2010.	Closed
2008-FSSA-10	OMPP AIM Access, Training and Controls	SD	Medicaid	93.778	The status of the audit findings is unresolved. OMPP is working to develop the appropriate controls to address the audit finding.	Open
2008-FSSA-2	Medicaid Program Grant Accounting Records	MW	Medicaid	93.778	FSSA will review the SFY2008 Allot vs. Expends and work with the State Board of Accounts to agree upon remaining actions needed	Open
2008-FSSA-3	SCHIP Duplicate Expense	MW	CHIP	93.767	An adjustment will be made to CHIP expenditures to adjust for the misreporting of May expenditures. As part of the Medicaid Assistance reconciliation a process for regularly transferring CHIP cost will be included. Finding will remain open until adjustment is recorded.	Open
2008-FSSA-4	Grant Errors in Medicaid Administration and SCHIP	SD	CHIP, Medicaid	93.767, 93.778	FSSA is working toward consistent processes for recording Medicaid and CHIP expenditures. Processes are being put in place with the new PeopleSoft accounting system that began September 16, 2009. A standard accounting process will allow review of all transactions and adjusting entries with proper internal controls.	Open
2008-FSSA-5	Grant Accounting Internal Control Environment	MW	CHIP, Medicaid	93.767, 93.778	FSSA is working toward consistent processes for recording Medicaid and CHIP expenditures. Processes are being put in place with the new PeopleSoft accounting system that began September 16, 2009. A standard accounting process will allow review of all transactions and adjusting entries with proper internal controls	Open
2008-FSSA-7	Surveillance and Utilization Review Audit Files	SD	Medicaid	93.778	OMPP continues to work toward audit resolution for this audit finding. The audit status remains open at this time.	Open
2008-FSSA-8	Duplicate Hospital Provider Records	SD	Medicaid	93.778	The status of the audit findings is unresolved. OMPP is working to develop the appropriate controls to address the audit finding.	Open
2008-FSSA-9	Pharmacy Facility Permits	SD	Medicaid	93.778	The status of the audit findings is unresolved. OMPP is working to develop the appropriate controls to address the audit finding.	Open
<b>NEW FINDINGS FOR SFY 2009</b>						
2009-FSSA-1	CHIP MATCHING RATE ERRORS	SD	CHIP	93.767	FSSA does not agree with this finding. As stated in the State Board of Accounts finding "We consider a State agency's expenditure for services under title I, IVA, IV-B, IV-D, IV-E, X, XIV, XVI (AABD), XIX, or XXI to have been made in the quarter in which any State agency made a payment to the service provider." 45 CFR 95.13(b). Capitation payments to providers for CHIP services were paid in October 2008. Therefore, the September expenditures referred to in this finding are actually October 2008 expenditures for which the correct enhanced FMAP was applied.	Disagree
2009-FSSA-2	CHIP PACKAGE C REPORTING	SD	CHIP	93.767	Weekly CHIP Package C reports do not match to the quarterly MAR reports due to retroactive eligibility that is determined between the completion of each weekly and the end of the quarter. FSSA has been working with HP to develop reconciliation between the weekly and quarterly reports taking into account retroactive eligibility. A process as part of completing the CMS-21 quarterly federal report will be developed to reconcile the premium collections recorded into the State's Accounting system to collections received through the premium collection contractor, currently HP.	Agree
2009-FSSA-3	MONITORING OF PROCEDURE CODE RESTRICTIONS	SD	CHIP, MEDICAID	93.767	The status of the audit findings is unresolved. OMPP is working to develop the appropriate controls to address the audit finding.	Agree
2009-FSSA-4	ARRA GRANT ACCOUNTING	MW	ARRA Medicaid	93.778	FSSA will be developing new procedures during this fiscal year to ensure appropriate recording of all eligible Medicaid ARRA expenses and to exclude all non-eligible Medicaid ARRA expenses.	Agree
2009-FSSA-5	MEDICAID ARRA IGT GRANTS	MW	ARRA Medicaid	93.778	FSSA will be developing new procedures during this fiscal year to ensure appropriate recording of the CMHC State share payments.	Agree
2009-FSSA-6	QUALITY ASSESSMENT FEE REFUNDS- INTERMEDIATE CARE AND NURSING FACILITIES	SD	Medicaid & ARRA	93.778	FSSA agrees with the questioned costs in this finding and will adjust accordingly. FSSA will develop written procedures to adequately explain the use of the template to identify the proper ICF/MR and QAF assessment fees to be claimed.	Agree
2009-FSSA-7	MEDICAID ACCOUNTING RECORDS	SD	Medicaid	93.778	FSSA will review SFY 2009 accounting records to determine adjustments that need to be made. Accounting processes are being developed to document method of creating entries for each type of Medicaid Assistance entries.	Agree
2009-FSSA-8	MEDICAID ADMINISTRATION GRANT REPORTING AND AWARD	SD	Medicaid	93.778	FSSA does not agree with the finding, as CMS works through a close out process at the end of the Federal Fiscal Year in which they adjust the most recently ended grant award to expenditures reported on the CMS-64. CMS adjusts the prior grant award for prior period expenditures reported on the CMS-64. Prior to FFY 2010, CMS operated on a pool authorization and adequate funding remains in the MT pool to cover all reported costs. CMS verified this process in correspondence dated March 11, 2010 to the Director of Federal Funding, which was shared with the SBoA on March 24, 2010.	Disagree

-300-



Mitchell E. Daniels, Jr., Governor  
James W. Payne, Director

**Indiana Department of Child Services**  
Room E306 – MS47  
302 W. Washington Street  
Indianapolis, Indiana 46204-2738

317-234-KIDS  
FAX: 317-232-4497

[www.in.gov/dcs](http://www.in.gov/dcs)

**Child Support Hotline: 800-840-8757**  
**Child Abuse and Neglect Hotline: 800-800-5556**

March 22, 2010

Re: Corrective Action Plan

Bruce Hartman  
State Examiner  
Indiana State Board of Accounts

Dear Mr. Hartman:

Enclosed please find our Corrective Action Plan in response to A-133 Audit of the Department of Child Services for State Fiscal Year 2009.

If you have any questions, please contact Donna Sobecki at 317 234-5686

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas J. Weinberg".

Douglas J. Weinberg  
Chief Financial Officer  
Department of Child Services



*Protecting our children, families and future*

STATE OF INDIANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 96 - FSSA (DCS)-33, FUND BALANCES -  
CHILD SUPPORT ENFORCEMENT FUND CENTERS

Federal Agency:	Department of Health and Human Services - ACF
Federal Program:	Child Support Enforcement Program (IV-D)
CFDA Number:	93.563
Auditee Contact Person:	Peggy Boggs
Title of Contact Person:	Financial Manager, Department of Child Services
Phone Number:	317-232-3450

**Status of Finding as of March 15, 2010:**

Procedures have been strengthened to ensure ISETS transactions and balances are reconciled to the State accounting system. The Child Support Bureau Reconciliation Unit was created in 2004. This unit started with only one person. She was responsible for working on the reconciliation of the money sitting in the Pre-ISETS system (TCAM) account 3510-150200 from this audit finding. She also created spreadsheets to capture information on our daily deposits, disbursements, and tracking the journal voucher transfers to make sure our accounts were in balance. We expanded this unit starting in 2006 and there are currently a total of 6 staff in this unit.

All of the money that was in this account has been identified, reconciled, and the funds have been moved. The only funds going into this account currently are repayment of funds based on a theft that occurred in this original account. All of the money in this account currently has a payer and a date associated with it. As we identify which fund account this money needs to be moved to, we transfer the money out of this fund account.

The \$34,879,131 that was identified in this account on this audit finding back in 1996 has been transferred out of this account; we would like to close this audit finding. The Child Support Bureau contacted our federal audit liaison on March 18, 2010 to inquire if this finding had been closed yet. We were informed that the audit determination letter has not been received yet.

FINDING 99 - FSSA (DCS)-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:	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:	Material Weakness

**Status of Finding as of March 15, 2010:**

1) The Child Support Bureau has put manual processes in place to balance and reconcile child support receipts and disbursements processed at the State level. This is completed on a daily and monthly basis. Additionally, CSB has directed County offices to correct the inaccuracies of sub-account balance, as required by Cooperative Agreements between CSB and the County offices. CSB continues our ongoing training efforts to make sure that the county offices are maintaining the balances accurately on their cases.

There will never be zero inaccurate balances due to circumstances that are outside of the state's control. However, the counties have performed significant case cleanup on cases, since the issuance of this audit finding. Once the balance has been corrected in ISETS, ISETS automatically calculates the balance correctly on these cases in the future. As issues are brought to the attention of the IV-D office, the staff is trained to make the appropriate corrections.

2) The Child Support Bureau (CSB) has put manual processes in place to ensure cash accounts are properly reconciled. The Reconciliation Unit staff conducts daily reconciliation of the deposits between our payment processing vendor (INSCCU), the bank, and ISETS. The staff performs daily reconciliation of the disbursements made from ISETS and monthly reconciliation of ISETS with the Auditor of the State. Any errors are corrected upon discovery.

3) CSB has put manual processes in place to ensure user access to various systems is appropriate and properly monitored. CSB limits user access in the county systems based on what is needed to perform staff duties. Periodically, supervisors are asked to review user profiles to see if their staff's jobs have changed and maybe a lower profile is now sufficient or the person can be removed. The most recent review occurred in July 2009.

CSB has requested that these findings be closed. We contacted our federal audit liaison on March 18, 2010 to inquire if this finding had been closed yet. We were informed that the audit determination letter has not been received yet.

FINDING 2000-FSSA (DCS)-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	Rick Peterson
Title of Contact Person:	Assistant Deputy Director, CEU
Phone Number:	317-234-6910
Compliance Requirement:	Eligibility
Internal Control:	Significant Deficiency

**Status of Finding as of March 15, 2010**

The Central Eligibility Unit (CEU) is responsible for determining if a child is eligible for a Title IV-E adoption subsidy or the State's new subsidy program. The CEU completes the Adoption Assistance Agreement and sends to the field to be signed by the adoptive parent. CEU now has files that contain the adoption agreement, copies of the adoption decree and other relevant information to begin adoption subsidies.

A new form with the results of the final eligibility determination is forwarded to the Family Case Manager who discusses the findings with the adoptive family. If the family is eligible for a subsidy, CEU completes the appropriate adoption assistance agreement (IV-E or State) and sends this agreement with the final eligibility agreement.

New CEU procedures for adoption have been developed which outline the steps described above in detail. An interim policy and new forms were published on the DCS Website in December, 2008. Updates were also published in September 2009. New processes were outlined and a Computer Assisted Training (CAT) program was developed. An updated CAT and a new Adoption Assistance Desk Guide were issued in March 2010. This finding remains open.

FINDING 2000-FSSA (DCS)-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:	Rick Peterson
Title of Contact Person:	Assistant Deputy Director, CEU
Phone Number:	317-234-6910
Compliance Requirement:	Activities Allowed or Unallowed
Internal Control:	Significant Deficiency

**Status of Finding as of March 15, 2010**

A new policy has been put into place that allows for a negotiated adoption subsidy up to 75% of the standard foster care per diem (18.75) even if they were receiving a higher amount while in foster care. The Central Eligibility Unit (CEU) ensures that the subsidy agreement does not reflect anything more than 75% of the standard foster care per diem. CEU staff complete the adoption assistance agreements for eligible children when they complete the final eligibility determinations. The only time that the subsidy agreement would be more than 75% of standard foster care per diem is if an appeal was filed and won which provided a higher amount. It is expected to be extremely rare to have an appeal won. Payment to the adoptive parent cannot be reduced unless: all parties are in agreement through an amendment to the subsidy; or subsidies are automatically increased or decreased proportionately to any across the board increase or decrease in the standard foster care per diem. Any manual adjustments made to the adoption subsidy are entered into KidTraks. KidTraks is a system which calculates payment amounts for generation through People Soft. KidTraks has reporting features that will detect excess of limitations for review and further approval. This finding remains open

FINDING 2000-FSSA (DCS)-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	Rick Peterson
Title of Contact Person:	Assistant Deputy Director, CEU
Phone Number:	317-234-6910
Compliance Requirement:	Eligibility
Internal Control:	Material Weakness

**Status of Finding as of March 15, 2010:**

Toward the end of every quarter, Central Office of Licensing develops a letter and a report of homes that have a license that will expire. This letter provides guidance to the workers who license the homes listed on the report. This is a reminder to workers to begin or complete the licensing renewal process prior to the expiration of the license. If the licensing renewal process cannot be completed prior to the expiration of the license, guidance is given to the worker to assure that an application for renewal has been submitted prior to the expiration so that the license can remain in full force until disposition of the application.

DCS is designing a new software system to replace the current ICWIS system. ICWIS will be replaced by MaGIK. The licensing status will be clearly identifiable throughout MaGIK through the changes made within this new system. The entire new system will be operational by 2011.

One of the functional requirements in this new build would send to the payment system the child's eligibility which would reflect any licensing or placement changes. The correct amount, account and sub account code would be selected by the system based on the FCM selecting the program the child is in relating to their placement and the child's eligibility. 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. This finding remains open.

FINDING 2000 - FSSA (DCS)-5, CHILD SUPPORT ENFORCEMENT PROGRAM FEDERAL

Federal Agency: Department of Health and Human Services - ACF  
Federal Program: Child Support Enforcement Program (IV-D)  
CFDA Number: 93.563  
Auditee Contact Person: Donna Sobecki  
Title of Contact Person: Assistant Deputy Director, CEU and Cash Management,  
Department of Child Services  
Phone Number: 317-234-5686  
Compliance Requirement: Reporting  
Internal Control: Material Weakness

**Status of Finding as of March 15, 2010:**

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 modernize 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 of these types of deficiencies in the system will be addressed through the modernization/ replacement of ISETS. This finding remains open.

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

Federal Agency:	Department of Health and Human Services
Federal Programs:	Foster Care Program
CFDA Numbers:	93.658
Auditee Contact Person	Rick Peterson
Title of Contact Person:	Assistant Deputy Director, CEU
Phone Number:	317-234-6910
Compliance Requirement:	Activities Allowed or Unallowed, Reporting
Internal Control	Significant Deficiency

**Status of Finding as March 15, 2010**

Beginning January 1, 2009 DCS began processing foster care claims through the new KidTraks system. The KidTraks system has a reporting tool that reviews payments from each month. The foster parent must submit a monthly invoice in order to be paid. The county bookkeeper reviews invoices and approves for payment. Once approved the payment is made via KidTraks. Parameters are in place in KidTraks to identify and prevent duplicate payments. There are also parameters established in KidTraks to ensure proper coding so that expenditures are reimbursed from the appropriate programs. Information from KidTraks is reported on federal reports. County bookkeeper involvement in the payment process facilitates timely and accurate investigation of claiming issues. The bookkeepers in each county are able to provide detailed information on payments and their appropriateness for reimbursement to regional financial managers and central office staff. Regional managers and central office staff then in turn disseminate information from bookkeepers to ensure federal claims and reports are completed or adjusted appropriately. This finding remains open.

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

Federal Agency:	Department of Health and Human Services
Federal Programs:	Title IV-D, Child Care Cluster
CFDA Numbers:	93.563, 93.575, 93.596
Auditee Contact Person:	David Nelson; Donna Sobecki
Title of Contact Person:	Director of Federal Funding, FSSA; Assistant Deputy
Director, DCS	
Phone Number:	317-232-7088; 317-234-5686
Compliance Requirement:	Reporting
Internal Control	Significant Deficiency

**Status of Finding as of March 15, 2010:**

DCS

The PSC 272 reports were completed based on a new report in the FETS system identified as the "FETS-Schedule of Federal Financial Assistance". The report can be run utilizing date ranges and captures data included in the FETS transaction processing. The report breaks out Federal Assistance reporting by Grantor Agency/ Pin? CFDA# / Grant number/ Start Balance/ Deposits/ Draws/ Expends/End Balance/ Account (fund center) with totals by Grantor Agency. The development within PeopleSoft of Project reporting in the future will create transaction queries or reports that will be utilized to drive both deposits and expends that will be invoiced in PeopleSoft and tracked utilizing PeopleSoft. The current reconciliation process is at the fund center level. The Finance Accountants reconcile to the "Expends vs. Allots" spreadsheets. These spreadsheets are reconciled to the balances in FETS system by transaction type and various federal system PIN number balances on a monthly basis. The financial Accountant's reconciliation is reviewed by the Cash Management Manager of Cash Management. The Accountant completes a summary reconciliation of AOS and, the Allot vs. Expends report. Cash Management reconciles the Allot vs. Expends report and the FETS system. This reconciliation is done monthly for all the fund centers. This reconciliation is reviewed by the Controller.

With the implementation of PeopleSoft the accountant will reconcile Allot vs. Expends with PeopleSoft. Cash Management will verify this reconciliation and then complete the Quarterly 272 report. This finding will remain open pending the PeopleSoft implementation in the ENCOMPASS project with AOS.

FINDING 2005 - FSSA (DCS)-5, 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; Donna Sobecki  
Title of Contact person: Director of Federal Funding, FSSA; Assistant Deputy Director, DCS  
Phone Number: 317-232-7088; 317-234-5686  
Compliance Requirement: Reporting  
Internal Control: Material Weakness

**Status of Finding as of March 15, 2010:**

DCS

The A-133 Schedule of Federal Financial Assistance report for 2008 was manually completed based on selected reports from the FSSA Federal Expenditure Tracking System (FETS) and inputs from Financial Accountants for non-FETS tracked awards. A written procedure for preparing the 2008 A-133 was developed. Control totals were developed within the A-133 schedule for review and reconciliation of the recorded data to FETS and non-FETS balances. The development within PeopleSoft Project reporting in the future will create transaction queries or reports that will be utilized to drive both deposits and expenditures. Formal procedures will be developed based on PeopleSoft Project implementation to insure accurate reporting for DCS grants. This finding remains open pending the PeopleSoft implementation of the ENCOMPASS project with AOS.

FINDING 2008-DCS-1, INADEQUATE DOCUMENTATION

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, Division of Child Services  
Phone Number: 317-232-4758  
Compliance Requirement: Activities Allowed or Unallowed  
Internal Control: Control Deficiency

**Status of Finding as of March 15, 2010:**

The federal government allows supporting documentation to reside with the other government agencies. The agreement between DCS and the local offices indicates that they do not have to supply

the receipts, payroll records, etc. to DCS. The exception is that they must submit documentation for travel reimbursement and capital outlay expenses. DCS will require documentation for all travel reimbursements and capital outlay expenses.

This finding is considered resolved.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FINDING 2009 - DCS-1, SUBRECIPIENT MONITORING

Federal Agency:	Department of Health and Human Services - ACF
Federal Program:	Child Support Enforcement Program (IV-D)
CFDA Number:	93.563
Auditee Contact Person:	Anita Sallee
Title of Contact Person:	Accounting Operations Manager, Department of Child Services (DCS)
Phone Number:	317-234-5694
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Significant Deficiency

**Status of Findings as of March 15, 2010**

DCS Child Support Program is hiring two new Field Auditors who will educate county staff on the use of Incentive funds. The Field Auditors will also monitor each county's incentive fund balances and establish a time frame for periodic reviews." This finding remains open.



March 12, 2010

State Board of Accounts  
Mr. Bruce Hartman, State Examiner  
302 Washington St., Room E418  
Indianapolis, Indiana 46204-2765

Dear Mr. Hartman:

On March 3, 2010, Ms. Deetra Smith shared with me and Beverly Flanagan, Director of Finance, the Schedule of Findings for the State Fiscal Stabilization Fund – Education State Grants – Recovery Act. Please consider this letter the official response for the Indiana Department of Education (IDOE) to the Schedule of Findings.

FINDING 2009 - IDOE -I, CASH MANAGEMENT

During the State Board of Account (SBOA) audit of the IDOE, it was found that IDOE disbursed federal funds to its subrecipients, in advance, without determining the cash needs of the subrecipients. This resulted in the subrecipients maintaining the federal funds for excessive days.

31 CFR 205.11(a) states: "A State and a Federal Program Agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the State's payout of funds for Federal assistance program purposes, whether the transfer occurs before or after the payout of funds."

**RECOMMENDATION:** The SBOA recommended that IDOE determine the cash needs of its subrecipients in order to minimize the time elapsing between the transfer of the federal funds and the payout of those funds.

**OFFICIAL RESPONSE:** In June and September 2009 State Fiscal Stabilization Funds (SFSF) were distributed to the Local Education Agency (LEA). The funds were to restore LEA's to previous levels of funding. Each of the LEAs was notified on June 5, 2009 that the SFSF funds should be expended in its entirety by December 31, 2009. This documentation was provided to Ms. Smith during the January 2010 site visit.

In September 2009, IDOE sent a memorandum to the LEAs requesting all SFSF monies be expended no later than October 31, 2009. A copy of this memorandum was provided to Ms. Smith during the January 2010 site visit. Approximately 94% of LEAs reported back to the IDOE, Office of School Finance that all money had been expended. Those LEA's that had not expended their funds by October 31, 2009 provided explanations and timelines as to when the money would be expended.

The July – December 2009 LEA financial data is now loaded and being audited. Any LEA with a December 31, 2009 balance in the SFSF is being asked to expend it immediately and provide the

IDOE, Office of School Finance documentation of expenditures. Directed emails and personal telephone calls are part of follow-up procedures implemented by IDOE.

In the future, if SFSF funds are available for K-12 education, IDOE will develop a monthly reporting tool as used in Title I and IDEA.

IDOE believes that this Finding has been resolved.

#### FINDING 2009 - IDOE -2, SUBRECIPIENT MONITORING

During the SBOA audit of the IDOE, it was determined that subrecipients of federal funds were not properly monitored by IDOE. IDOE did not properly identify the CFDA title and number or applicable compliance requirements to the subrecipient. This could result in subrecipients improperly spending grant funds.

OMB Circular A-133 says that a pass-through entity is responsible for "at the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements."

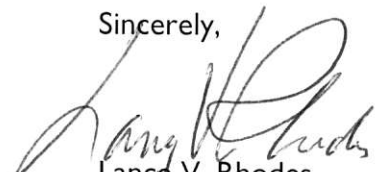
**RECOMMENDATION:** The SBOA recommended that IDOE comply with OMB Circular A-133 and provide its subrecipients with all required information.

**OFFICIAL RESPONSE:** On March 12, 2010, the IDOE mailed to each subrecipient (Superintendents and Business Managers) a memorandum (Attachment A) notifying them of the Federal award information and the website for the applicable compliance requirements (Education Department General Administrative Regulations, referred to as EDGAR). Also on March 12, 2010, the IDOE e-mailed the memorandum to all Business Managers through the Indiana Association of School Business Officials (IASBO) and Superintendents through an IDOE distribution. The same memorandum is posted on the IDOE, School Finance Division website and will be presented by the IDOE at the annual budget workshop held in June 2010.

The IDOE believes this Finding has been resolved.

Please contact me if you have questions or if further information is needed.

Sincerely,



Lance V. Rhodes  
Chief Financial Officer



## MEMORANDUM

**TO:** Superintendents and Business Officers  
**FROM:** Lance V. Rhodes, Chief Financial Officer  
**DATE:** March 12, 2010  
**SUBJECT:** Compliance with OMB Circular A-133 Regarding Subrecipient Notification

OMB Circular A-133, Subpart D Section 400 requires the Indiana Department of Education (IDOE) to inform subrecipients of certain Federal award information for the funds that you received. This notification applies to the federal stabilization funds that were distributed in June 2009 and September 2009 for your monthly basic tuition support payments. Those funds were from:

Federal Agency:	U. S. Department of Education
Federal Program:	State Fiscal Stabilization Fund – Education State Grants – Recovery Act
CFDA Number:	84.39A
Applicable Compliance Requirements:	Education Department General Administrative Regulations (EDGAR)

EDGAR information is available at <http://www2.ed.gov/policy/fund/reg/edgarReg/edgar.html>.

This memorandum is for informational purposes only and you need not respond. Please retain this memorandum for reference purposes.

If you have questions about this memorandum, please contact Melissa Ambre at [mambre@doe.in.gov](mailto:mambre@doe.in.gov).

## ATTACHMENT A



MITCHELL E. DANIELS, Jr., Governor  
**STATE OF INDIANA**

DEPARTMENT OF HOMELAND SECURITY

Joseph E. Wainscott, Jr. EXECUTIVE DIRECTOR

*Indiana Government Center South  
302 West Washington Street  
Indianapolis, IN 46204  
317-232-3980*

March 16, 2010

Bruce Hartman, CPA  
State Examiner  
Indiana State Board of Accounts,  
302 W. Washington St. Room E418  
Indianapolis, IN 46204-2765

Re: OFFICIAL RESPONSE: Audit of IDHS Homeland Security Grant Program FY09

Dear Mr. Hartman,

This letter is in response to the findings in the audit of US DHS Homeland Security Grant Programs, July 1, 2008 to June 30, 2009.

Although the findings were officially provided to IDHS at an audit exit conference on March 2, 2010, corrective actions to address the findings began in July 2009.

**Finding 2007 - IDHS-1**, Reporting pertained to the federal Financial Status Reports (SF 269A) and the Schedule of Federal Financial Assistance (Schedule) to the agency's grant ledger reconciliation. This finding noted differences between SBOA's calculation and IDHS's grant ledger of the amounts reported on the SF269A and an inability to verify disbursements on the Schedule to the correct grant year. Also noted were the lack of a review process to ensure that postings to the grant ledger were correct and the lack of a reconciliation of the federal financial reports to supporting accounting records. In addition, the finding noted that no review or approval process by a responsible official was occurring before filing the SF269A and Schedule.

To address the differences noted by SBOA on the SF269A and to verify disbursements on the Schedule to the correct grant year, IDHS internal reviews were conducted and a significant portion of the differences noted in the audit were identified. IDHS sought and gained approval to add an Accountant III position in Accounts Payable to report to the Accounts Payable Manager. The Accountant III was hired in October, 2008 and made primarily responsible for maintaining and reconciling the grant ledger. Beginning in January 2008, the grant ledger has been balanced with the Auditor of State. Starting in January, 2009, the Accountant III began preparing the SF 269A with the Controller providing review and approval of the reconciliations and reports on behalf of IDHS. IDHS's grant ledger is currently being reviewed to improve the reconciliation template for balancing and audit purposes and procedures are currently being documented for the preparation, review and approval of the SF269A and the Schedule. This finding will be resolved for the 2010 SFY A-133 audit.

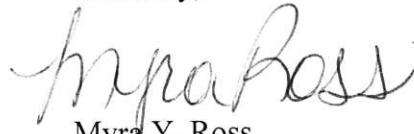
**Finding 2009- IDHS-1**, Reporting pertained to reconciliation of the quarterly SF269A to the IDSH grant ledger. The federal disaster grants are being reconciled to the Auditor of State as of January 2010. These awards and the reconciliation will be handled the same as the grants in

Finding 2007 - IDSH-1. The Accountant III will prepare the SF 269A with the Controller providing review and approval of the reconciliations and reports on behalf of IDHS. This finding will be resolved for the 2010 SFY A-133 Audit.

Thank you for the assistance of the State Board of Accounts audit team in connection with these issues. We are grateful for your assistance in helping IDHS to bring these areas into compliance with the Code of Federal Regulations and with State accounting standards.

Please feel free to call me at 234-7008 should you have any questions or continuing concerns.

Sincerely,



Myra Y. Ross  
Chief Financial Officer  
Indiana Department of Homeland Security

cc: Nancy Stevens  
Rhonda Evans Barnsbee  
Becky Leydens  
Rachel Meyer

File: R/fiscal/Crowe/Letter MYR to L Akers (2009 Audit)



INDIANA  
JOINT FORCES HEADQUARTERS  
NATIONAL GUARD  
2002 SOUTH HOLT ROAD  
INDIANAPOLIS, INDIANA 46241-4839



March 12, 2010

State Controller's Office

**OFFICIAL RESPONSE**

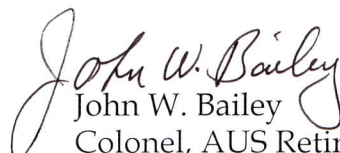
Indiana State Board of Accounts  
302 West Washington Street  
Room E 418  
Indianapolis, Indiana 46204-2765

Dear Sir:

All State and Federal Funds are accounted for. The issue was a result of not reflecting the State share or the fund/center from which invoices were paid on our Federal ledgers. This made easy reconciliation difficult for the State Board of Accounts auditor. With Appropriated Funds, the audit finding has been resolved with the State's implementation of Encompass. All Federal funds for this agency are Department of Defense appropriations. Thus, they are all paid from the same fund. The differences, per Cooperative Agreement, are found within the assigned projects within this fund to include any State matching funds.

With State Armory Board funds, the fix is not that easy. The State Armory Board has two (2) funds from which to process invoices, the A-Fund and the E-Fund. A-Fund is the main operating account and handles all claims except Environmental. E-Fund is the account that handles only environmental claims. Each account has hundreds of invoices that flow through monthly. It would be a waste of taxpayer dollars to work up a reimbursement request for each invoice. Thus, reimbursement is requested monthly for both accounts. We are unable to set Federal projects up that correspond to the appropriate Cooperative Agreement because the State Armory Board has to approve any projects over \$5,000.00 whether State, Federal or matching funded.

Sincerely,

  
John W. Bailey  
Colonel, AUS Retired  
State Controller

**OFFICIAL RESPONSE**



INDIANA  
**WORKFORCE**  
DEVELOPMENT

March 18, 2010

Bruce Hartman, State Examiner  
State Board of Accounts  
302 West Washington Street  
4<sup>th</sup> Floor, Room E418  
Indianapolis, IN 46204

Re: **OFFICIAL REPOSE**

**Audit Period: Federal Programs: 07/01/08 through 06/30/09**

Dear Mr. Hartman:

Please find attached the Department of Workforce Development's response to the audit findings in the SBOA report issued March 8, 2010. We believe this response, and the actions described within, resolves this finding. We appreciate the professional and cooperative manner in which your auditors performed their duties and the assistance they provide in completing this audit.

Please contact me directly at 232-7472 if you have additional comments or questions regarding this response.

Regards,

Scott B. Sanders  
Deputy Commissioner/CFO

Attachment

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FINDING 2009 – DWD-1, INTERNAL CONTROL – UNEMPLOYMENT INSURANCE REPORTING

Federal Agency:	Department of Labor
Federal Program:	Unemployment Insurance
CFDA Number:	17.225
Auditee Contact Person:	Scott Sanders
Title of Contact Person:	Chief Financial Officer
Phone Number:	317-232-7472
Compliance Requirement:	Reporting
Internal Control:	Material Weakness

During our audit of the Indiana Department of Workforce Development (DWD) Unemployment Insurance (UI) grant, we found expenses per DWD's grant accounting records that did not agree to expenses reported in the federal report, ETA 2112, or to expenses provided as combined State and Federal expenses for the Schedule of Federal Financial Assistance.

The Trust Fund Accounting Department of DWD maintains the detailed grant accounting records for Indiana's Unemployment Trust Fund in an Oracle database separate from the State's accounting system. UI benefit expenses per the Oracle database were \$131,532,706 greater than UI Benefit expenses reported on the ETA 2112 reports for fiscal year 2009. Additionally, the total UI benefit expenses for fiscal year 2009 reported in the combined State and Federal Benefits for the Schedule of Federal Financial Assistance was \$29,247,436.46 less than the 2009 total UI benefit expenses per the ETA 2112 reports.

Per the UI Reports Handbook No. 401, the ETA 2112 reports should "accurately show the net results of all transactions in the three accounts comprising the state unemployment funds as they appear in the state's records."

29 CFR 97.20 states "A state must expense 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 for 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."

We recommend that DWD implement a reconciliation process to verify that the amounts recorded on the ETA 2112 reports and the Schedule of Federal Financial Assistance are accurate.

STATUS OF FINDING:

While DWD acknowledges that the transparency of our reconciliation process in the Trust Fund Accounting (TFA) unit can be improved and the ability to trace funds needs to be more formally documented, we believe our reports are accurate. DWD has identified the differences between the Oracle database and the ETA2112 reports that were the factors in this finding. The adjustments to the ETA2112 reports that make up the \$131,532,706 difference are related to items that need to be excluded from, or added to, our ledger totals to meet the requirements for Line 31 of the ETA2112 report as specified in the instructions for completing the reports. In reviewing the state ledgers, SBoA did not adjust the ledger totals to arrive at the true net benefit expense as required on the ETA2112 thus resulting in a perceived substantial difference between the ledger and the ETA2112. In actuality, the ETA2112 reports were completed with the proper adjustments factored into the totals. The reconciled differences between the State ledger and what was reported on the ETA2112 line 31 represents a .0014% of total UI expenses reported for the year.



# Indiana Department of Education

SUPPORTING STUDENT SUCCESS

March 3, 2011

State Board of Accounts  
Mr. Bruce Hartman, State Examiner  
302 Washington St., Room E418  
Indianapolis, Indiana 46204-2765

Dear Mr. Hartman:

The Indiana Department of Education (IDOE) provides the following corrective action to findings identified in the concurrent audits conducted on the Special Education IDEA Part B and Title I for SFY 09.

## FINDING 2009 - REPORTING

- 1) The State Board of Accounts (SBoA) found that the Schedule of Federal Financial Assistance for both Special Education IDEA Part B (Special Education) and Title I had numerous errors resulting in IDOE having to submit the Schedule to SBoA multiple times. Errors were found in disbursements and pass-through amounts. 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.

IDOE CORRECTIVE ACTION: A concurrent audit was done for SFY 09 (retroactively) and SFY 10, thus, it was not possible for IDOE to implement controls to correct the SFY 09 findings. However, IDOE has implemented the following corrective action moving forward.

IDOE will prepare a formal written procedure and review for the completion of the SFY 11 schedule. Standard statewide PeopleSoft reports should also be available to complete the information accurately.

As of this date, due to the SFY 09 audit being done retroactively, IDOE believes this finding is unresolved.

## FINDING 2009 - CASH MANAGEMENT

- 1) IDOE disbursed federal funds to the Local Educational Agencies (LEAs) for both Special Education and Title I in advance without properly determining the cash needs of the LEAs for both Special Education and Title I. This resulted in the LEAs maintaining the federal funds for excessive days, prior to the funds being expended. This also resulted in interest earned by the LEAs and/or IDOE. IDOE did not properly monitor the LEAs to determine if and how much interest earned by the LEAs as a result of IDOE improperly advancing the funds to the LEAs, interest owed to the

United States Department of Education (USDOE) was not remitted to the federal agency for SFY 09 for Special Education and Title I.

**IDOE CORRECTIVE ACTION:** A concurrent audit was done for SFY 09 (retroactively) and SFY 10, thus, it was not possible for IDOE to implement controls to correct the SFY 09 findings. However, IDOE has implemented the following corrective action moving forward.

To minimize the time elapsing between the transfer of federal funds to the LEA's and the payout of funds, the IDOE has switched from its previous practice of advancing cash to subrecipients via a cash request form to a reimbursement method via a reimbursement form. If not diligently regulated, the advancement method can lead to excessive cash balances which could lead to interest earned and interest returned issues. Subrecipients may submit a reimbursement form for actual anticipated expenses up to twice per month. The corrective action became effective July 1, 2010.

As of this date, due to the SFY 09 audit being done retroactively, IDOE believes this finding is unresolved.

- 2) IDOE did not have an adequate system of documentation for both Special Education and Title I, such as a clear audit trail, to trace specific expenditures to its corresponding federal draw.

**IDOE CORRECTIVE ACTION:** A concurrent audit was done for SFY 09 (retroactively) and SFY 10, thus, it was not possible for IDOE to implement controls to correct the SFY 09 findings. However, IDOE has implemented the following corrective action moving forward.

IDOE provided the SBOA with the federal cash draw spreadsheet maintained and used by the IDOE for federal cash draws. In July 2010 the IDOE began updating the federal cash draw spreadsheet on a bi-weekly basis. PeopleSoft reports are used to determine expenditures and revenue for each federal fund's projects from one bi-weekly period to the next bi-weekly period. The spreadsheet ties to expenditures and revenue for all federal funds, excluding ARRA Stimulus funds. The balances on the spreadsheet are then used to make the federal cash draw and completion of the Report of Collections (ROC) and entry into PeopleSoft AR.

As of this date, due to the SFY 09 audit being done retroactively, IDOE believes this finding is unresolved.

- 3) During the audit of Title I the SBoA found that no check clearance pattern template was created for Title I, Part A, which was partly due to a lack of supervision or monitoring over Cash Management at IDOE. Since IDOE did not create a check clearance pattern template for Title I, the SBoA was unable to determine how the clearance pattern documented in the SFY09 was determined. As a result of this lack of supervision and monitoring over Cash Management, IDOE was unable to properly ensure that Cash Management draws were being performed properly.

**IDOE CORRECTIVE ACTION:** A concurrent audit was done for SFY 09 (retroactively) and SFY 10, thus, it was not possible for IDOE to implement controls to correct the SFY 09 findings. However, IDOE has implemented the following corrective action moving forward.

In SFY 09 the IDOE partially completed a check clearance pattern for Special Education and Title I. A change in staffing and inexperience with this matter prevented the clearance pattern template from being fully completed for the fiscal year. Additionally, no one requested this information from the

IDOE for the CMIA agreements submitted by the State Budget Agency (SBA). Per the Auditor of State's Office (AOS) this information is now available in PeopleSoft, report titled CMIA Cir Patt Rpt by Cir Date and report titled CMIA Cir Patt Rpt by Pmt Date.

As of this date, due to the SFY 09 audit being done retroactively, IDOE believes this finding is unresolved.

#### FINDING 2009 - EARMARKING

- 1) IDOE did not ensure for Special Education that LEAs identified as having a significant disproportionate reserve, the maximum amount of Special Education Part B funds in order to provide coordinated early intervening services (CEIS) for children in the LEAs within those groups. Of the seven LEAs required to reserve the funds, we found that five did not set aside the maximum amount. IDOE approved LEA applications that did not allocate the required 15% for CEIS.

IDOE CORRECTIVE ACTION: A concurrent audit was done for SFY 09 (retroactively) and SFY 10, thus, it was not possible for IDOE to implement controls to correct the SFY 09 findings. However, IDOE has implemented the following corrective action moving forward.

Previously, the federal Office of Special Education Programs (OSEP) conducted an onsite visit of the Indiana DOE Office of Special Education and had issue with a number of practices. As a result of OSEP's findings, the FY 2010 application process was revised so that LEAs include any CEIS dollars budgeted, whether those dollars were required due to significant significant disproportionality or the LEA's choice. This is evidenced in the current application's CEIS page, which requires the LEA to list the percentage and dollars budgeted, the measurable objectives, means for monitoring implementation, and means for tracking progress.

As of this date, due to the SFY 09 audit being done retroactively, IDOE believes this finding is unresolved.

#### FINDING 2009 - SUBRECIPIENT MONITORING

- 1) During SFY 09, IDOE did not appropriately monitor subrecipients for Special Education. IDOE did not monitor to ensure that subrecipients complied with requirements, did not ensure that the required subrecipient audits were completed, nor did they monitor the activities of subrecipients not subject to OMB Circular A-133. And, therefore, IDOE was not able to detect any noncompliance of the LEAs.

IDOE CORRECTIVE ACTION: As a result of the federal Office of Special Education Program (OSEP) monitoring of the IDOE Office of Special Education, there is currently a process in place to monitor LEAs for fiscal accountability. It has been approved by OSEP and serves as IDOE's general supervision in the area of fiscal monitoring of Part B dollars. With this fiscal monitoring, IDOE contracts with an outside vendor that now monitors fiscal accountability for LEAs on an annual basis. For those districts out of compliance, findings of noncompliance are issued and corrective action is assigned and monitored by the Office of Special Education.

IDOE considers this finding resolved.

- 2) During our SFY09 audit of Special Education and Title I, the SBoA found that the IDOE did not ensure that subrecipients were registered with the federal Central Contractor Registration (CCR) database as required by the USDOE.

**IDOE CORRECTIVE ACTION:** A concurrent audit was done for SFY 09 (retroactively) and SFY 10, thus, it was not possible for IDOE to implement controls to correct the SFY 09 findings. However, IDOE has implemented the following corrective action moving forward.

IDOE was not aware that all subrecipients are to be registered with the federal Central Contractor Registration (CCR) database. It is the IDOE's understanding that beginning October 1, 2010 all federal grant award grantees and subrecipients are to be registered with the CCR under the Federal Funding Accountability and Transparency Act (FFATA). As of this date IDOE is awaiting guidance from the USDA and the USDOE as to how to register subrecipients in CCR. Once the guidance had been received the subrecipient registration will be completed.

As of this date, due to the SFY 09 audit being done retroactively, IDOE believes this finding is unresolved.

#### FINDING 2009 – SPECIAL TESTS AND PROVISIONS

- 1) During SFY 09 the federal grant award number and CFDA number were not included at the time of disbursement of funds by IDOE to the LEAs for both Special Education and Title I.

**IDOE CORRECTIVE ACTION:** A concurrent audit was done for SFY 09 (retroactively) and SFY 10, thus, it was not possible for IDOE to implement controls to correct the SFY 09 findings. However, IDOE has implemented the following corrective action moving forward.

Previously IDOE provided an insert with each EFT mailing that state the federal grant award number and CFDA number. The IDOE did not keep copies of the insert and could not produce the documentation for the SBoA. Beginning July 2010 the IDOE is including this information (federal award number, CFDA number and in the case of ARRA funds, amount of in the Recovery Act funds with the designation of "ARRA") in the description box of each payment which is then printed on the EFT mailed by the AOS.

As of this date, due to the SFY 09 audit being done retroactively, IDOE believes this finding is unresolved.

#### FINDING 2009 - PROCUREMENT, SUSPENSION AND DEBARMENT

- 1) During SFY09 IDOE did not perform verifications on Special Education and Title I contracts to make sure contractors weren't suspended and debarred.

**IDOE CORRECTIVE ACTION:** A concurrent audit was done for SFY 09 (retroactively) and SFY 10, thus, it was not possible for IDOE to implement controls to correct the SFY 09 findings. However, IDOE has implemented the following corrective action moving forward.

IDOE was unaware that these types of verifications were to be conducted. In previous audits the signature of the vendor on a contract served as the certification "that neither it nor its principals nor

any of its subcontractors are presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from entering into this contract by any federal agency or by any department, agency or political subdivision of the State” and “the Contractor certifies that it has verified the state and federal suspension and debarment status for all subcontractors receiving funds under the Contract...” (taken from the State contract boilerplate language under Section 13. Debarment and Suspension). Beginning January 2011, IDOE began verifying state and federal disbarment and suspension for all vendors.

As of this date, due to the SFY 09 audit being done retroactively, IDOE believes this finding is unresolved.

#### FINDING 2009 – ACTIVITIES ALLOWED AND UNALLOWED

- 1) During SFY 09, two of the 16 items tested were for a contract that has been determined as unreasonable and unnecessary to the program. Upon investigation of the supporting documentation and inspection of the deliverable, the itemization of the invoices was inconsistent with the services actually rendered. Furthermore, the system that was produced was discontinued because the technology became obsolete, and the information maintained in the database became available via internet. \$523,000 was paid to the contractor through October 2009. According to IDOE, the services ended during June 2009 due to the end in funding and subsequently removed from IDOE’s website in January 2010.

IDOE CORRECTIVE ACTION: A concurrent audit was done for SFY 09 (retroactively) and SFY 10, thus, it was not possible for IDOE to implement controls to correct the SFY 09 findings. However, IDOE has implemented the following corrective action moving forward.

Anne Davis, Special Education Director, did answer SBoA questions regarding why a number of the grants were cut off abruptly in 2009. Under the new administration and its change of philosophy, the existing resource centers and related discretionary grants were reviewed. It was determined by the new administration that the contract referred to above did not fit into the new mission and vision of IDOE. The above mentioned contract and several other contracts were ended at a midyear point so that the IDOE could move to a competitive grant process based on deliverables that would assist the IDOE in meeting its mission and vision.

As of this date, due to the SFY 09 audit being done retroactively, IDOE believes this finding is unresolved.

Please contact me if you have questions or if further information is needed.

Sincerely,



Kent A. Hatcher  
Chief Financial Officer



**INDIANA DEPARTMENT OF TRANSPORTATION**  
*Driving Indiana's Economic Growth*

100 North Senate Avenue  
Room N725  
Indianapolis, Indiana 46204

PHONE: (317) 317-5358  
FAX: (317) 233-3691

**Mitchell E. Daniels, Jr., Governor**  
**Michael B. Cline, Commissioner**

March 7, 2011

Bruce Hartman, State Examiner  
State Board of Accounts  
IGCS, Room E418  
Indianapolis IN 46204

Subject: Official Response/Corrective Action Plan to Findings and Questioned Costs - - Fiscal Year 2009

Dear Mr. Hartman:

Enclosed please find the Indiana Department of Transportation's Corrective Action Plan in response to the A-133 Audit for State Fiscal Year 2009.

If you have any questions, please contact me at 317-232-5358.

Sincerely,

Tony Hedge  
Director, Accounting



# INDIANA DEPARTMENT OF TRANSPORTATION

*Driving Indiana's Economic Growth*

100 North Senate Avenue  
Room N725  
Indianapolis, Indiana 46204

PHONE: (317) 317-5358  
FAX: (317) 233-3691

**Mitchell E. Daniels, Jr., Governor**  
**Michael B. Cline, Commissioner**

March 4, 2011

Bruce Hartman, State Examiner  
State Board of Accounts  
IGCS, Room E418  
Indianapolis IN 46204

Subject: Response to Findings and Questioned Costs - - Fiscal Year 2009 Finding

## FINDING 2009 - INDOT – 1, SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - ERRORS

Federal Agency:	U.S. Department of Transportation
Federal Program:	Highway Planning and Construction Cluster
CFDA Number:	20.205 and 20.219
Auditee Contact Person	Dan Brassard
Title of Contact person:	Chief Financial Officer
Phone Number:	317-232-1472
Compliance Requirement:	Reporting
Internal Control:	Material Weakness

During our audit of the Indiana Department of Transportation (INDOT) Highway Planning and Construction Cluster, we initially found a material error of \$162,138,246 reported as Amount Passed Down to Sub recipients on the Schedule of Federal Financial Assistance (SFFA). This error is considered a material control weakness.

Beginning in 2009, INDOT began reporting funds passed through to sub recipients. The SFFA error included direct construction costs for local public agency projects paid by INDOT rather than only those INDOT approved pre-construction contract costs paid in full to the vendors by the local public agencies which INDOT reimbursed to the local agencies upon submission of a claim.

Subsequent to INDOT submitting a corrected SFFA, INDOT then reversed their 2009 position on sub recipient determination. The revised SFFA contained another \$36,590,698 error. These errors had no effect on INDOT's American Recovery and Reinvestment Act funds this fiscal year.

For such material errors to go undetected on two occasions was indicative of ineffective internal controls over 1) accurate compilation of the financial activity, 2) adequate review of the SFFA at all applicable levels within INDOT, as well as 3) internal communications related to changes in accounting procedures.

We recommended that INDOT follow their formal written procedures in preparing the SFFA, implement a thorough review process, and resolve internal accounting procedure changes prior to submission of the SFFA to help ensure accurate, current and complete disclosure of the financial results.

Subject: Response to Findings and Questioned Costs - - Fiscal Year 2009 Finding continued

Response/Corrective Action:

INDOT does not agree with the substance of FINDING 2009 - INDOT – 1, SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - ERRORS

This finding is specific to a single amount reported as payments ‘passed down to recipients for one program, Highway Planning and Construction (20.205)’, whereby the amount reported needed to be revised as the definition of a “sub-recipient” remained in question. The original submission of the Schedule of Federal Financial Assistance report was twice revised, with each reported amount deemed correct with that respective interpretation / definition of “sub-recipient”.

The Auditor for this finding identifies that per A-133 language, the ‘AGENCY’ is responsible to determine the definition of a “sub-recipient” and adopt their interpretation in fulfilling their reporting and monitoring responsibilities in accordance with A-133; however, the Auditor does acknowledge that the A-133 reference to “AGENCY” may be interpreted as the grantor (Federal) agency. A definition has yet to be supplied by the Federal Highway Administration, the grantor for Federal program 20.205. Therefore, the ambiguity surrounding the definition is one source for differing interpretations for “sub-recipient”.

With INDOT having reported three different dollar amounts for a single balance on the SFFA, it is clear that improvement is warranted in the reporting of this isolated area. While the variances between the dollar amounts reported with each of INDOT’s interpretation of “sub-recipient” (\$190+ million to 0 dollars) were significant, the revisions to the SFFA report were the result of differing interpretations of “sub-recipient” --- each of which has merit. With the absence of clear direction and interpretation of A-133, the resulting reporting questions should not be classified as a WEAKNESS on the part of INDOT’s reporting. The only weakness may be in the inconsistent interpretation of “sub-recipient”, coupled with the lack of timely guidance from those outside of INDOT.

Notwithstanding the above, INDOT does submit the following plan to address the subject finding, prevent future such reporting inconsistencies without justification, and possibly preclude the need for such findings beyond this date. The plan includes the following:

1. INDOT shall maintain a written definition of sub-recipient based on the applicable program requirements and guidance provided by the grantors of the Federal programs, as applicable; as circumstances may warrant any revision to the relevant definition, INDOT staff shall document the basis and justification for any such revision. To be completed by the Manager, Fiscal Analysis & Reporting; Manager, Budget, and Director, LPA/MPO & Grant Administration.
2. The Department shall maintain written procedures in preparing the SFFA in accordance with the applicable definition of sub-recipient, and follow such procedures in preparing the SFFA. To be completed by Manager, Fiscal Analysis & Reporting.
3. INDOT shall implement and maintain a thorough review process conducted by the Director, Accounting, to reasonably assure the SFFA data is materially accurate and in accordance with the applicable procedures.
4. INDOT shall maintain and document internal accounting procedures specific to the applicable Federal programs, to ensure accurate, current and complete disclosure. To be completed by Manager, Fiscal Analysis & Reporting and Manager, Budget.
5. The above referenced definitions, procedures, and review processes shall be reviewed and updated annually prior to the submission of the SFFA. To be completed by the Manager, Fiscal Analysis & Reporting.

Dan Brassard  
Chief, Financial Officer, INDOT



INDIANA  
**WORKFORCE**  
DEVELOPMENT  
AND ITS **WorkOne** CENTERS

March 8, 2011

Bruce Hartman, State Examiner  
State Board of Accounts  
302 West Washington Street  
4<sup>th</sup> Floor, Room E418  
Indianapolis, IN 46204

Re: **OFFICIAL RESPONSE**

**Audit Period: WIA ARRA: 07/01/08 through 06/30/09 – Retroactive 2009 Audit**

Dear Mr. Hartman:

Please find attached the Department of Workforce Development's Corrective Action Plan to the new 2009 audit finding #2 in the SBOA report issued March 2011. We believe this response, and the actions described within, resolve this finding. We appreciate the professional and cooperative manner in which your auditors performed their duties and the assistance they provide in completing this audit.

Please contact me directly at 232-7676 if you have additional comments or questions regarding this response.

Regards,

Charles R. Gillespie  
Chief Financial Officer

Attachments

FINDING 2009 - IDWD-2- LACK OF PROCEDURES FOR CCR VERIFICATION

Federal Agency:	U.S. Department of Labor
Federal Program:	Workforce Investment Act
CFDA Number:	17.258, 17.259, 17.260
Auditee Contact Person:	Randy Gillespie
Title of Contact Person:	Chief Financial Officer
Phone Number:	317-232-7675
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Significant Deficiency

During our audit of the Workforce Investment Act Cluster at the Indiana Department of Workforce Development (IDWD), we found that IDWD did not have procedures in place to ensure that subrecipients were registered with the Central Contractor Registration (CCR) database as required by the U.S. Department of Labor (USDOL). This is a significant control deficiency

As a result, Recovery Act Funds, totaling \$1,349,310 were paid out to subrecipients without verifying their CCR status. This is considered a questioned cost.

2 CFR 176.50 (c) states that "Recipients and their first-tier recipients must maintain current registrations in the Central Contractor Registration (<http://www.ccr.gov>) at all times during which they have active federal awards funded with Recovery Act funds. A Dun and Bradstreet Data Universal Numbering System (DUNS) Number (<http://www.dnb.com>) is one of the requirements for registration in the Central Contractor Registration."

We recommended that IDWD put in place procedures to verify that subrecipients have a current registration in the CCR system before paying out Recovery Act Funds.

CORRECTION ACTION PLAN:

DWD has created a tracking worksheet that list the sub-recipient, their DUNS #, CAGE #, date CCR expires and/or the status of their CCR registration. This information will be checked against the CCR Search link and the worksheet will be updated any time DWD sends out a new grant which will ensure that all sub-recipients are in compliance with this requirement.

Based on our initial review, DWD sent letters to all sub-recipients on whom we could not find proof of registration requiring that they register in the CCR system by COB March 4, 2011, which is one week after the finding was presented to DWD. We are currently working with those sub-recipients as they are getting their registrations completed.

We are in the process of drafting new internal procedures regarding the up keep of the tracking worksheet and a new policy to send to all DWD sub-recipients.