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

STATE OF INDIANA

SINGLE AUDIT REPORT

July 1, 2010 to June 30, 2011

Reissued

FILED

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STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT AUDITOR'S REPORT ON 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, 2011, 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 23.3% of the assets and 9.4% of the revenues of the colleges and universities and 99.6% of the assets and 98.9% 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, 2011, 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, 2010, 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.

This report replaces the previously issued report dated February 17, 2012. The previously issued report was dated incorrectly and did not reflect the actual date of December 29, 2011, which is the date we had obtained sufficient appropriate audit evidence to support the opinion. In addition, changes were made to the previously issued report to appropriately reference our report issued in accordance with Government Auditing Standards and to reflect our opinion given on the Schedule of Expenditures of Federal Awards in relation to the basic financial statements. These items were omitted from the initial release of this report.

In accordance with Government Auditing Standards, we have issued our report dated December 29, 2011, 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 29, 2011

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS 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, for the year ended June 30, 2011, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 29, 2011. 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 23.3% of the assets of the colleges and universities discretely presented component units and 99.6% of the assets and 98.9% 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 of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the State is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2005-CAFR-1, 2008-CAFR-5, 2009-CAFR-1, 2011-CAFR-1, and 2011-CAFR-2 to be material weaknesses.

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

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2007-CAFR-1, 2008-CAFR-1, and 2011-CAFR-3 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State'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.

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

This report replaces the previously issued report dated February 17, 2012. The previously issued report was dated incorrectly and did not reflect the actual date of December 29, 2011, which is the date we had obtained sufficient appropriate audit evidence to support the opinion. Also, the previously issued report contained language not consistent with that required by auditing standards generally accepted in the United States of America and Government Auditing Standards. This report has been corrected to include the required language.

This report is intended solely for the information and use of the State's management, Indiana Governor, Indiana Auditor of State, Indiana Treasurer of State, others within the entity, 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.

STATE BOARD OF ACCOUNTS

December 29, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2011. 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) 2010 numbers have been restated.

Financial Highlights

- For FY 2011, on a government-wide basis, the assets of the State of Indiana exceeded its liabilities by $17.4 billion. This compares with $16.3 billion for FY 2010, as restated. Of this amount, $5.6 billion may be used to meet the government's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, unassigned fund balance for the general fund was $2.4 billion, or 21.6% of the total general fund expenditures.
- On a government-wide basis for the primary government, the State incurred expenses net of program revenue of $13.9 billion, which are offset by general revenues totaling $15.0 billion, giving an increase in net assets of $1.1 billion.
- General revenue for the primary government increased by $1.7 billion, or 12.4%, from FY 2010. The driving forces behind this increase were increases in individual income, corporate income, and sales taxes. The State's unemployment rate dropped 12.4% indicating the Indiana economy is beginning to recover from the recession.
- The State of Indiana closed FY 2011 with more than $1.18 billion in total reserves. Governor Daniels ordered spending reductions of more than $1.06 billion.
- In FY 2010 and FY 2011, states raised taxes by more than $30 billion according to the National Association of State Budget Officers. While other states raised taxes, Indiana provided Hoosiers with the largest tax cut in state history through more than $600 million of net property tax relief.
- According to State Budget Solutions, Indiana had the 3rd lowest debt per capita in 2010.
- Indiana is one of only nine states with the top bond rating from all three major credit rating agencies. According to the independent credit rating agency Standard & Poor's Ratings Service (S&P), the rating "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." The report said the administration has made significant financial management changes and strengthened budgeting practices.

Key Economic Indicators

	Dec. 31, 2010	Dec. 31, 2009	% Change
Total Employed Labor Force	2,814,409	2,779,719	1.2%
Total Goods and Service Employment	2,805,800	2,797,700	0.3%
Service-Providing Employment	2,241,600	2,238,500	0.1%
Goods-Producing Employment	564,200	559,200	0.9%
Unemployment Rate	9.2%	10.5%	-12.4%
Median Household Income	46,322	47,465	-2.4%

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

Salaries and benefits for State employees represent approximately 7.6% of governmental fund expenditures. The following table shows a ten year history of the count of full time State employees.

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

	Governor's Authority	Judiciary	Other Elected Officials	On Disability Leave - In Pay Status	On Disability Leave - Not in Pay Status	Total
2011	28,472	830	1,067	610	351	31,330
2010	29,911	846	1,056	647	341	32,801
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

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**	
	2011	2010	2011	2010	2011	2010
Current and other assets	$ 11,463.1	$ 11,074.0	$ 217.9	$ 153.6	$ 11,681.0	$ 11,227.6
Capital assets	12,516.2	11,992.6	0.1	0.1	12,516.3	11,992.7
Total assets	23,979.3	23,066.6	218.0	153.7	24,197.3	23,220.3
Current liabilities	2,329.6	2,670.1	1,878.9	1,721.4	4,208.5	4,391.5
Long-term liabilities	2,537.4	2,483.7	29.6	42.4	2,567.0	2,526.1
Total liabilities	4,867.0	5,153.8	1,908.5	1,763.8	6,775.5	6,917.6
Net assets:						
Invested in capital assets, net of related debt	11,290.9	10,722.7	0.1	0.1	11,291.0	10,722.8
Restricted	573.1	1,462.0	-	-	573.1	1,462.0
Unrestricted	7,248.3	5,728.1	(1,690.6)	(1,610.2)	5,557.7	4,117.9
Total net assets	$ 19,112.3	$ 17,912.8	$ (1,690.5)	$ (1,610.1)	$ 17,421.8	$ 16,302.7

At the end of the current fiscal year, net assets for the primary governmental were $17.4 billion as compared to $16.3 billion in 2010. There was an increase of $1.1 billion.

Current and other assets increased by $453.4 million with an increase in taxes receivable making up the bulk of this.

Capital assets increased by $523.6 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 $142.1 million. This decrease is explained principally by a decrease in securities on loan as of June 30, 2011 of $518.7 million offset by increases in unearned revenue of $157.4 million, net pension obligations of $117.8 million, and due to federal government of $157.4 million.

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 Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues:						
Charges for services	$ 1,459.4	$ 1,315.9	$ 1,654.5	$ 2,421.1	$ 3,113.9	$ 3,737.0
Operating grants and contributions	10,939.0	11,223.5	1,496.7	-	12,435.7	11,223.5
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Individual and corporate income taxes	5,751.4	4,495.6	-	-	5,751.4	4,495.6
Sales taxes	6,365.1	5,937.2	-	-	6,365.1	5,937.2
Other	2,869.9	2,908.2	11.8	3.7	2,881.7	2,911.9
Total revenues	27,384.8	25,880.4	3,163.0	2,424.8	30,547.8	28,305.2
Program Expense						
General government	2,127.8	1,659.2	-	-	2,127.8	1,659.2
Public safety	1,402.1	1,496.6	-	-	1,402.1	1,496.6
Health	344.1	394.5	-	-	344.1	394.5
Welfare	9,817.2	9,785.9	-	-	9,817.2	9,785.9
Conservation, culture and development	583.8	590.3	-	-	583.8	590.3
Education	10,232.3	10,308.9	-	-	10,232.3	10,308.9
Transportation	1,679.8	1,907.7	-	-	1,679.8	1,907.7
Interest expense	0.8	0.6	-	-	0.8	0.6
Unemployment compensation fund	-	-	3,217.6	3,223.1	3,217.6	3,223.1
Other	-	-	23.2	24.1	23.2	24.1
Total expenses	26,187.9	26,143.7	3,240.8	3,247.2	29,428.7	29,390.9
Excess (deficiency) before transfers	1,196.9	(263.3)	(77.8)	(822.4)	1,119.1	(1,085.7)
Transfers	2.6	2.6	(2.6)	(2.6)	-	-
Change in net assets	1,199.5	(260.7)	(80.4)	(825.0)	1,119.1	(1,085.7)
Beginning net assets, as restated	17,912.8	18,173.5	(1,610.1)	(785.1)	16,302.7	17,388.4
Ending net assets	$ 19,112.3	$ 17,912.8	$ (1,690.5)	$ (1,610.1)	$ 17,421.8	$ 16,302.7

Governmental Activities

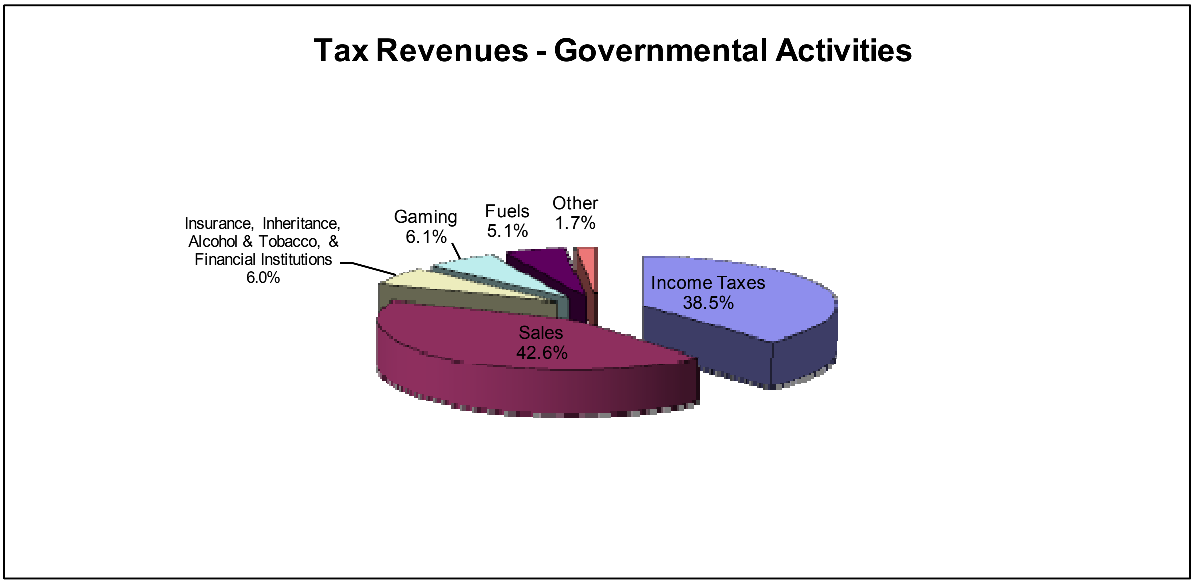
Program expenses exceeded program revenues by $13.8 billion. General revenues and transfers were $15.0 billion. The increase in net assets was $1.2 billion, which is 4.4% of total revenues and 4.6% of total expenses.

The increase to excess (deficiency) before transfers of $1.2 billion was brought about by an increase of total revenues of $1.5 billion offset by an increase in total expenses of $44.2 million.

Revenues increased mainly because of the increases in individual and corporate income taxes of $1.3 billion as explained earlier.

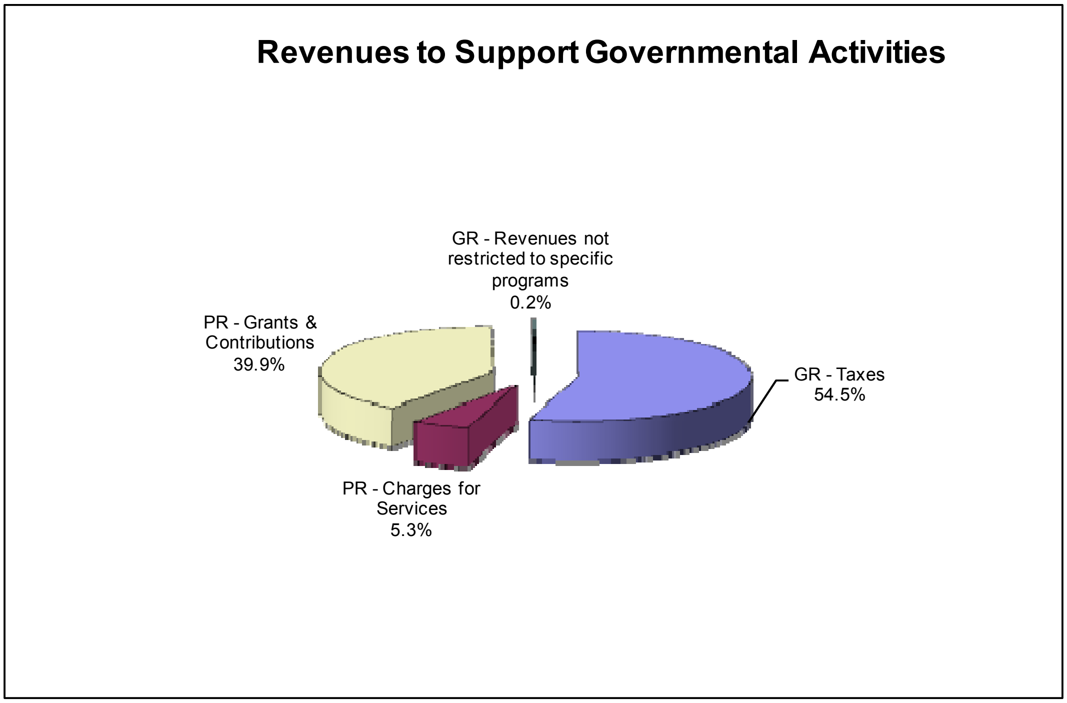
Expenses increased by $44.2 million or by 0.2%. Although General Government expenses increased by $468.6 million, this represents just 36.0% of the fiscal year 2009 level. Welfare expenses increased by $31.3 million due to increases in Medicaid assistance.

Tax revenues for governmental activities were broken down as follows:



Tax revenues of $14.9 billion represent 54.5% of total revenues for governmental activities. This compares to $13.2 billion in FY 2010 or 51.1% of total revenues in FY 2010. Program revenues accounted for $12.4 billion or 45.3% of total revenues. In FY 2010, program revenues accounted for $12.5 billion or 48.5% of total revenues. General revenues other than tax revenues were $57.8 million or 0.2% of total revenues. Of this $22.5 million was investment earnings. This compares to 2010, when general revenues other than taxes were $109.9 million or 0.4% of total revenues and $76.3 million was investment earnings. Investment earnings decreased by $41.0 million from FY 2010 to FY 2011 or 53.8% due to lower interest rates.

Total revenues for governmental activities were broken down as follows:



PR = program revenues
GR = general revenues

Total revenues were 104.6% of expenses which was an increase from 99.0% in FY 2010. Total revenues increased 5.8% from $25.9 billion in FY 2010 to $27.4 billion in FY 2011. Expenses grew 0.2% from $26.1 billion in FY 2010 to $26.2 billion in FY 2011.

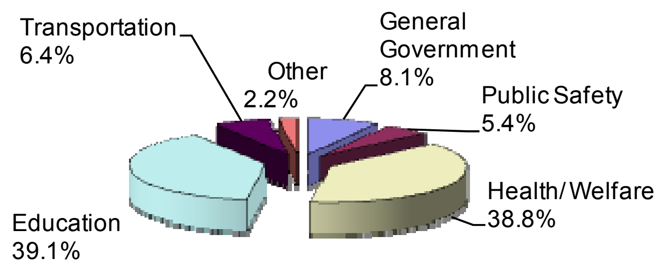
The largest portion of the State's expenses is Education, which is $10.2 billion, or 39.1% of total expenses. This compares with $10.3 billion, or 39.4% of total expenses in FY 2010. The change in expenses was a decrease of $76.6 million or 0.7%. All but $1.4 billion of Education expenses in FY 2011 were funded from general revenues.

Some of the major expenses were tuition support, $6.2 billion, Federal Food Stamp Program, $1.5 billion, General Fund appropriations for State colleges and universities, $1.4 billion, federal grant programs from the U.S. Department of Health and Human Services Fund, $1.4 billion, federal grant programs from the U.S. Department of Education Fund, $723.0 million, federal grant programs from the U.S. Department of Transportation Fund, $1.0 billion, and the Teachers' Retirement Pension, $643.8 million.

Health and Welfare comprises 38.8%, or $10.2 billion, of the State's expenses. In FY 2010, Health and Welfare accounted for 38.9%, or $10.2 billion, of expenses. The change in expenses was a decrease of $19.1 million, or .2%. Some of the major expenses were Medicaid assistance, $6.0 billion, the U.S. Department of Health and Human Services Fund, $1.4 billion, and the federal food stamp program, $1.5 billion.

$2.1 billion, or 8.1% of expenses, was spent for General Government. General Government comprised $1.7 billion or 6.3% of expenses in FY 2010. General Government includes local distributions and money for State administration and those functions that serve the State as a whole. Some reasons for the increase were increases in expenditures for local distributions and for grants made through the Lieutenant Governor's Office and to component units for housing and urban development projects.

Total expenses for governmental activities were broken down as follows:



Business-type Activities

Business-type activities represent 10.4% of the Primary Government's revenues and 11.0% of the expenses. The Unemployment Compensation Fund accounts for 99.2% of business-type activities' operating revenues and 99.3% of operating expenses. The change in net assets for business-type activities was a decline of $80.4 million.

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 $92.4 million. This compares to FY 2010 when this fund's expenses exceeded revenue by $829.4 million. Employer contributions into the fund increased by $1.1 billion, from $496.2 million in FY 2010 to $1.6 billion in FY 2011. Federal revenues into the fund decreased by $413.9 million, from $1.9 billion in FY 2010 to $1.5 billion in FY 2011. The decrease in net assets is due to the increase in the amount due to the federal government for continued borrowings in order to pay unemployment benefits.

Net Cost of Primary Government
(in millions)

	June 30, 2011	June 30, 2010	% Change
Governmental Activities:			
General government	1,297.4	$ 594.9	118.1%
Public safety	782.5	828.9	-5.6%
Health	121.0	116.6	3.8%
Welfare	2,219.2	2,638.3	-15.9%
Conservation, culture, and development	150.8	138.0	9.3%
Education	8,807.3	8,882.9	-0.9%
Transportation	410.5	404.2	1.6%
Unallocated interest expense	0.8	0.6	33.3%
Other	-	-	100.0%
Business-type Activities:			
Unemployment Compensation Fund	92.4	829.4	-88.9%
Malpractice Insurance Authority	(0.3)	(0.4)	-25.0%
Inns and Concessions	(2.7)	(2.8)	-3.6%
TOTAL	$ 13,878.9	$ 14,430.6	-3.8%

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, 2011 was $3.1 billion, which is 68.1% of assets. This compares to a fund balance at June 30, 2010 of $2.5 billion, which was 61.9% of assets. This indicates that the State's financial position in the General Fund increased from the prior year by $548.9 million. The fund balance of $3.1 billion is composed of restrictions of $72.0 million and assignments of $602.9 million, leaving an unassigned balance of $2.4 billion. The restricted amount consists of the State's Rainy Day Fund. For more information on the components of fund balance, see the chart in the Notes to the Financial Statements III(B).

The General Fund's revenues increased 11.7%, or $1.3 billion, from FY 2010, because of the increase in total taxes revenue which included income taxes up by $1.1 billion. Income taxes increased 23.8% from FY 2010. Sales tax revenues increased by $344.6 million, or 5.8%, from FY 2010. The increase in tax revenues is explained by the beginning of a recovery in the State's economy.

General Fund expenditures increased $535.8 million, or 5.1% from FY 2010. Distributions to local units of government were a reason for the increase in expenditures.

The General Fund had transfers in of $1.7 billion compared to $2.8 billion in FY 2010. Transfers out were $3.1 billion compared to $3.0 billion in FY 2010. More detail on these transfers can be found in the Notes to the Financial Statements IV(B).

Overall, the increased position of the General Fund in the amount of $548.9 million can be attributed to increases in the general revenues of the State.

Public Welfare-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 $4.5 billion in Federal revenue as compared to $4.0 billion in FY 2010. State funding comes through the $2.0 billion of transfers in from the General Fund which was an increase of $506.2 million from FY 2010. Transfers out were $560.8 million compared with $160.6 million in FY 2010. The Fund distributed $6.0 billion in Medicaid assistance during the year, which is an increase of $598.3 million over FY 2010. The change in fund balance increased by $114.4 million from FY 2010 to FY 2011.

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 $521.8 million to the State Highway Department Fund. The fund received $113.9 million in investment income and distributed $10.0 million to the Northwest Indiana Regional Development Authority. The change in fund balance from FY 2010 to FY 2011 was a decline of $324.4 million.

ARRA of 2009 Fund

The ARRA of 2009 Fund was created in FY 2009 upon the American Recovery and Reinvestment Act of 2009 becoming law on February 17, 2009. The objective for ARRA of 2009 Fund spending is to stimulate the economy and create jobs. The programs expected to receive the largest amount of funds include Medicaid, Education, Infrastructure, and Nutrition.

The ARRA of 2009 Fund received $1.1 billion in federal grants revenues compared to $1.6 billion in FY 2010. The fund expended $1.1 billion during the year, compared with $1.9 billion in FY 2010. Grant revenues and expenditures of the fund decreased primarily due to the completion of grant programs under the act. The largest decreases in expenditures were for Welfare of $462.5 million and for Education of $281.8 million. The Welfare expenditures were for the Medicaid program. The Education expenditures primarily were for special education and other local educational programs.

The fund balance decreased by $39.9 million from FY 2010 to FY 2011.

U.S. Department of Transportation 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 $882.0 million in grants and received $394.7 million in transfers in, which are taxes and revenues collected in other funds, compared with $1.1 billion and $366.6 million in FY 2010, respectively. The fund expended $1.0 billion during the year, which is a decrease of $493.7 million from FY 2010. The fund balance increased by $243.4 million from FY 2010 to FY 2011. The increase is principally from the reduction in transportation expenditures.

U.S. Department of Health and Human Services Fund

The U.S. Department of Health and Human Services Fund is a new fund created during the fiscal year with the implementation of the new statewide accounting system to account for federal grants that are used to carry out health and human services programs.

The US DHHS Fund received $1.2 billion in federal grant revenues and expended $1.4 billion. The US DHHS Fund received transfers in of $374.0 million mostly from the General Fund for various health and human services programs. The change in fund balance from FY 2010 to FY 2011 was an increase of $134.9 million.

General Fund Budgetary Highlights

Actual State general fund revenue collections increased by $1,087.5 million, or 8.9%, in FY 2011. This follows two consecutive years of decreases, with FY 2010 revenues decreasing by 5.6% after a drop of 7.4% in FY 2009. At the time the budget was enacted in June 2009, State reserves were projected to total $1,008.0 million at the close of FY 2011. Actual expenditure growth, normalizing for the impact of American Recovery and Reinvestment Act (ARRA) funds, was 0.03% in FY 2011 compared with FY 2010, after declining by 1.91% in FY 2010 compared with FY 2009. Annual expenditure growth has averaged 1.4% over the past six years in comparison to growth of nearly 5.9% between FY 1996 and FY 2004.

At year-end, the State had $1,181.5 million in reserves, with $1,124.3 million residing in the general fund and $57.2 million residing in the Rainy Day Fund.

Capital Asset and Debt Administration

Capital Assets

Capital assets were $12.5 billion, which was 53.0% of total assets for the primary government. Related debt was $1.2 billion. Total capital assets net of related debt for the primary government was $11.3 billion. Related debt was 9.8% of capital assets. Total capital assets increased by $523.7 million or 4.4% and is attributable to increases in the Indiana Department of Transportation's land, infrastructure, and construction in progress (CIP). The net increase in capital assets is comprised of increases for INDOT's capital assets of $584.9 million and software in development of $19.6 million and to decreases of $60.6 million for the primary government, $17.3 million in DOA Public Works CIP, $2.0 million in capital lease assets, and $1.0 million in internal service funds' capital assets. CIP consisting of right of way and work in progress increased $287.9 million, infrastructure consisting of interstate roads, non-interstate roads, and bridges increased $178.0 million, and land increased by $119.0 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 2010 to fiscal year 2011.

State of Indiana
Capital Assets
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2011	2010	2011	2010	2011	2010	
Land	$ 1,623.5	$ 1,502.5	$ -	$ -	$ 1,623.5	$ 1,502.5	8.1%
Infrastructure	8,239.2	8,062.7	-	-	8,239.2	8,062.7	2.2%
Construction in Progress	1,773.7	1,483.7	-	-	1,773.7	1,483.7	19.5%
Property, plant and equipment	2,060.6	2,100.5	0.4	0.4	2,061.0	2,100.9	-1.9%
Computer software	37.8	35.8	-	-	37.8	35.8	5.6%
Less accumulated depreciation	(1,218.5)	(1,192.6)	(0.3)	(0.3)	(1,218.8)	(1,192.9)	2.2%
Total	**$ 12,516.3**	**$ 11,992.6**	**$ 0.1**	**$ 0.1**	**$ 12,516.4**	**$ 11,992.7**	**4.4%**

Long-term Obligations

Major long-term obligations items are included in the following table. These items comprised 100% of total long-term liabilities and 36.5% of total liabilities.

The following table shows the percentage change from fiscal year 2010 to fiscal year 2011.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	
Accrued liability for compensated absences	$ 62.4	$ 66.6	$ 0.3	$ 0.3	$ 62.7	$ 66.9	-6.3%
Intergovernmental payable	30.0	40.0	-	-	30.0	40.0	-25.0%
Capital lease payable	1,178.3	1,222.9	-	-	1,178.3	1,222.9	-3.6%
Claims payable	-	-	29.3	42.1	29.3	42.1	-30.4%
Net pension obligations	1,065.9	948.1	-	-	1,065.9	948.1	12.4%
Other postemployment benefits	118.2	112.4	-	-	118.2	112.4	5.2%
Pollution remediation	32.6	43.7	-	-	32.6	43.7	N/A
Due to component units	50.0	50.0	-	-	50.0	50.0	0.0%
Total	**$ 2,537.4**	**$ 2,483.7**	**$ 29.6**	**$ 42.4**	**$ 2,567.0**	**$ 2,526.1**	**1.6%**

Total long-term liabilities increased by 1.6% or $40.9 million. The largest increase was in net pension obligations of $117.8 million. The other long-term liability to increase was OPEB by $5.8 million.

The increase in net pension obligations is because there was an increase of $113.7 million in the TRF's Pre-1996 Plan's NPO. Two other retirement plan NPOs increased by $4.1 million.

Other postemployment benefits increased by $5.8 million. This increase in OPEB liability is based on the OPEB financial report for the fiscal year ending June 30, 2011. The Indiana State Police Plan's liability increased by $15.1 million, the Conservation Excise Police Plan increased by $2.9 million, and the

Legislature Plan increased by $0.2 million. The Indiana State Personnel Plan decreased by $12.4 million. The Indiana State Police Plan through establishment of a 401(h) trust account and the Indiana State Personnel Plan started pre-funding retiree health benefits.

Significant decreases in long-term liabilities were for capital leases payable of $44.6 million, pollution remediation payable of $11.1 million, and intergovernmental payables of $10.0 million. The decrease in capital leases payable is because there was a decrease of $45.9 million in the direct financing lease with the Highway Revenue Bonds fund of the Indiana Finance Authority while there was a net increase in other capital leases of $1.3 million. The decrease in the pollution remediation liability was because of the decrease in IDEM's Superfund pollution sites. The $10.0 million decrease in intergovernmental payables resulted from a distribution for infrastructure projects under the Major Moves Construction Fund.

Claims payable for business activities decreased by $12.8 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 $8.2 billion in roads and bridges using the modified approach, $1.4 billion in right of way classified as land, and $22.7 million in property (septic, sewer, and water systems; and streets/sidewalks/curbs) and 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 11,000 centerline miles of pavement on 214 routes and approximately 5,200 bridges that the State is responsible to maintain.

The State has consistently maintained the assessed conditions of roads over the past three years. It is the State's policy to maintain a network average International Roughness Index (IRI) of no more than 95 for Interstate Roads, NHS Non-Interstate and Non-NHS Roads (a good rating is in the range of 80–115). The most recent condition assessment, completed for FY 2011, indicated that the average IRI for roads was in an acceptable range.

The State has maintained the assessed conditions of bridges at levels which are above the established benchmarks. It is the State's policy to maintain Interstate bridges at an average sufficiency rating of 87%, NHS Non-Interstate bridges at an average sufficiency rating of 85%, and Non-NHS bridges at an average sufficiency rating of 83% (a good rating is 80% - 90%). The most recent condition assessment, completed in FY 2011, indicated that the average sufficiency rating for bridges exceeded the minimum acceptable standard.

Total actual maintenance and preservation costs for roads exceeded plan. Actual maintenance costs for interstate roads were lower than planned; however, this roadway type maintained a good condition rating.

Total actual maintenance and preservation costs for bridges on all road classes were lower than planned. Bridge sufficiency ratings were within the State's policy for the maintenance of bridges in all road classes

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. At that time, real Gross Domestic Product (real GDP) was forecast to increase by 2.8% in FY 2011. Corporate profits were forecast to increase by 14.8%, while the value of U.S. household financial assets was projected to increase by 9.0%. Indiana personal income (IPI) was forecast to increase in FY 2011 by 2.3%, with a smaller increase of 1.8% forecast for Indiana wage and salary disbursements.

The May 2009 forecast was last updated on April 15, 2011. Real GDP was forecast to increase by 2.8% in FY 2011, while nominal GDP was forecast to increase by 1.4%. Corporate profits were forecast to increase by 12.6% and the S&P 500 was forecast to increase by 13.2%. Indiana personal income and Indiana personal income net of transfer payments were forecast to increase by 4.6%. The Indiana unemployment rate was forecast to average 9.6% for FY 2011.

The U.S. Bureau of Economic Analysis (BEA) currently estimates that real and nominal GDP increased by 2.6% and 4.4%, respectively, in FY 2011. Corporate profits and the S&P 500 increased by 15.1% and 13.4%, respectively, in FY 2011. BEA currently estimates that IPI and IPI net of transfers increased by 4.7% and 5.0%, respectively. The Indiana unemployment rate averaged 9.3% in FY 2011.

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 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, 2011
(amounts expressed in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets:				
Current assets:				
Cash, cash equivalents and investments	$ 6,545,012	$ 127,555	**$ 6,672,567**	$ 3,940,480
Securities lending collateral	284,931	-	**284,931**	188,955
Receivables (net)	2,728,038	89,754	**2,817,792**	738,026
Intergovernmental receivables	-	-	**-**	344,582
Inventory	4,423	552	**4,975**	17,841
Prepaid expenses	84,414	75	**84,489**	10,461
Loans	90,044	-	**90,044**	2,789
Due from primary government	-	-	**-**	16,637
Due from component unit	6,241	-	**6,241**	-
Due from agency fund	539,697	-	**539,697**	-
Investment in direct financing lease	-	-	**-**	62,157
Funds held in trust by others	-	-	**-**	34,614
Other current assets	-	-	**-**	71,528
Total current assets	10,282,800	217,936	**10,500,736**	5,428,070
Noncurrent assets:				
Cash, cash equivalents and investments - restricted	-	-	**-**	2,362,627
Taxes, interest, and penalties receivable	747,773	-	**747,773**	4,046
Pollution remediation recovery	10,711	-	**10,711**	-
Other receivables	222	-	**222**	1,754,918
Investments - unrestricted	-	-	**-**	4,759,434
Loans	335,022	-	**335,022**	2,831,857
Bond issuance costs net of amortization	-	-	**-**	42,077
Intergovernmental loans	-	-	**-**	1,812,250
Due from primary government	-	-	**-**	50,000
Investment in direct financing lease	-	-	**-**	2,232,883
Deferred outflow - derivative instrument	-	-	**-**	136,540
Net pension assets	86,621	-	**86,621**	84
Other postemployment benefits	-	-	**-**	16,495
Other noncurrent assets	-	-	**-**	67,119
Capital assets:				
Land	1,623,509	-	**1,623,509**	450,893
Infrastructure	8,239,152	-	**8,239,152**	631,485
Construction in progress	1,773,709	-	**1,773,709**	900,515
Property, plant, and equipment	2,060,560	410	**2,060,970**	10,546,146
Computer software	37,810	-	**37,810**	-
Less accumulated depreciation/amortization	(1,218,543)	(326)	**(1,218,869)**	(4,647,775)
Total capital assets, net of depreciation/amortization	12,516,197	84	**12,516,281**	7,881,264
Total noncurrent assets	13,696,546	84	13,696,630	23,951,594
Total assets	**23,979,346**	**218,020**	**24,197,366**	**29,379,664**
Liabilities:				
Current liabilities:				
Accounts payable	1,354,709	551	**1,355,260**	312,315
Claims payable	-	3,702	**3,702**	17,765
Interest payable	-	-	**-**	165,507
Current portion of long-term debt	-	-	**-**	1,078,203
Line of credit	-	-	**-**	100,000
Intergovernmental payable	157,552	-	**157,552**	-
Due to primary government	-	-	**-**	6,241
Due to component unit	16,637	-	**16,637**	-
Capital lease payable	47,063	-	**47,063**	1,567
Accrued prize liability	-	-	**-**	62,813
Salaries, health, disability, and benefits payable	129,105	472	**129,577**	135,556
Tax refunds payable	67,528	-	**67,528**	-
Unearned revenue	183,993	4,614	**188,607**	306,301
Accrued liability for compensated absences	79,377	203	**79,580**	82,915
Due to federal government (net)	-	1,868,813	**1,868,813**	-
Pollution remediation payable	8,698	-	**8,698**	69
Securities lending payable	32	-	**32**	-
Securities lending collateral	284,931	-	**284,931**	188,955
Deposits held in custody for others	-	-	**-**	78,864
Other current liabilities	-	491	**491**	16,045
Total current liabilities	2,329,625	1,878,846	**4,208,471**	2,553,116

State of Indiana
Statement of Net Assets
June 30, 2011
(amounts expressed in thousands)

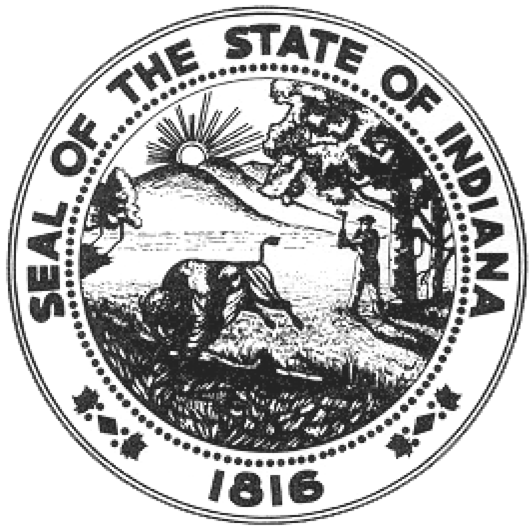
	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Long-term liabilities:				
Accrued liability for compensated absences	62,395	269	**62,664**	73,267
Claims payable	-	29,361	**29,361**	-
Intergovernmental payable	30,000	-	**30,000**	-
Accrued prize liability	-	-	**-**	122,843
Net pension obligations	1,065,925	-	**1,065,925**	-
Other postemployment benefits	118,229	-	**118,229**	59,991
Pollution remediation payable	32,610	-	**32,610**	3,230
Due to component unit	50,000	-	**50,000**	-
Unearned revenue	-	-	**-**	3,493,665
Capital lease payable	1,178,249	-	**1,178,249**	3,081
Funds held in trust for others	-	-	**-**	175,199
Advances from federal government	-	-	**-**	29,406
Revenue bonds/notes payable	-	-	**-**	11,555,607
Derivative instrument liability	-	-	**-**	136,409
Other noncurrent liabilities	-	-	**-**	90,192
Total long-term liabilities	2,537,408	29,630	2,567,038	15,742,890
Total liabilities	**4,867,033**	**1,908,476**	**6,775,509**	**18,296,006**
Net Assets:				
Invested in capital assets net of related debt	11,290,885	84	**11,290,969**	3,971,413
Restricted-nonexpendable:				
Grants/constitutional restrictions	-	-	**-**	32,983
Permanent funds	501,125	-	**501,125**	64,689
Future debt service	-	-	**-**	234,458
Public safety programs	-	-	**-**	2,730
Capital projects	-	-	**-**	4,568
Pension fund distribution	-	-	**-**	489
Instruction and research	-	-	**-**	684,115
Student aid	-	-	**-**	728,610
Other purposes	-	-	**-**	317,626
Total restricted-nonexpendable	501,125	-	**501,125**	2,070,268
Restricted-expendable:				
Instruction and research	-	-	**-**	610,630
Grants/constitutional restrictions	71,990	-	**71,990**	12,375
Endowments	-	-	**-**	443,294
Future debt service	-	-	**-**	221,856
Public safety programs	-	-	**-**	4,703
Student aid	-	-	**-**	736,519
Auxiliary enterprises	-	-	**-**	2,555
Capital projects	-	-	**-**	265,910
Water pollution and drinking water projects	-	-	**-**	1,106,895
Other purposes	-	-	**-**	484,530
Total restricted-expendable	71,990	-	**71,990**	3,889,267
Unrestricted	7,248,313	(1,690,540)	**5,557,773**	1,152,710
Total net assets	**$ 19,112,313**	**$ (1,690,456)**	**$ 17,421,857**	**$ 11,083,658**

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, 2011
(amounts expressed in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**	**Component Units**
Primary government:								
Governmental activities:								
General government	$ 2,127,752	$ 636,558	$ 193,820	$ -	$ (1,297,374)	$ -	$ (1,297,374)	$ -
Public safety	1,402,056	433,810	185,709	-	(782,537)	-	(782,537)	-
Health	344,063	8,129	214,951	-	(120,983)	-	(120,983)	-
Welfare	9,817,167	179,991	7,417,970	-	(2,219,206)	-	(2,219,206)	-
Conservation, culture and development	583,836	149,781	283,293	-	(150,762)	-	(150,762)	-
Education	10,232,388	4,202	1,420,856	-	(8,807,330)	-	(8,807,330)	-
Transportation	1,679,805	46,914	1,222,383	-	(410,508)	-	(410,508)	-
Unallocated interest expense	796	-	-	-	(796)	-	(796)	-
Total governmental activities	26,187,863	1,459,385	10,938,982	-	(13,789,496)	-	(13,789,496)	-
Business-type activities								
Unemployment Compensation Fund	3,217,559	1,628,446	1,496,679	-	-	(92,434)	(92,434)	-
Malpractice Insurance Authority	2,510	2,761	-	-	-	251	251	-
Inns and Concessions	20,657	23,342	-	-	-	2,685	2,685	-
Total business-type activities	3,240,726	1,654,549	1,496,679	-	-	(89,498)	(89,498)	-
Total primary government	$ 29,428,589	$ 3,113,934	$ 12,435,661	$ -	(13,789,496)	(89,498)	(13,878,994)	-
Component units:								
Governmental	38,315	221	21,020	-	-	-	-	(17,075)
Proprietary	2,126,513	1,393,876	897,590	11,688	-	-	-	176,641
Colleges and universities	6,057,922	3,127,526	1,132,253	76,140	-	-	-	(1,722,003)
Total component units	$ 8,222,750	$ 4,521,623	$ 2,050,863	$ 87,828	$ -	$ -	$ -	$ (1,562,437)
General Revenues:								
Income tax					$ 5,751,404	$ -	$ 5,751,404	$ -
Sales tax					6,365,077	-	6,365,077	-
Fuels tax					754,863	-	754,863	-
Gaming tax					904,422	-	904,422	1,066
Unemployment tax					320	-	320	-
Inheritance tax					160,917	-	160,917	-
Alcohol & Tobacco tax					464,702	-	464,702	-
Insurance tax					189,948	-	189,948	-
Financial Institutions tax					84,743	-	84,743	-
Other tax					252,176	-	252,176	-
Total taxes					14,928,572	-	14,928,572	1,066
Revenue not restricted to specific programs								
Investment earnings					22,522	1,750	24,272	896,907
Payments from State of Indiana					-	-	-	1,456,002
Other					35,283	10,000	45,283	652,909
Transfers within primary government					2,618	(2,618)	-	-
Total general revenues and transfers					14,988,995	9,132	14,998,127	3,006,884
Changes in net assets					1,199,499	(80,366)	1,119,133	1,444,448
Net assets - beginning, as restated					17,912,814	(1,610,090)	16,302,724	9,639,211
Net assets - ending					$ 19,112,313	$ (1,690,456)	$ 17,421,857	$ 11,083,658

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


SEAL OF THE STATE OF INDIANA
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FUND FINANCIAL STATEMENTS

State of Indiana
Balance Sheet
Governmental Funds
June 30, 2011
(amounts expressed in thousands)

	General Fund	Public Welfare-Medicaid Assistance Fund	Major Moves Construction Fund	ARRA of 2009
Assets:				
Cash, cash equivalents and investments-unrestricted	$ 1,446,921	$ 119,947	$ 1,729,832	$ 3,377
Securities lending collateral	165,654	-	35,338	-
Receivables:				
Taxes (net of allowance for uncollectible accounts)	2,030,339	-	-	-
Securities lending	14	-	15	-
Accounts	11,442	9,734	-	-
Grants	-	250,007	-	24,489
Interest	5,422	-	154	-
Interfund loans	290,191	-	-	-
Due from agency fund	539,697	-	-	-
Due from component unit	230	-	-	-
Prepaid expenditures	172	80,210	-	4,204
Loans	15,288	-	-	-
Total assets	$ 4,505,370	$ 459,898	$ 1,765,339	$ 32,070
Liabilities:				
Accounts payable	$ 143,791	$ 264,837	$ 39	$ 14,661
Salaries and benefits payable	39,810	-	-	3
Interfund loans	-	-	-	-
Interfund services used	2,534	-	-	1
Intergovernmental payable	41,234	-	-	-
Due to component unit	-	-	-	16,637
Tax refunds payable	57,899	-	-	-
Deferred revenue	985,338	56,152	-	25,184
Accrued liability for compensated absences-current	2,539	-	-	-
Pollution remediation payable	-	-	-	-
Securities lending payable	14	-	15	-
Securities lending collateral	165,654	-	35,338	-
Total liabilities	1,438,813	320,989	35,392	56,486
Fund balance:				
Nonspendable:	-	-	-	-
Restricted:	71,990	-	-	-
Committed:	-	-	-	-
Assigned:	602,917	138,909	1,729,947	-
Unassigned:	2,391,650	-	-	(24,416)
Total fund balances	3,066,557	138,909	1,729,947	(24,416)
Total liabilities and fund balances	$ 4,505,370	$ 459,898	$ 1,765,339	$ 32,070

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

US Department of Transportation	US Department of Health & Human Services	Non-Major Governmental Funds	Total
$ 130,257	$ -	$ 2,984,594	**$ 6,414,928**
-	-	83,939	**284,931**
-	-	191,425	**2,221,764**
-	-	3	**32**
541	-	40,124	**61,841**
71,203	239,784	210,268	**795,751**
-	-	201	**5,777**
-	-	-	**290,191**
-	-	-	**539,697**
-	-	6,011	**6,241**
13	3	120	**84,722**
-	-	409,778	**425,066**
$ 202,014	$ 239,787	$ 3,926,463	**$ 11,130,941**
$ 110,068	$ 62,685	200,331	**$ 796,412**
46	6,391	36,284	**82,534**
-	123,185	167,006	**290,191**
6	1,301	2,867	**6,709**
-	-	106,318	**147,552**
-	-	-	**16,637**
-	-	9,629	**67,528**
-	-	204,849	**1,271,523**
-	367	2,737	**5,643**
-	-	3	**3**
-	-	3	**32**
-	-	83,939	**284,931**
110,120	193,929	813,966	**2,969,695**
-	-	501,125	**501,125**
-	-	-	**71,990**
-	-	569,870	**569,870**
91,894	45,858	2,264,879	**4,874,404**
-	-	(223,377)	**2,143,857**
91,894	45,858	3,112,497	**8,161,246**
$ 202,014	$ 239,787	$ 3,926,463	**$ 11,130,941**

State of Indiana
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2011
(amounts expressed in thousands)

Total fund balances-governmental funds			$	8,161,246
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	$	1,623,509		
ucture assets		8,239,152		
Construction in progress		1,773,709		
Property, plant, and equipment		2,033,109		
Accumulated depreciation		(1,173,661)		
Total capital assets, net of depreciation				12,495,818
The State's pension funds have net pension assets not reported as assets in the funds.				86,621
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		1,087,534		
Accounts receivable		64,632		
				1,152,166
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		(286,292)		
Salaries, health, disability and benefits payable		(1,608)		
Pollution remediation		(30,594)		
				(318,494)
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.				117,976
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		(131,932)		
Other postemployment benefits		(118,229)		
Loan from the Indiana Board for Depositories		(50,000)		
Capital lease payable		(1,216,934)		
Net pension obligations		(1,065,925)		
Total long-term liabilities				(2,583,020)
Net assets of governmental activities			$	19,112,313

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, 2011
(amounts expressed in thousands)

	General Fund	Public Welfare-Medicaid Assistance Fund	Major Moves Construction Fund	ARRA of 2009
Revenues:				
Taxes:				
Income	$ 5,464,957	$ -	$ -	$ -
Sales	6,257,133	-	-	-
Fuels	-	-	-	-
Gaming	90,674	-	-	-
Unemployment	-	-	-	1
Inheritance	160,912	-	-	-
Alcohol and tobacco	282,549	-	-	-
Insurance	185,858	-	-	-
Financial Institutions	-	-	-	-
Other	229,423	-	-	-
Total taxes	12,671,506	-	-	1
Current service charges	221,268	125,828	-	252
Investment income	22,521	-	113,865	-
Sales/rents	1,094	-	-	-
Grants	49,451	4,467,201	-	1,097,645
Other	34,189	4	-	-
Total revenues	13,000,029	4,593,033	113,865	1,097,898
Expenditures:				
Current:				
General government	957,408	-	-	320,833
Public safety	671,302	-	-	14,690
Health	46,841	-	-	10,653
Welfare	641,873	5,958,202	-	306,195
Conservation, culture and development	74,116	-	-	44,675
Education	8,710,221	-	-	172,781
Transportation	1,970	-	40,609	268,470
Total expenditures	11,103,731	5,958,202	40,609	1,138,297
Excess (deficiency) of revenues over (under) expenditures	1,896,298	(1,365,169)	73,256	(40,399)
Other financing sources (uses):				
Transfers in	1,731,406	2,040,353	124,158	885
Transfers (out)	(3,078,812)	(560,830)	(521,785)	(397)
Proceeds from capital lease	-	-	-	-
Total other financing sources (uses)	(1,347,406)	1,479,523	(397,627)	488
Net change in fund balances	548,892	114,354	(324,371)	(39,911)
Fund Balance July 1, as restated	2,517,665	24,555	2,054,318	15,495
Fund Balance June 30	**$ 3,066,557**	**$ 138,909**	**$ 1,729,947**	**$ (24,416)**

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

US Department of Transportation	US Department of Health & Human Services	Non-Major Governmental Funds	Total
$ -	$ -	$ 6,261	**$ 5,471,218**
-	-	51,223	**6,308,356**
-	-	747,569	**747,569**
-	-	813,749	**904,423**
-	-	319	**320**
-	-	-	**160,912**
-	-	181,062	**463,611**
-	-	4,090	**189,948**
-	-	56,726	**56,726**
-	-	21,414	**250,837**
-	-	1,882,413	**14,553,920**
183	744	1,112,064	**1,460,339**
-	-	34,444	**170,830**
-	7	18,163	**19,264**
881,997	1,232,670	3,054,813	**10,783,777**
11	4,067	56,885	**95,156**
882,191	1,237,488	6,158,782	**27,083,286**
505	11,946	840,413	**2,131,105**
20,919	4,931	637,156	**1,348,998**
-	141,707	146,351	**345,552**
-	1,255,885	1,745,986	**9,908,141**
1,423	-	463,059	**583,273**
-	1,564	1,230,507	**10,115,073**
1,002,754	-	983,451	**2,297,254**
1,025,601	1,416,033	6,046,923	**26,729,396**
(143,410)	(178,545)	111,859	**353,890**
394,715	374,005	2,284,509	**6,950,031**
(7,898)	(60,587)	(2,717,104)	**(6,947,413)**
-	54	2,941	**2,995**
386,817	313,472	(429,654)	**5,613**
243,407	134,927	(317,795)	**359,503**
(151,513)	(89,069)	3,430,292	**7,801,743**
$ 91,894	**$ 45,858**	**$ 3,112,497**	**$ 8,161,246**

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, 2011
(amounts expressed in thousands)

Net change in fund balances-total governmental funds	$	359,503
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.		584,920
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 ($132,177) exceeds depreciation of $71,874 in the current period.		(60,303)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Tax revenue		377,201
Non-tax revenue		(3,146)
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		11,648
Statutory expenses		10,000
Amounts due to component units		44,293
The change in net pension assets and net pension obligations do not provide or require the use of current financial resources:		
Increase in net pension assets		(5,145)
Decrease in net pension obligations		(117,844)
The change in other postemployment benefits do not provide or require the use of current financial resources.		(5,824)
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.		4,196
Change in net assets of governmental activities.	$	1,199,499

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, 2011
(amounts expressed in thousands)

	Unemployment Compensation Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
Assets				
Current assets:				
Cash, cash equivalents and investments - unrestricted	$ 55,464	$ 72,091	**$ 127,555**	$ 130,086
Receivables:				
Accounts	84,826	853	**85,679**	22,457
Interest	-	612	**612**	-
Grants	3,463	-	**3,463**	-
Interfund services provided	-	-	**-**	6,709
Inventory	-	552	**552**	4,423
Prepaid expenses	-	75	**75**	-
Total current assets	143,753	74,183	**217,936**	163,675
Noncurrent assets:				
Capital assets:				
Property, plant, and equipment	-	410	**410**	65,261
Less accumulated depreciation	-	(326)	**(326)**	(44,882)
Total capital assets, net of depreciation	-	84	**84**	20,379
Total noncurrent assets	-	84	**84**	20,379
Total assets	**143,753**	**74,267**	**218,020**	**184,054**
Liabilities				
Current liabilities:				
Accounts payable	-	551	**551**	8,230
Claims payable	-	3,702	**3,702**	-
Salaries and benefits payable	-	472	**472**	1,943
Capital lease payable	-	-	**-**	306
Health/disability benefits payable	-	-	**-**	43,020
Accrued liability for compensated absences	-	203	**203**	2,273
Due to federal government (net)	1,868,813	-	**1,868,813**	-
Deferred revenue	-	4,614	**4,614**	310
Other liabilities	-	491	**491**	-
Total current liabilities	1,868,813	10,033	**1,878,846**	56,082
Noncurrent liabilities:				
Accrued liability for compensated absences	-	269	**269**	1,924
Capital lease payable	-	-	**-**	8,072
Claims payable	-	29,361	**29,361**	-
Total noncurrent liabilities	-	29,630	**29,630**	9,996
Total liabilities	**1,868,813**	**39,663**	**1,908,476**	**66,078**
Net assets				
Invested in capital assets net of related debt	-	84	**84**	12,001
Unrestricted	(1,725,060)	34,520	**(1,690,540)**	105,975
Total net assets	**$ (1,725,060)**	**$ 34,604**	**$ (1,690,456)**	**$ 117,976**

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, 2011

(amounts expressed in thousands)

	Unemployment Compensation Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
Operating revenues:				
Sales/rents/premiums	$ -	$ 25,941	**$ 25,941**	$ 490,621
Employer contributions	1,628,446	-	**1,628,446**	-
Charges for services	-	-	**-**	8,249
Federal revenues	1,479,968	-	**1,479,968**	-
Other	-	162	**162**	148
Total operating revenues	3,108,414	26,103	**3,134,517**	499,018
Cost of sales	-	4,113	**4,113**	21,079
Gross margin	3,108,414	21,990	**3,130,404**	477,939
Operating expenses:				
General and administrative expense	857	17,145	**18,002**	139,225
Claims expense	-	1,855	**1,855**	-
Health / disability benefit payments	-	-	**-**	326,599
Unemployment compensation benefits	3,204,437	-	**3,204,437**	-
Depreciation and amortization	-	33	**33**	7,187
Other	12,255	21	**12,276**	52
Total operating expenses	3,217,549	19,054	**3,236,603**	473,063
Operating income (loss)	(109,135)	2,936	**(106,199)**	4,876
Nonoperating revenues (expenses):				
Interest and other investment income	-	1,750	**1,750**	1
Interest and other investment expense	(10)	-	**(10)**	(796)
Gain (Loss) on disposition of assets	-	-	**-**	(13)
Federal grants	16,711	-	**16,711**	-
Other	-	10,000	**10,000**	(18)
Total nonoperating revenues (expenses)	16,701	11,750	**28,451**	(826)
Income before contributions and transfers	(92,434)	14,686	**(77,748)**	4,050
Capital contributions	-	-	**-**	146
Transfers in	-	-	**-**	24,564
Transfers (out)	-	(2,618)	**(2,618)**	(24,564)
Change in net assets	(92,434)	12,068	**(80,366)**	4,196
Total net assets, July 1, as restated	**(1,632,626)**	**22,536**	**(1,610,090)**	**113,780**
Total net assets, June 30	**$ (1,725,060)**	**$ 34,604**	**$ (1,690,456)**	**$ 117,976**

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, 2011

(amounts expressed in thousands)

	Unemployment Compensation Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
Cash flows from operating activities:				
Cash received from customers	$ 2,311,182	$ 25,674	**$ 2,336,856**	$ 502,056
Cash paid for general and administrative	(13,113)	(17,223)	**(30,336)**	(139,074)
Cash paid for salary/health/disability benefit payments	-	-	**-**	(332,159)
Cash paid to suppliers	-	(4,099)	**(4,099)**	(20,912)
Cash paid for claims expense	(4,138,063)	(4,265)	**(4,142,328)**	-
Net cash provided (used) by operating activities	(1,839,994)	87	**(1,839,907)**	9,911
Cash flows from noncapital financing activities:				
Transfers in	-	-	**-**	24,564
Transfers out	-	(2,618)	**(2,618)**	(24,564)
Loan from federal government	2,646,627	-	**2,646,627**	-
Repayment of loan from federal government	(777,814)	-	**(777,814)**	-
Federal grants	14,699	-	**14,699**	-
Other	-	-	**-**	(18)
Net cash provided (used) by noncapital financing activities	1,883,512	(2,618)	**1,880,894**	(18)
Cash flows from capital and related financing activities:				
Acquisition/construction of capital assets	-	(28)	**(28)**	(6,348)
Proceeds from sale of assets	-	-	**-**	318
Principal payments -- capital leases	-	-	**-**	(299)
Interest paid	-	-	**-**	(796)
Net cash provided (used) by capital and related financing activities	-	(28)	**(28)**	(7,125)
Cash flows from investing activities:				
Proceeds from sales of investments	-	9,006	**9,006**	-
Purchase of investments	-	(9,880)	**(9,880)**	-
Interest income (expense) on investments	(10)	3,795	**3,785**	1
Net cash provided (used) by investing activities	(10)	2,921	**2,911**	1
Net increase (decrease) in cash and cash equivalents	43,508	362	**43,870**	2,769
Cash and cash equivalents, July 1	11,956	4,873	**16,829**	127,317
Cash and cash equivalents, June 30	**$ 55,464**	**$ 5,235**	**$ 60,699**	**$ 130,086**
Reconciliation of cash , cash equivalents and investments:				
Cash and cash equivalents unrestricted at end of year	$ 55,464	$ 5,235	**$ 60,699**	$ 130,086
Investments unrestricted	-	66,856	**66,856**	-
Cash, cash equivalents and investments per balance sheet	**$ 55,464**	**$ 72,091**	**$ 127,555**	**$ 130,086**
Noncash investing, capital and financing activities:				
Increase (Decrease) in fair value of investments	$ -	$ (1,939)	**$ (1,939)**	$ -

State of Indiana
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2011
(amounts expressed in thousands)

	Unemployment Compensation Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	$ (109,135)	$ 2,936	**$ (106,199)**	$ 4,876
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation/amortization expense	-	33	**33**	7,187
(Increase) decrease in receivables	(19,418)	(177)	**(19,595)**	(1,278)
(Increase) decrease in interfund services provided	-	-	**-**	4,468
(Increase) decrease in inventory	-	14	**14**	174
(Increase) decrease in prepaid expenses	-	3	**3**	-
Increase (decrease) in claims payable	-	(2,409)	**(2,409)**	-
Increase (decrease) in health and disability benefits payable	-	-	**-**	(5,698)
Increase (decrease) in accounts payable	(1,711,441)	26	**(1,711,415)**	447
Increase (decrease) in deferred revenue	-	(291)	**(291)**	15
Increase (decrease) in salaries payable	-	(43)	**(43)**	157
Increase (decrease) in compensated absences	-	(24)	**(24)**	(402)
Increase (decrease) in other payables	-	19	**19**	(35)
Net cash provided (used) by operating activities	**$ (1,839,994)**	**$ 87**	**$ (1,839,907)**	**$ 9,911**

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, 2011
(amounts expressed in thousands)

	Pension and Other Employee Benefit Trust Funds	Private-Purpose Trust Funds	Investment Trust Fund	Agency Funds
Assets:				
Cash, cash equivalents and non-pension investments	$ 2,871,305	$ 39,771	$ -	$ 348,336
Securities lending collateral	1,106	-	3,858	1,030
Receivables:				
Taxes	-	4,452	-	15,035
Contributions	203,574	-	-	-
Interest	83,292	1	103	-
Member loans	1,302	-	-	-
Interfund	-	-	-	-
Due from other funds	25,160	-	-	-
Due from component unit	1,792	-	-	-
Due from primary government	-	-	-	-
From investment sales	953,698	-	-	-
Other	1,560	-	-	49
Total receivables	1,270,378	4,453	103	15,084
Due from local governmental units	-	-	-	539,697
Pension and other employee benefit investments at fair value:				
Equity Securities	9,928,319	-	-	-
Debt Securities	8,805,549	-	-	-
Mutual Funds and Collective Trust Funds	1,187,639	-	-	-
Other	4,189,340	-	-	-
Total investments	24,110,847	-	-	-
Pool Investments at Amortized Cost:				
Cash and cash equivalents	-	-	441,734	-
U.S. Government Agencies	-	-	72,146	-
Commercial Paper	-	-	105,767	-
Total investments	-	-	619,647	-
Property, plant and equipment net of accumulated depreciation	10,435	-	-	-
Total assets	**28,264,071**	**44,224**	**623,608**	**$ 904,147**
Liabilities:				
Accounts/escrows payable	27,061	810	-	$ 348,385
Salaries and benefits payable	973	-	-	-
Management fee payable	-	-	55	-
Due to other funds	25,160	-	-	-
Benefits payable	99,287	-	-	-
Distributions payable	-	-	3	-
Due to component unit	1,792	-	-	-
Compensated absences	488	-	-	-
Intergovernmental payable	-	1,271	-	-
Securities purchased payable	1,744,105	-	-	-
Securities lending collateral	1,106	-	3,858	1,030
Due to general fund	-	-	-	539,697
Other	-	-	19	15,035
Total liabilities	**1,899,972**	**2,081**	**3,935**	**$ 904,147**
Net assets:				
Held in trust for:				
Employees' pension benefits	26,082,819	-	-	
OPEB benefits	217,235	-	-	
Future death benefits	11,106	-	-	
State and local units	52,939	-	-	
Trust beneficiaries	-	42,143	-	
Local government investment pool participants	-	-	619,673	
Total net assets	**$ 26,364,099**	**$ 42,143**	**$ 619,673**	

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, 2011
(amounts expressed in thousands)

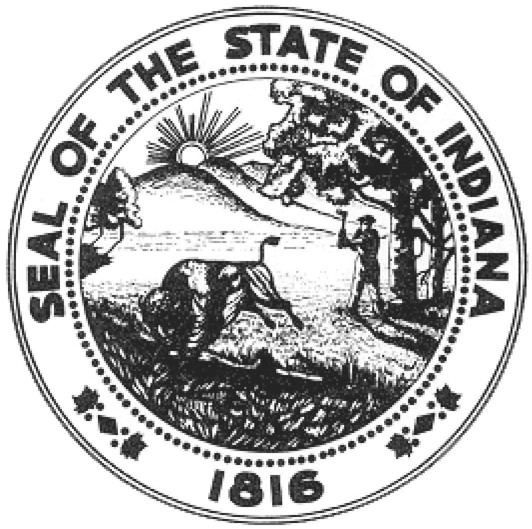
	Pension and Other Employee Benefit Trust Funds	Private-Purpose Trust Funds	Investment Trust Fund
Additions:			
Member contributions	$ 336,364	$ 4,120	$ 816,358
Employer contributions	1,446,998	-	-
Contributions from the State of Indiana	211,263	-	-
Net investment income (loss)	4,157,525	99	1,924
Taxes	-	80,634	-
Less investment expense	(142,089)	-	(1)
Federal reimbursements	1,474	-	-
Donations/escheats	-	79,359	-
Transfers in	15,407	-	-
Reinvestment of distributions	-	-	1,218
Other	2,930	-	-
Total additions	6,029,872	164,212	819,499
Deductions:			
Pension and disability benefits	1,971,568	-	-
Retiree health benefits	10,347	-	-
Death benefits	1,224	-	-
Payments to participants/beneficiaries	-	160,418	1,218
Refunds of contributions and interest	91,447	-	608,030
Administrative	34,399	-	526
Pension relief distributions	219,425	-	-
Capital projects	1,630	-	-
Depreciation	190	-	-
Transfers out	15,410	-	-
Other	2,894	-	180
Total deductions	2,348,534	160,418	609,954
Net increase (decrease) in net assets	3,681,338	3,794	209,545
Net assets held in trust, July 1, as restated	22,682,761	38,349	410,128
Net assets held in trust, June 30	**$ 26,364,099**	**$ 42,143**	**$ 619,673**

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, 2011
(amounts expressed in thousands)

	Governmental	Proprietary	Colleges and Universities	Total
Assets:				
Current assets:				
Cash, cash equivalents and investment	$ 111,692	$ 2,022,099	$ 1,806,689	**$ 3,940,480**
Securities lending collatera	-	-	188,955	**188,955**
Receivables (net)	6	347,099	390,921	**738,026**
Intergovernmental receivable	-	344,582	-	**344,582**
Inventory	-	629	17,212	**17,841**
Prepaid expenses	-	5,479	4,982	**10,461**
Loans receivable	2,789	-	-	**2,789**
Due from primary government	-	-	16,637	**16,637**
Investment in direct financing lease	-	62,157	-	**62,157**
Funds held in trust by others	-	-	34,614	**34,614**
Other current assets	-	9,974	61,554	**71,528**
Total current assets	114,487	2,792,019	2,521,564	**5,428,070**
Noncurrent assets				
Cash, cash equivalents and investments - restricte	-	227,995	2,134,632	**2,362,627**
Taxes, interest, and penalties receivabl	-	4,046	-	**4,046**
Other receivables	-	1,398,447	356,471	**1,754,918**
Investments - unrestricted	-	556,347	4,203,087	**4,759,434**
Loans receivable	16,709	2,815,148	-	**2,831,857**
Bond issuance costs net of amortization	-	40,819	1,258	**42,077**
Intergovernmental loans	-	1,812,250	-	**1,812,250**
Due from primary government	-	50,000	-	**50,000**
Investment in direct financing lease	-	2,232,883	-	**2,232,883**
Deferred outflow - derivative instrumen	-	134,552	1,988	**136,540**
Net pension assets	-	84	-	**84**
Other postemployment benefits	-	-	16,495	**16,495**
Other noncurrent assets	-	36,758	30,361	**67,119**
Capital assets:				
Land	-	237,505	213,388	**450,893**
Infrastructure	-	317,814	313,671	**631,485**
Construction in progress	-	260,193	640,322	**900,515**
Property, plant, and equipmen	343	1,399,714	9,146,089	**10,546,146**
Less accumulated depreciation	(141)	(579,535)	(4,068,099)	**(4,647,775)**
Capital assets, net of accumulated depreciation	202	1,635,691	6,245,371	**7,881,264**
Total noncurrent assets	16,911	10,945,020	12,989,663	**23,951,594**
Total assets	**131,398**	**13,737,039**	**15,511,227**	**29,379,664**
Liabilities:				
Current liabilities				
Accounts payable	4,311	73,293	234,711	**312,315**
Claims payable	-	17,765	-	**17,765**
Interest payable	-	128,520	36,987	**165,507**
Current portion of long-term deb	-	823,812	254,391	**1,078,203**
Line of credit	-	100,000	-	**100,000**
Due to primary governmen	-	6,241	-	**6,241**
Capital lease payable	-	-	1,567	**1,567**
Accrued prize liability	-	62,813	-	**62,813**
Salaries, health, disability, and benefits payabl	274	138	135,144	**135,556**
Deferred revenue	111	79,294	226,896	**306,301**
Accrued liability for compensated absences	294	166	82,455	**82,915**
Pollution remediation payable	-	-	69	**69**
Securities lending collatera	-	-	188,955	**188,955**
Deposits held in custody for others	-	33,822	45,042	**78,864**
Other current liabilities	-	7,724	8,321	**16,045**
Total current liabilities	4,990	1,333,588	1,214,538	**2,553,116**
Long-term liabilities				
Accrued liability for compensated absences	137	186	72,944	**73,267**
Accrued prize liability	-	122,843	-	**122,843**
Other postemployment benefits	-	-	59,991	**59,991**
Pollution remediation payable	-	3,230	-	**3,230**
Deferred revenue	-	3,436,173	57,492	**3,493,665**
Capital lease payable	-	-	3,081	**3,081**
Funds held in trust for others	-	-	175,199	**175,199**
Advances from federal governmen	-	537	28,869	**29,406**
Revenue bonds/notes payable	-	8,934,657	2,620,950	**11,555,607**
Derivative instrument liabilit	-	134,421	1,988	**136,409**
Other noncurrent liabilities	-	5,356	84,836	**90,192**
Total long-term liabilities	137	12,637,403	3,105,350	**15,742,890**
Total liabilities	**5,127**	**13,970,991**	**4,319,888**	**18,296,006**
Net Assets:				
Invested in capital assets net of related deb	202	377,397	3,593,814	**3,971,413**
Restricted-nonexpendable				
Grants/constitutional restriction	-	32,983	-	**32,983**
Permanent funds	-	-	64,689	**64,689**
Future debt service	-	234,458	-	**234,458**
Public safety programs	-	-	2,730	**2,730**
Capital projects	-	-	4,568	**4,568**
Pension fund distribution	-	489	-	**489**
Instruction and research	-	-	684,115	**684,115**
Student aid	-	-	728,610	**728,610**
Other purposes	-	-	317,626	**317,626**
Total restricted-nonexpendable	-	267,930	1,802,338	**2,070,268**
Restricted-expendable				
Instruction and research	-	-	610,630	**610,630**
Grants/constitutional restriction	-	57	12,318	**12,375**
Endowments	-	-	443,294	**443,294**
Future debt service	-	215,821	6,035	**221,856**
Public safety programs	-	-	4,703	**4,703**
Student aid	-	284	736,235	**736,519**
Auxiliary enterprises	-	156	2,399	**2,555**
Capital projects	-	27,688	238,222	**265,910**
Water pollution and drinking water projects	-	1,106,895	-	**1,106,895**
Other purposes	-	1,681	482,849	**484,530**
Total restricted-expendable	-	1,352,582	2,536,685	**3,889,267**
Unrestricted	126,069	(2,231,861)	3,258,502	**1,152,710**
Total net assets	**$ 126,271**	**$ (233,952)**	**$ 11,191,339**	**$ 11,083,658**

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


SEAL OF THE STATE OF INDIANA
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State of Indiana
Combining Statement of Activities
Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2011
(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	Governmental	Proprietary	Colleges and Universities	Net (Expense) Revenue
Governmental	$ 38,315	$ 221	$ 21,020	$ -	$ (17,075)	$ -	$ -	$ (17,075)
Proprietary	2,126,513	1,393,876	897,590	11,688	-	176,641	-	176,641
Colleges and universities	6,057,922	3,127,526	1,132,253	76,140	-	-	(1,722,003)	(1,722,003)
Total component units	$ 8,222,750	$ 4,521,623	$ 2,050,863	$ 87,828	(17,075)	176,641	(1,722,003)	(1,562,437)
General Revenues:								
Gaming tax					1,066	-	-	1,066
Investment earnings					-	46,444	850,463	896,907
Payments from State of Indiana					-	8,041	1,447,961	1,456,002
Other					-	326	652,583	652,909
Total general revenues					1,066	54,811	2,951,007	3,006,884
Change in net assets					(16,008)	231,452	1,229,004	1,444,448
Net assets - beginning, as restated					142,280	(465,404)	9,962,335	9,639,211
Net assets - ending					$ 126,271	$ (233,952)	$ 11,191,339	$ 11,083,658

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, 2011

(amounts expressed in thousands)

	Indiana Finance Authority	Indiana Bond Bank	Indiana Housing and Community Development Authority	Board for Depositories	Secondary Market for Education Loans
Assets					
Current assets:					
Cash, cash equivalents and investments	$ 970,379	$ 121,146	$ 513,672	$ 144,070	$ 108,412
Receivables (net)	182,830	24,558	148	594	118,195
Intergovernmental receivable	-	344,582	-	-	-
Inventory	-	-	-	-	-
Prepaid expenses	-	-	-	-	1,316
Investment in direct financing lease	60,990	-	-	-	-
Other current assets	66	-	9,908	-	-
Total current assets	1,214,265	490,286	523,728	144,664	227,923
Noncurrent assets:					
Cash, cash equivalents and investments - restricted	-	33,068	54,214	-	-
Taxes, interest, and penalties receivable	-	-	4,046	-	-
Loans receivable	-	-	953,178	-	1,422,212
Investments - unrestricted	392,349	-	52,158	105,820	6,020
Loans	2,815,148	-	-	-	-
Bond issuance costs, net of amortization	13,414	19,828	7,201	-	-
Intergovernmental loans	-	1,812,250	-	-	-
Due from primary government	-	-	-	50,000	-
Investment in direct financing lease	1,279,084	-	-	-	-
Deferred outflow - derivative instrument	105,725	15,380	13,447	-	-
Net pension assets	-	-	-	-	-
Other noncurrent assets	-	-	31,081	4	5,673
Capital assets:					
Land	85,885	-	-	-	-
Infrastructure	266,818	-	-	-	-
Construction in progress	245,534	-	-	-	-
Property, plant, and equipment	1,246,652	-	5,510	209	1,517
Less accumulated depreciation	(446,451)	-	(3,790)	(193)	(1,174)
Total capital assets, net of depreciation	1,398,438	-	1,720	16	343
Total noncurrent assets	6,004,158	1,880,526	1,117,045	155,840	1,434,248
Total assets	**7,218,423**	**2,370,812**	**1,640,773**	**300,504**	**1,662,171**
Liabilities					
Current liabilities:					
Accounts payable	19,595	387	16,114	28	7,994
Claims payable	-	-	-	-	-
Interest payable	67,046	38,594	21,454	-	252
Current portion of long-term debt	210,660	406,267	205,260	-	-
Line of credit	-	-	100,000	-	-
Due to primary government	250	-	-	-	-
Accrued prize liability	-	-	-	-	-
Salaries, health, disability, and benefits payable	-	-	-	-	-
Deferred revenue	69,403	-	-	-	-
Accrued liability for compensated absences	-	-	-	-	-
Deposits held in custody for others	-	33,697	125	-	-
Other current liabilities	2,762	-	-	3	-
Total current liabilities	369,716	478,945	342,953	31	8,246
Long-term liabilities:					
Accrued liability for compensated absences	-	-	-	-	-
Accrued prize liability	-	-	-	-	-
Pollution remediation payable	3,230	-	-	-	-
Deferred revenue	3,435,684	489	-	-	-
Advances from federal government	537	-	-	-	-
Revenue bonds/notes payable	4,574,076	1,856,907	953,369	-	1,539,106
Derivative instrument liability	105,594	15,380	13,447	-	-
Other noncurrent liabilities	-	-	2,625	-	1,896
Total long-term liabilities	8,119,121	1,872,776	969,441	-	1,541,002
Total liabilities	**8,488,837**	**2,351,721**	**1,312,394**	**31**	**1,549,248**
Net assets					
Invested in capital assets net of related debt	154,477	-	1,720	16	343
Restricted-nonexpendable					
Grants/constitutional restrictions	-	-	32,719	-	-
Future debt service	-	-	223,327	-	11,131
Pension fund distribution	-	-	-	489	-
Total restricted-nonexpendable	-	-	256,046	489	11,131
Restricted-expendable					
Grants/constitutional restrictions	-	-	-	-	-
Future debt service	207,935	3,736	-	-	-
Student aid	-	-	-	-	-
Auxiliary enterprises	-	-	-	-	-
Capital projects	-	-	-	-	-
Water pollution and drinking water projects	1,106,895	-	-	-	-
Other purposes	-	-	-	-	-
Total restricted-expendable	1,314,830	3,736	-	-	-
Unrestricted (deficit)	(2,739,721)	15,355	70,613	299,968	101,449
Total net assets	**$ (1,270,414)**	**$ 19,091**	**$ 328,379**	**$ 300,473**	**$ 112,923**

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
$ 59,920	$ 58,082	$ 46,418	$ -	$ 2,022,099
22,112	2,480	6,403	(10,221)	347,099
-	-	-	-	344,582
402	-	227	-	629
3,769	-	394	-	5,479
-	1,000	167	-	62,157
-	-	-	-	9,974
86,203	61,562	53,609	(10,221)	2,792,019
135,159	-	5,554	-	227,995
-	-	-	-	4,046
-	-	-	(976,943)	1,398,447
-	-	-	-	556,347
-	-	-	-	2,815,148
-	-	376	-	40,819
-	-	-	-	1,812,250
-	-	-	-	50,000
-	953,337	462	-	2,232,883
-	105,594	-	(105,594)	134,552
-	-	84	-	84
-	-	-	-	36,758
-	-	151,620	-	237,505
-	-	50,996	-	317,814
-	-	14,659	-	260,193
7,854	-	137,972	-	1,399,714
(5,499)	-	(122,428)	-	(579,535)
2,355	-	232,819	-	1,635,691
137,514	1,058,931	239,295	(1,082,537)	10,945,020
223,717	**1,120,493**	**292,904**	**(1,092,758)**	**13,737,039**
24,588	3,845	1,645	(903)	73,293
-	-	17,765	-	17,765
-	9,221	271	(8,318)	128,520
-	1,000	1,625	(1,000)	823,812
-	-	-	-	100,000
5,991	-	-	-	6,241
62,813	-	-	-	62,813
-	-	138	-	138
870	-	9,021	-	79,294
-	-	166	-	166
-	-	-	-	33,822
1,612	835	2,512	-	7,724
95,874	14,901	33,143	(10,221)	1,333,588
-	-	186	-	186
122,843	-	-	-	122,843
-	-	-	-	3,230
-	-	-	-	3,436,173
-	-	-	-	537
-	976,943	11,199	(976,943)	8,934,657
-	105,594	-	(105,594)	134,421
-	835	-	-	5,356
122,843	1,083,372	11,385	(1,082,537)	12,637,403
218,717	**1,098,273**	**44,528**	**(1,092,758)**	**13,970,991**
2,355	-	218,486	-	377,397
-	-	264	-	32,983
-	-	-	-	234,458
-	-	-	-	489
-	-	264	-	267,930
-	-	57	-	57
-	-	4,150	-	215,821
-	-	284	-	284
-	-	156	-	156
-	22,220	5,468	-	27,688
-	-	-	-	1,106,895
-	-	1,681	-	1,681
-	22,220	11,796	-	1,352,582
2,645	-	17,830	-	(2,231,861)
$ 5,000	**$ 22,220**	**$ 248,376**	**$ -**	**$ (233,952)**

State of Indiana
Combining Statement of Activities
Discretely Presented Component Units - Proprietary Funds
For the Fiscal Year Ended June 30, 2011
(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)	$ 359,887	$ 419,994	$ 102,639	$ -	$ 162,746	$ -	$ -
Indiana Bond Bank	105,075	606	104,854	-	-	385	-
Indiana Housing and Community Development Authority	671,225	65,412	624,505	-	-	-	18,692
Board for Depositories	2,867	-	986	-	-	-	-
Secondary Market for Educational Loans	23,390	-	39,493	-	-	-	-
State Lottery Commission	788,189	791,552	-	-	-	-	-
Indiana Stadium and Convention Building Authority (ISCBA)	64,372	-	26,899	8,546	-	-	-
Non-Major Proprietary	163,358	163,739	2,637	3,142	-	-	-
IFA & ISCBA Interfund Eliminations	(51,850)	(47,427)	(4,423)	-	-	-	-
Total component units	$ 2,126,513	$ 1,393,876	$ 897,590	$ 11,688	162,746	385	18,692
General revenues:							
Investment earnings					18,629	191	30,737
Payments from State of Indiana					-	-	-
Other					-	-	-
Total general revenues					18,629	191	30,737
Change in net assets					181,375	576	49,429
Net assets - beginning, as restated					(1,451,789)	18,515	278,950
Net assets - ending					$ (1,270,414)	$ 19,091	$ 328,379

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

continued on next page

State of Indiana
Combining Statement of Activities
Discretely Presented Component Units - Proprietary Funds
For the Fiscal Year Ended June 30, 2011
(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)	$ -	$ -	$ -	$ -	$ -	$ -	$ 162,746
Indiana Bond Bank	-	-	-	-	-	-	385
Indiana Housing and Community Development Authority	-	-	-	-	-	-	18,692
Board for Depositories	(1,881)	-	-	-	-	-	(1,881)
Secondary Market for Educational Loans	-	16,103	-	-	-	-	16,103
State Lottery Commission	-	-	3,363	-	-	-	3,363
Indiana Stadium and Convention Building Authority (ISCBA)	-	-	-	(28,927)	-	-	(28,927)
Non-Major Proprietary	-	-	-	-	6,160	-	6,160
IFA and ISCBA Interfund Eliminations	-	-	-	-	-	-	-
Total component units	(1,881)	16,103	3,363	(28,927)	6,160	-	176,641
General revenues:							
Investment earnings	-	-	(3,363)	-	250	-	46,444
Payments from State of Indiana	-	-	-	-	8,041	-	8,041
Other	-	-	-	-	326	-	326
Total general revenues	-	-	(3,363)	-	8,617	-	54,811
Change in net assets	(1,881)	16,103	-	(28,927)	14,777	-	231,452
Net assets - beginning, as restated	302,354	96,820	5,000	51,147	233,599	-	(465,404)
Net assets - ending	$ 300,473	$ 112,923	$ 5,000	$ 22,220	$ 248,376	$ -	$ (233,952)

State of Indiana
Combining Statement of Net Assets
Discretely Presented Component Units - Colleges and Universities
June 30, 2011
(amounts expressed in thousands)

	Indiana University	Purdue University	Non-Major Colleges and Universities	Totals
Assets				
Current assets:				
Cash, cash equivalents and investments	$ 807,802	$ 574,252	$ 424,635	**$ 1,806,689**
Securities lending collateral	179,019	9,936	-	**188,955**
Receivables (net)	124,585	133,082	133,254	**390,921**
Inventory	12,020	-	5,192	**17,212**
Prepaid expenses	-	-	4,982	**4,982**
Due from primary government	9,697	3,060	3,880	**16,637**
Funds held in trust by others	-	-	34,614	**34,614**
Other current assets	33,376	26,432	1,746	**61,554**
Total current assets	1,166,499	746,762	608,303	**2,521,564**
Noncurrent assets:				
Cash, cash equivalents and investments - restricted	-	2,072,415	62,217	**2,134,632**
Other receivables	243,096	79,592	33,783	**356,471**
Investments - unrestricted	2,529,788	861,574	811,725	**4,203,087**
Bond issuance costs net of amortization	-	-	1,258	**1,258**
Deferred outflow - derivative instrument	-	-	1,988	**1,988**
Other postemployment benefits	-	-	16,495	**16,495**
Other noncurrent assets	-	15,167	15,194	**30,361**
Capital assets:				
Land	54,439	28,179	130,770	**213,388**
Infrastructure	160,075	67,840	85,756	**313,671**
Construction in progress	154,340	332,229	153,753	**640,322**
Property, plant, and equipment	3,845,106	2,939,465	2,361,518	**9,146,089**
Less accumulated depreciation	(1,737,998)	(1,391,541)	(938,560)	**(4,068,099)**
Total capital assets, net of depreciation	2,475,962	1,976,172	1,793,237	**6,245,371**
Total noncurrent assets	5,248,846	5,004,920	2,735,897	**12,989,663**
Total assets	**6,415,345**	**5,751,682**	**3,344,200**	**15,511,227**
Liabilities				
Current liabilities:				
Accounts payable	107,583	76,772	50,356	**234,711**
Interest payable	17,617	17,188	2,182	**36,987**
Current portion of long-term debt	48,808	147,570	58,013	**254,391**
Capital lease payable	1,269	-	298	**1,567**
Salaries, health, disability, and benefits payable	67,098	37,480	30,566	**135,144**
Deferred revenue	156,708	37,829	32,359	**226,896**
Accrued liability for compensated absences	41,585	26,504	14,366	**82,455**
Pollution remediation payable	-	-	69	**69**
Securities lending collateral	179,019	9,936	-	**188,955**
Deposits held in custody for others	516	21,870	22,656	**45,042**
Other current liabilities	-	-	8,321	**8,321**
Total current liabilities	620,203	375,149	219,186	**1,214,538**
Long-term liabilities:				
Accrued liability for compensated absences	24,203	31,797	16,944	**72,944**
Other postemployment benefits	19,557	27,263	13,171	**59,991**
Deferred revenue	57,492	-	-	**57,492**
Capital lease payable	2,069	-	1,012	**3,081**
Funds held in trust for others	92,067	57,771	25,361	**175,199**
Advances from federal government	-	19,933	8,936	**28,869**
Revenue bonds/notes payable	851,304	968,236	801,410	**2,620,950**
Derivative instrument liability	-	-	1,988	**1,988**
Other noncurrent liabilities	47,841	7,969	29,026	**84,836**
Total long-term liabilities	1,094,533	1,112,969	897,848	**3,105,350**
Total liabilities	**1,714,736**	**1,488,118**	**1,117,034**	**4,319,888**
Net assets				
Invested in capital assets net of related debt	1,621,228	1,035,092	937,494	**3,593,814**
Restricted-nonexpendable				
Permanent funds	20,429	-	44,260	**64,689**
Public safety programs	-	-	2,730	**2,730**
Capital projects	2,345	-	2,223	**4,568**
Instruction and research	380,844	271,510	31,761	**684,115**
Student aid	377,673	254,772	96,165	**728,610**
Other purposes	252,449	46,814	18,363	**317,626**
Total restricted-nonexpendable	1,033,740	573,096	195,502	**1,802,338**
Restricted-expendable				
Instruction and research	278,943	260,375	71,312	**610,630**
Grants/constitutional restrictions	-	-	12,318	**12,318**
Endowments	-	443,232	62	**443,294**
Future debt service	288	-	5,747	**6,035**
Public safety programs	-	-	4,703	**4,703**
Student aid	136,803	534,782	64,650	**736,235**
Auxiliary enterprises	-	4	2,395	**2,399**
Capital projects	86,327	30,387	121,508	**238,222**
Other purposes	340,420	131,220	11,209	**482,849**
Total restricted-expendable	842,781	1,400,000	293,904	**2,536,685**
Unrestricted (deficit)	1,202,860	1,255,376	800,266	**3,258,502**
Total net assets	**$ 4,700,609**	**$ 4,263,564**	**$ 2,227,166**	**$ 11,191,339**

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 Year Ended June 30, 2011
(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	$ 2,656,055	$ 1,543,184	$ 586,135	$ 26,549	$ (500,187)	$ -	$ -	$ (500,187)
Purdue University	1,852,330	975,265	396,884	24,345	-	(455,836)	-	(455,836)
Non-Major Colleges and Universities	1,549,537	609,077	149,234	25,246	-	-	(765,980)	(765,980)
Total component units	$ 6,057,922	$ 3,127,526	$ 1,132,253	$ 76,140	(500,187)	(455,836)	(765,980)	(1,722,003)
General revenues:								
Investment earnings					343,387	437,794	69,282	850,463
Payments from State of Indiana					549,917	385,300	512,744	1,447,961
Other					144,358	100,721	407,504	652,583
Total general revenues					1,037,662	923,815	989,530	2,951,007
Change in net assets					537,475	467,979	223,550	1,229,004
Net assets - beginning, as restated					4,163,134	3,795,585	2,003,616	9,962,335
Net assets - ending					$ 4,700,609	$ 4,263,564	$ 2,227,166	$11,191,339

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

NOTES TO THE FINANCIAL STATEMENTS

STATE OF INDIANA

Notes to the Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government (State of Indiana) and its component units. Blended component units, although legally separate entities, are in substance part of the government's operations; data from these units are combined with data of the primary government. Discretely presented component units are reported in one column in the government-wide financial statements. This column contains the governmental fund types, 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, 2010, fiscal year-end.

Blended Component Units

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

The Bureau of Motor Vehicle Commission (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.

The State Student Assistance Commission of Indiana (SSACI) was established by state law to assist the State in increasing the opportunities of higher education for every person who resides in Indiana and who, though being highly qualified and desiring to receive a higher education, is deterred by financial considerations. They provide data to the General Assembly to allow them to make educated policy decisions about financial aid. In addition, they assist the State in identifying which students qualify for financial aid enabling the State to efficiently distribute funds.

The SSACI consists of ten citizens appointed by the governor. Each of Indiana's nine congressional districts must be represented by a resident of the district. An at-large student member who is a student at an approved postsecondary educational institution is also an appointed member. The SSACI 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 governmental and proprietary component units are audited by outside auditors except for the Indiana Economic Development Corporation and State Fair Commission which are 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.

The Indiana Economic Development Corporation (IEDC) was created to improve the quality of life for the citizens of Indiana by encouraging the diversification of Indiana's economy, by the orderly economic development and growth of Indiana, the creation of new jobs, the retention of existing jobs, the growth and modernization of existing industry and the promotion of Indiana. The IEDC is composed of 12 members, none of whom may be members of the general assembly. These members consist of the governor and 11 individuals appointed by the governor. At least five members must belong to the same political party as the governor. At least three members must belong to a major political party other than the party of which the governor is a member. The IEDC is reported as a non-major governmental fund. The IEDC does not issue their own separately audited financial statements.

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, Gaming Control Officer 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.

Effective July 1, 2011, the Indiana Public Retirement System (INPRS) was established as an independent body corporate and politic. All of the funds previously administered by PERF and TRF are now administered by INPRS. The INPRS board is comprised of nine trustees appointed by the Governor.

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 whom issue separately audited financial statements may be obtained from their administrative offices as follows:

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

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

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

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

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

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

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

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

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

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

Indiana State Fair Commission
1202 E. 38th Street
Indianapolis, IN 46205

University of Southern Indiana
8600 University Boulevard
Evansville, IN 47712

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

State of Indiana
Public Employees' Retirement Fund
One North Capitol Ave., Suite 001
Indianapolis, IN 46204

State Lottery Commission of Indiana
1302 N. Meridian St.
Indianapolis, IN 46202

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

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

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

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

Vincennes University
1002 North 1st Street
Vincennes, IN 47591

Indiana State Teachers' Retirement Fund
One North Capitol Ave., Suite 001
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 specific revenue sources that are legally restricted or committed to expenditure for specific purposes except for major capital projects.

The following special revenue funds are presented as major.

- The *Public Welfare-Medicaid Assistance Fund* receives federal grants and State appropriations which are used to administer the Medicaid program. Federal grant revenues, quality assessment fees, Intermediate Care Facility for the Mentally Retarded fees, and other resources disclosed under interfund transfers in Note IV(B) are reported in this fund.

- 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. Interest income and other resources disclosed under interfund transfers in Note IV(B) are reported in this fund.

- 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. Federal grant revenues and other resources disclosed under interfund transfers in Note IV(B) are reported in this fund.

- The U.S. Department of Transportation Fund receives federal grants and State appropriations that are used for State transportation programs. Federal grant revenues and other resources disclosed under interfund transfers in Note IV(B) are reported in this fund.

- The *U.S. Department of Health and Human Services Fund* receives federal grants that are used to carry out health and human services programs. Federal grant revenues, child support annual fees, and other resources disclosed under interfund transfers in Note IV(B) are reported in this fund.

The *capital projects funds* account for financial resources that are restricted, committed, or assigned to expenditures 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.

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, State Police Retiree Health Benefit Trust 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 and 5-13-10.5 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; securities issued by any U.S. government agency; AAA money market mutual funds with a portfolio limited to direct obligations of the U.S., obligations of any federal agency, and/or repurchase agreements fully collateralized with U.S. government obligations or U.S. agency obligations; AAA rated commercial paper, 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 standard. 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 20th day after the end of the month collected. Estimated payments are due from individuals by the 15th of the month immediately following each quarter or the calendar year.
>
> Corporate income tax - Due quarterly on the 20th day of April, June, September, and December with the last payment due on April 15th for a calendar year taxpayer.
>
> Sales tax – Due by the 20th day after the end of the month collected.
>
> Fuel tax – Gasoline tax is due the 20th day after the end of the month collected. Special fuel tax, depending on the status of the taxpayer, is due by the 15th day after the end of the month collected or the 15th day after the end of the quarter collected. Motor carrier surtax is due at the end of the month following the end of the quarter.
>
> Financial institutions tax – 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 20th 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.

Deferred revenue is the liability for the full accrual income taxes receivable net of the allowance for doubtful accounts plus cash on hand from federal grant programs.

3. Interfund Transactions and Balances

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

Interfund services 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 for external financial reporting 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:

- a network average International Roughness Index (IRI) of no more than 95 and no more than 10% of all pavements in the unacceptable range for Interstates, National Highway Safety (NHS) Non-Interstate roads, and 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 Asset Management, Program Engineering, and Road Inventory 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-seven (367) 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:

Assets	Months
Buildings and other structures including improvements to buildings and other structures	240-480
Computer software	36
Infrastructure (not using modified approach)	240-720
Furniture, machinery and equipment	12-168
Motor pool vehicles	96-168

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 separately elected officials (i.e., 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. Employees of the legislative branch of government have elected to participate in this program for FY 2012.

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 Balance

In the fund financial statements, fund balances are categorized as nonspendable, restricted, committed, assigned, or unassigned. A brief description of each category is as follows:

Nonspendable – represents amounts that are either not in spendable form, such as inventories, and activity that is legally or contractually required to be maintained intact, such as a principal balance in a permanent fund.

Restricted – represents amounts restricted to specific purposes because of constraints placed on their use that are either externally imposed such as by grantors or imposed by law through constitutional provisions or enabling legislation.

Committed – represents amounts that can only be used for a specific purpose pursuant to constraints imposed by the government's highest level of decision making authority. The State of Indiana's highest level of decision making authority is the General Assembly. The formal action necessary would be the enactment of a State law that specifically establishes, modifies, or rescinds a fund balance commitment.

Assigned – represents amounts that are constrained by the government's intent to be used for specific purposes as expressed by the governing body itself or the official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The State Budget Agency has the authority per the biennial budget bill to make assignments of fund balances for specific purposes except for those restricted by law. The State Board of Finance comprised of the Governor, Auditor of State and Treasurer of State is empowered to make assignments of funds except for trust funds per I.C. 4-9.1-1-7.

Unassigned – represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Only the general fund may report a positive unassigned fund balance; whereas, other governmental funds may need to report a negative unassigned fund balance if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

Funds on the State's accounting system are assigned one of the five fund balance classifications. If a fund has resources that are both restricted and unrestricted, then expenditures are applied first to restricted fund balance and then unrestricted amounts. A fund's unrestricted fund balance would have committed amounts reduced first, assigned amounts second, and unassigned amounts third when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could 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, 2011, various funds had a deficit fund balance caused by overdrafts from pooled cash and investments and the posting of accruals to the balance sheet. Temporary cash overdrafts are reported as interfund loans from the general fund.

Fund	Overdraft from pooled cash	Accrual deficits
Governmental Funds		
ARRA of 2009	-	(24,416)
Motor Vehicle Commission	-	(302)
US Department of Agriculture	(74,577)	(88,820)
US Department of Education	(84,587)	24,909

B. Fund Balance

The State of Indiana reports its fund balances for governmental funds as nonspendable, restricted, committed, assigned, and unassigned. The detail of the fund balance classifications at June 30, 2011 is as follows:

		Major Special Revenue Funds					
	General Fund	Public Welfare-Medicaid Assistance Fund	Major Moves Construction Fund	ARRA of 2009	US Department of Transportation	US Department of Health & Human Services	Non-Major Funds
Fund balances:							
Nonspendable:							
Permanent fund principal	$ -	$ -	$ -	$ -	$ -	$ -	$ 501,125
Restricted:							
General Government	71,990	-	-	-	-	-	-
Committed:							
Education	-	-	-	-	-	-	553,720
Transportation	-	-	-	-	-	-	16,150
Assigned:							
General Government	151,636	-	-	-	144	-	690,713
Public Safety	8,396	-	-	-	2,825	-	296,702
Health	278	-	-	-	-	-	16,224
Welfare	77,007	138,909	-	-	-	45,858	701,491
Conservation, culture and develop.	50,085	-	-	-	644	-	243,605
Education	9,572	-	-	-	-	-	63,153
Transportation	2,925	-	1,729,947	-	88,281	-	252,991
Encumbrances	303,018	-	-	-	-	-	-
Unassigned:	2,391,650	-	-	(24,416)	-	-	(223,377)
Total fund balance	$ 3,066,557	$ 138,909	$ 1,729,947	$ (24,416)	$ 91,894	$ 45,858	$ 3,112,497

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, Article13, 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 are no formal deposit and investment policies 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, 2011:

Primary Government

		Investment Maturities (in Years)		
Investment Type	**Fair Value Totals**	**Less than 1**	**1 - 5**	**6- 10**
U.S. Treasuries	$ 99,998	$ 99,998	$ -	$ -
U.S. Agencies	2,786,091	2,608,872	177,219	-
Supranationals	310,003	299,995	10,008	-
Municipal Bonds	57,701	38,879	-	18,822
Local Govt Investment Pool	200,000	200,000	-	-
Non-U.S. Fixed Income	15,015	5,000	10,015	-
Certificate of Deposits	161,468	161,468	-	-
Money Market Mutual Funds	374,000	374,000	-	-
Total	$ 4,004,276	$ 3,788,212	$ 197,242	$ 18,822.00

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, 2011, 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. 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. The table below reflects the "greatest risk" rating (the credit rating reflecting the greatest degree of risk) as set by three nationally recognized rating organizations (S&P, Moody, and Fitch) for each investment type.

Primary Government

Investment Type	Greatest Risk		Fair Value
U.S. Treasuries	UST	$	99,998
U.S. Agencies	AGY		2,781,981
	AA		4,110
Supranationals	A		299,995
	NR		10,008
Certificate of Deposits	NR		161,468
Municipal Bonds	NR		57,701
Non-US Fixed Income Bonds	A		15,015
Local Govt Investment Pool	NR		200,000
Money Market Mutual Funds	AAA		374,000
Total		$	4,004,276

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 Board for Depositories.

Investments in any one issuer, other than securities issued or guaranteed by the US government, that represent 5% or more of the total investments are (amounts in thousands):

FNMA	24.48%	$1,154,330
FHLB	23.06%	$1,087,432
FHLMC	8.03%	$378,625
IBRD	6.57%	$310,003

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. As of June 30, 2011, there were no deposits or investments denominated in foreign currencies, thus 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, 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 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 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 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.

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, 2011 was 30 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.

Major Moves Construction Fund/Next Generation Trust Funds

Investment Policy

Indiana Code, Title 5, Article13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. However, the 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 the Treasurer of State. The Investment Policy Statements are written in conformity with the applicable investment statutes and in accordance with prudent investor standards. There is no formal deposit policy 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. 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 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 of 5.25%.

The following table provides the interest rate risk disclosure for the Major Moves/Next Generation Trust Fund as of June 30, 2011:

Major Moves/Next Generation Funds

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1 - 5	6- 10	More than 10
U.S Treasuries	$ 331,038	$ 59,021	$ 156,102	$ 46,533	$ 69,382
U.S. Agencies	580,222	519,530	24,493	13,351	22,848
Government Asset and Mortgage Backed	417,766	-	-	26,432	391,334
Collateralized Mortgage Obligations					
Government CMOs	34,867	-	2,833	3,284	28,750
Corp CMOs	59,027	-	630	11,232	47,165
Corporate Bonds	384,970	11,180	157,875	171,550	44,365
Corporate Asset Backed	109,787	33	31,962	9,257	68,535
Private Placements	296,402	4,875	139,658	98,200	53,669
Municipal Bonds	18,016	1,767	3,660	1,878	10,711
Non U.S. Govt/Corp Bonds	121,938	4,046	39,973	52,661	25,258
Money Market Mutual Funds	183,685	183,685	-	-	-
	$ 2,537,718	$ 784,137	$ 557,186	$ 434,378	$ 762,017

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, 2011, 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.

The investment managers must adhere to the following guidelines:

Intermediate and Core Fixed Income Managers

a. The average credit quality of each manager's portfolio shall not be lower than Aa3/AA-
b. 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
c. 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

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

Hybrid Fixed Income Managers

g. High-yield and non-US debt securities are permitted
h. Non US-dollar currency exposure is permitted

The following table provides information on the credit quality ratings for investments in debt securities, short-term money market funds, bond mutual funds and bond commingled funds, municipal securities, asset-backed, and mortgage-backed securities. The table below reflects the “greatest risk” rating (the credit rating reflecting the greatest degree of risk) as set by three nationally recognized rating organizations (S&P, Moody, and Fitch) for each investment type.

Major Moves/Next Generation Funds

Investment Type	Greatest Risk Ratings	Fair Value
U.S. Treasuries	AAA	$ 2,529
	UST	328,509
U.S. Agencies	AAA	1,347
	A	3,379
	AGY	555,143
	NR	20,353
Government Asset and Mortgage Backed	AGY	188,142
	NR	229,624
Collateralized Mortgage Obligations		
Government CMO's	AAA	1,752
	AGY	32,310
	NR	805
Corporate CMO's	AAA	17,806
	AA	1,178
	A	4,157
	BBB	1,907
	BB	3,008
	B	6,253
	CCC&Below	22,925
	NR	1,793
Non US Govt/Corp Bonds	AAA	11,712
	AA	7,324
	A	23,035
	BBB	47,047
	BB	20,222
	B	9,244
	CCC&Below	317
	NR	3,037
Corporate Bonds	AAA	5,515
	AA	18,036
	A	131,422
	BBB	137,309
	BB	46,828
	B	32,868
	CCC&Below	12,624
	NR	368
Corporate Asset and Mortgage Backed	AAA	76,126
	AA	9,882
	A	8,834
	BBB	3,676
	BB	1,042
	B	2,401
	CCC&Below	7,826
Private Placements	AAA	40,934
	AA	17,687
	A	18,441
	BBB	56,949
	BB	19,395
	B	29,796
	CCC&Below	22,541
	NR	90,659
Municipal Bonds	AAA	1,504
	AA	5,163
	A	9,043
	BBB	1,967
	NR	339
Money Market Mutual Funds	NR	183,685
Total		$ 2,537,718

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	21.18%	$475,661,932
FHLMC	14.06%	$315,773,777

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. The Major Moves/Next Generation Trust Fund’s foreign currency exposure is focused primarily in fixed income securities. The exposure to foreign currency fluctuation is as follows:

Currency	Combined Total	% of Total Market Value
Brazil Real	$ 6,359	0.3%
Canadian Dollar	3,320	0.2%
Columbian Peso	3,694	0.2%
Indonesian Rupian	4,020	0.2%
Mexico New Peso	5,512	0.3%
New Turkish Lira	4,841	0.2%
Philippines Peso	3,904	0.2%
Polish Zloty	3,208	0.1%
Russian Rubel	2,826	0.1%
South African Comm	2,472	0.1%
Uruguayan Peso	2,358	0.1%
Others	12,494	0.6%
Total	$ 55,008	2.6%

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 State, 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.

TrustINdiana, Local Government Investment Pool (Investment Trust Funds)

Investment Policy

Indiana Code, Title 5, Article13, 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 and deposit 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.

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2011:

TrustINdiana - Local Government Investment Pool		Investment Maturities (in Years)	
Investment Type	Amortized Cost	Less than 1	1 - 5
U.S. Agencies	$ 72,146	$ 53,247	$ 18,899
Commercial Paper	105,767	105,767	-
Total	$ 177,913	$ 159,014	$ 18,899

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, 2011, the balance of all bank deposits were 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. 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	S & P		Moody's	
Investment Type	Ratings	Fair Value	Ratings	Fair Value
U.S. Agencies	AAA	$ 72,146	Aaa	$ 72,146
Commercial Paper	AA	52,873	AA	60,425
	A-1	52,894	NR	45,342
Total		$177,913		$177,913

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.

Investments in any one issuer, not exempt from disclosure, that represents 5% or more of the total investments were (amount in thousands):

Federal Farm Credit Bank	6.10%	$ 37,802

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, 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, part of one security was out on loan. There was no credit risk exposure to any borrowers because the amount the State owes the borrowers exceeds the amounts the borrower owes 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. There is no formal deposit policy other than compliance to State statute.

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 Police Pension

Investment Type	S & P Ratings	S & P Fair Value	Moody's Ratings	Moody's Fair Value
U.S. Treasuries	UST	$ 16,788	UST	$ 16,788
Government Assets and Mortgage	AGY	16,221	AGY	26,215
Backed Securities	NR	9,994	NR	-
Collateralized Mortgage Obligations				
Corporate CMO's	AAA	4,323	AAA	2,457
	B	-	B	184
	CCC & Below	213	CCC & Below	87
	NR	197	NR	2,005
Government CMOs	AGY	1,711	AGY	1,711
Corporate Bonds	AAA	280	AAA	280
	AA	1,993	AA	3,016
	A	8,526	A	7,927
	BBB	8,194	BAA	8,288
	BB	756	BA	885
	B	564	B	564
	NR	724	NR	77
Corporate Asset Backed	AAA	2,190	AAA	1,992
	AA	227	AA	-
	A	203	A	1,212
	BBB	23	BAA	300
	BB	-	BA	26
	B	-	B	23
	CCC & Below	478	CAA & Below	507
	NR	1,706	NR	767
Foreign Bonds	A	269	A	269
Private Placements	AAA	229	AAA	750
	AA	155	AA	417
	A	1,573	A	934
	BBB	1,251	BAA	1,628
	NR	680	NR	159
Municipal Bonds	AAA	207	AAA	207
	AA	1,559	AA	1,661
	A	714	A	412
	BBB	131	BAA	-
	NR	-	NR	331
Mutual/Commingled Funds	NR	200,164	NR	200,164
Total		$ 282,243		$ 282,243

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, 2011, the balance of the State Police Pension Trust deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

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

State Police Pension

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1 - 5	6- 10	More than 10
U.S. Treasuries	$ 16,788	$ 5,461	$ 4,783	$ 3,524	$ 3,020
U.S. Agencies	27,926	-	546	3,259	24,121
Collateralized Mortgage Obligations					
Corporate CMO's	4,733	-	42	284	4,407
Corporate Bonds	21,037	394	7,487	8,663	4,493
Corporate Asset Backed	4,827	-	2,272	362	2,193
Foreign Bonds	269	-	269	-	-
Private Placements	3,888	-	1,808	1,756	324
Municipal Bonds	2,611	75	354	199	1,983
Money Market Mutual Funds	200,164	200,164	-	-	-
Total Fixed Income Securities	$ 282,243	$ 206,094	$ 17,561	$ 18,047	$ 40,541

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. The State Police Pension Trust's foreign currency exposure is focused primarily in international and global equity holdings. The exposure to foreign currency fluctuation is as follows

Currency	Market Value		% of Total Market Value
Australian Dollar	$	691	0.2%
Brazil Real		636	0.2%
British Pound		1,536	0.4%
Canadian Dollar		616	0.2%
Danish Krone		24	0.0%
Euro		4,810	1.2%
Hong Kong		22	0.0%
Japanese Yen		1,198	0.3%
Norwegian Krone		265	0.1%
Swedish Krona		129	0.0%
Swiss Franc		1,296	0.3%
Thailand Baht		72	0.0%
Total	$	11,295	2.9%

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 of (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. The market value of the required collateral must be in an amount at least equal to 102% of the current market value of the loaned securities. As of June 30, 2011, the State Police Pension Trust had received cash as collateral in an amount exceeding 102% of the fair value of the underlying securities on loan. The State Police Pension Trust recorded the value of the cash collateral received as an asset in the accompanying financial statements. A corresponding liability has also been recorded because the cash collateral must be returned to the borrower upon expiration of the loan. The lending agent invests the cash collateral received by the borrowers. The weighted average maturity of the cash collateral investments generally matched the term of the securities loans.

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

State Police Retiree Health Benefit Trust Fund

Investment Policy – The State Police 401H Fund is established pursuant to section 401(h) of the Internal Revenue Service and is established within the Indiana State Police Pension Fund as a separate account for the purpose of paying benefits for sickness, accident, hospitalization, and medical expenses. The assets in this account may be commingled for investment purposes only with the other accounts of the Indiana State Police Pension Fund. The investment authority for this Fund, since it is to be invested in the same manner as the State Police Pension Fund, is established under Indiana Code IC 10-12-2-2(c). There is no formal deposit policy other than compliance to State statute.

IC 10-12-2-2(c) reads as follows:

The trust fund 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 the State Police 401h Fund:

State Police Retiree Health Benefit Trust Fund

	S & P		Moody's	
Investment Type	Ratings	Fair Value	Ratings	Fair Value
U.S. Agencies	AGY	$ 4,126	AGY	$ 4,126
Certificate of Deposits	AAA	995	Aaa	995
Total		$ 5,121		$ 5,121

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, 2011, the balance of any bank 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.

Investments in any one issuer, not exempt from disclosure, that represent 5% or more of the total investments were:

Federal Home Loan Banks	80.60%	$ 4,126,172

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 State, 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, there were no securities on loan and therefore, no credit risk exposure.

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, 2011:

State Police Retiree Health Benefit Trust Fund

		Investment Maturities (in Years)	
Investment Type	Fair Value	Less than 1	1 - 5
U.S. Agencies	$ 4,126	$ -	$ 4,126
Certificate of Deposits	995	995	-
Total Fixed Income Securities	$ 5,121	$ 995	$ 4,126

State Employee Retiree Health Benefit Trust Fund

Investment Policy – Indiana Code, Title 5, Article13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. However, the 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 are no formal deposit and investment policies for the deposit and 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 State Retiree Health Benefit Trust Fund:

State Employee Retiree Health Benefit Trust Fund

	S & P		Moody's	
Investment Type	Ratings	Fair Value	Ratings	Fair Value
U.S. Agencies	AGY	$ 114,232	AGY	$ 114,232
	NR	5,004	NR	5,004
Total		$ 119,236		$ 119,236

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, 2011, the balance of any bank 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.

Investments in any one issuer, not exempt from disclosure, that represent 5% or more of the total investments were:

Federal Home Loan Banks	46.16%	$ 55,047
Federal Home Loan Mortgage Corp.	12.58%	15,000
Federal National Mortgage Association	32.85%	39,175

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 State, 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, there were no securities on loan and therefore, no credit risk exposure.

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, 2011:

State Retiree Health Benefit Trust

		Investment Maturities (in Years)	
Investment Type	Fair Value	Less than 1	1 - 5
U.S. Agencies	$ 119,236	$ 54,991	$ 64,245
Total Fixed Income Securities	$ 119,236	$ 54,991	$ 64,245

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. An asset allocation review is conducted at least annually to determine the allocation in achieving the objectives of the Fund.

The strategic asset allocation for the Consolidated Retirement Investment Fund (CRIF) on June 30, 2011 is as follows:

Asset Classes	Target Allocation - %	Allowable Ranges - %
Equities	40	25 -55
Fixed Income	30	20 - 40
Alternatives	30	15- 45

Investments in the PERF annuity savings accounts and Legislators' Defined Contribution plan are directed by the members in each plan and as such the asset allocation will differ from that of the CRIF. The Pension Relief Fund is invested 100 percent in a money market fund. The Special Death Benefit Funds are one hundred percent fixed income.

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. Deposits held with brokers and counterparties are carried at cost and are not insured or collateralized.

Cash Deposits	Total
Demand Deposit Account – Bank Balances	$ 11,112
Held with Treasurer of State	2,300
Held with Counterparties	45,931
Held with Brokers	130,566
Held with Custodian	1,359,560
Total	$ 1,549,469

Credit Risk – The credit risk of investments is the risk that the issuer will default and not meet their obligations. 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 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. In the case of a split rating, the higher rating will be used. 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. The Treasury Inflation Protection Securities (TIPS) and global linkers portfolio must substantially match the quality of its benchmarks, the Barclays Capital US TIPS Index and the Global Customized Benchmark, respectively. The quality rating of investments in debt securities as described by Moody's at June 30, 2011 is as follows:

Moody's Rating	Total	Percentage of Debt & Cash Equivalents
Aaa	$ 2,414,563	53.9%
US Government Guaranteed	465,866	10.4%
Aa	197,978	4.4%
A	264,438	5.9%
Baa	357,084	8.0%
Ba	149,034	3.3%
B	54,949	1.2%
Below B	16,527	0.4%
Unrated	562,698	12.5%
Subtotal	4,483,137	100.0%
Cash - not applicable	1,575,308	
Total	$ 6,058,445	

The $563 million not rated by Moody's is primarily in the following security types: asset backed securities, commercial mortgages and CMO/Remics.

Custodial Credit Risk – Custodial credit risk is the risk that 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 counterparty 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, 2011. 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 market value 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, 2011, 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 longer the maturity, the more the value of the fixed-income investment will fluctuate with interest rate changes.

PERF's IPS sets duration guidelines for the fixed income investment portfolio. The 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.

The Fund invests in securities with contractual cash flows, such as asset-backed securities, collateralized mortgage obligations and commercial mortgage-backed securities, including securities backed by residential and commercial real estate loans. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

As of June 30, 2011, the Fund had the following duration information:

Debt Security Type	Fair Value 6/30/2011	% of All Debt Securities	Portfolio Weighted Average Effective Duration (Years)
Cash & Cash Equivalents			
Short Term Bills and Notes	$ 300,756	5.0%	0.33
Commercial Paper	42,585	0.7%	0.18
Certficates of Deposit	6,698	0.1%	0.16
Discounted Notes	8,500	0.1%	0.06
Duration Not Available	1,531,324	25.3%	N/A
Total Cash & Cash Equivalents	**1,889,863**	**31.2%**	
Investment Debt Securities			
Asset-Backed Securities	213,274	3.5%	0.08
Commercial Mortgage-Backed Securities	179,495	3.0%	0.35
Corporate Bonds	934,842	15.4%	1.32
Government Bonds	1,982,673	32.7%	0.94
Government Mortgage-Backed Securities	367,745	6.1%	0.96
Municipal/Provincial Bonds	43,191	0.7%	0.09
Commercial Mortgage Obligations	118,941	2.0%	0.09
Duration Not Available	328,421	5.4%	N/A
Total Investment Debt Securities	**4,168,582**	**68.8%**	
Total Debt Securities	**$ 6,058,445**	**100.0%**	**3.07**

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 equity holdings.

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	Cash & Cash Equivalents	Debt Securities	Equity Securities	Other Investments	Grand Total	% of Total
Australian Dollar	$ 270	$ 12,536	$ 164,731	$ 73	$ 177,610	1.1%
Brazilian Dollar	-	14,664	47,113	517	62,294	0.4%
British Pound Sterling	466	70,111	540,182	1,100	611,859	3.9%
Canadian Dollar	152	93,994	44,659	58	138,863	0.9%
Czech Koruna	-	-	7,318	-	7,318	0.1%
Danish Koruna	-	-	33,526	-	33,526	0.2%
Egyptian Pound	-	-	1,283	-	1,283	0.0%
Euro Currency Unit	1,028	170,670	876,694	115,636	1,164,028	7.3%
Hong Kong Dollar	86	-	188,213	-	188,299	1.2%
Hungarian Forint	-	-	10,414	-	10,414	0.1%
Indian Rupee	-	10,822	19,347	-	30,169	0.2%
Indonesian Rupiah	-	14,711	6,161	-	20,872	0.1%
Israeli New Sheqel	-	-	18,918	-	18,918	0.1%
Japanese Yen	242	610	534,445	-	535,297	3.4%
Korean Won	-	9,384	112,497	-	121,881	0.8%
Malaysian Ringgit	-	2,413	9,620	-	12,033	0.1%
Mexican Peso	-	9,903	8,880	2	18,785	0.1%
New Zealand Dollar	-	8,026	4,646	(432)	12,240	0.1%
Norwegian Krone	-	-	40,656	26,498	67,154	0.4%
Philipine Peso	-	7,460	726	-	8,186	0.1%
Polish Zloty	-	-	21,558	-	21,558	0.1%
Singapore Dollar	-	1,490	64,840	-	66,330	0.4%
South African Rand	-	-	53,109	-	53,109	0.3%
Swedish Krona	84	22,655	77,474	-	100,213	0.6%
Swiss Franc	-	-	188,469	-	188,469	1.2%
Taiwan Dollar	-	-	54,292	-	54,292	0.3%
Thai Bhat	-	-	21,482	-	21,482	0.1%
Turkish Lira	-	-	34,171	-	34,171	0.2%
Held in Foreign Currency	2,328	449,449	3,185,424	143,452	3,780,653	23.8%
Held in US Dollar	1,887,535	3,719,133	3,414,753	3,067,610	12,089,031	76.2%
Total	**$ 1,889,863**	**$ 4,168,582**	**$ 6,600,177**	**$ 3,211,062**	**$ 15,869,684**	**100.0%**

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

Statute requires that collateral initially in excess of the total market value of the loaned securities must be pledged by the borrower and must be maintained at no less than the total market value of the loaned securities. The 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 CRIF's total assets may be lent at one time. The custodian bank and/or its securities lending sub-agents 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.

Cash collateral investments are subject to the investment guidelines specified by PERF's Investment Policy Statement. It states that the maximum weighted average days to maturity may not exceed 60. The securities lending agent matches 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.

At year end, the Fund has no securities lending transactions. The custodian agreement with JP Morgan Chase was terminated as of June 30, 2011 and as of July 1, 2011 the Fund's new custodian was Bank of NY Mellon.

Repurchase Agreements – A repurchase agreement, also known as a repo, is the sale of securities together with an agreement for the seller to buy back the securities at an agreed-upon price at a later date. A reverse repurchase agreement is the same as a repurchase agreement, but from the perspective of the buyer rather than the seller. Repurchase agreements are basically a secured loan with the collateral held at a custodian bank. PERF's Investment Policy Statement permits the following collateral for repos – bonds or notes issued by the United States Treasury, or other securities guarantees as to principal and interest by the Government of the United States and its agencies, and corporate obligations of domestic and foreign issuers with a minimum credit rating. Repos are typically for an overnight term; however, they can be done for a longer term.

Reverse Repurchase Agreements by Collateral Type	Cash Collateral Posted	Market Value
US Treasuries	$ 34,800	$ 33,109
US Agencies	7,500	7,380
Total Repurchase Agreements	**$ 42,300**	**$ 40,489**

Repurchase Agreements by Collateral Type (dollars in thousands)	Market Value	Cash Collateral Received
US Inflation Linked Bonds	$ 145,122	$ 142,697
Total Reverse Repurchase	**$ 145,122**	**$ 142,697**

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, 2011, 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.

Outstanding short sales, June 30, 2011	
Type of Investment:	
Government Mortgage-Backed	$ 42,563
Total	**$ 42,563**

Derivative Financial Instruments – Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indices. PERF's Investment Policy Statement allows the use of derivatives such as options, swaps (including credit default swaps) and futures to manage any investment risk, including market, interest rate, credit, liquidity, and currency risk consistent with managers' guidelines. The Investment Policy Statement prohibits derivative use for speculative purposes or to create leverage. The Fund's derivatives are all related to fiduciary activities. The fair value of all derivative financial instruments is reported in the Statement of Fiduciary Net Assets as either assets or liabilities, and the change in the fair value is recorded in the Statement of Changes in Fiduciary Net Assets as investment income. A derivative instrument could be a contract negotiated on behalf of the Master Trust and a specific counterparty. This would typically be referred to as an "OTC contract" (Over the Counter) such as swaps, forward contracts and TBAs (Mortgage To Be Announced). Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as "exchange traded". Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term, and such changes could affect the amounts reported in the financial statements. Investments in limited partnerships may include derivatives that are not shown in the derivative total. During the year, the Fund's derivative investments included:

Futures

A futures contract is an agreement between two parties to buy and sell a financial instrument at a set price on a future date.

PERF's investment managers use financial futures to replicate an underlying security or index they intend 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 portfolio risk exposure. 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. No short sales of equity securities or equity index derivatives are permitted.

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.

Options

Options are agreements that give the owner of the option the right, but not obligation, to buy (in the case of a call) or to sell (in the case of a put) a specific amount of an asset for a specific price on or before a specified expiration date.

The purchaser of put options pays a premium at the outset of the agreement and stands to gain from an unfavorable change (i.e., a decrease) in the price of the instrument underlying the option. The writer of call option receives a premium at the outset of the agreement and bears the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option. An interest rate swaption is the options to enter into an interest rate swap based off a set of predetermined conditions.

Options are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. The fair value of exchange traded options is determined based upon quoted market prices.

The fair value of over the counter options is determined by external pricing services using various proprietary methods, based upon the type of option.

Rights/Warrants

Rights provide the holder with the right, but not the obligation, to buy a company's common stock at a predetermined price, the subscription price. The right is good until its expiration date. A right permits the investor to buy at a price that may be below the actual market price for that stock. A warrant is an option to buy an underlying equity security at a predetermined price for a finite period of time.

Forwards

Foreign Currency

A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. A contract is classified as a forward contract when the settlement date is more than two days after the trade date. Risks associated with such contracts include movement in the value of a foreign currency relative to the U.S. dollar. The contracts are valued at forward exchange rates and include net appreciation / depreciation in the Statement of Fiduciary Net Assets. Realized gains or losses on forward currency contracts is the difference between the original contract and the closing value of such contract and is included in the Statement of Changes in Fiduciary Net Assets.

The Fund enters into forward currency forwards to manage exposure to fluctuations in foreign currency exchange rates on portfolio holdings and to settle future obligations.

TBA

A TBA (Mortgage To Be Announced) is a contract for the purchase or sale of agency mortgage-backed securities to be delivered at a future agreed upon date. Associated gains are derived from the change in market value of the contract due to a change in price of the underlying security. Future settlement risk is the risk of not receiving the asset or associated gains specified in the contract.

TBAs are used to achieve the desired market exposure of a security or asset class or adjust portfolio duration.

The fair value is determined by external pricing services using various proprietary methods.

Swaps

Interest Rate Swaps

Interest rate swaps are derivative instruments in which one party exchanges a stream of fixed interest rate cash flows for floating interest rate cash flows. A notional amount of principal is required to compute the actual cash amounts and is determined at the inception of the contract.
Interest rate swaps are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation.

The fair value is determined by external pricing services using various proprietary methods.

Inflation Swap

An inflation swap is a derivative used to transfer inflation risk from one party to another through an exchange of cash flows. In an inflation swap, one party pays a fixed rate on a notional principal amount, while the other party pays a floating rate linked to an inflation index, such as the Consumer Price Index (CPI) or an inflation bond.

Credit Default Swaps

Credit default swap agreements involve one party (referred to as the buyer of protection) making a stream of payments to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other predetermined credit event for the referenced entity, obligation or index.

Credit default swaps are used to achieve the desired credit exposure of a security or basket of securities. One of the main advantages of a credit default swap is it allows for exposure to credit risk while limiting exposure to other risks, such as interest rate and currency risk.

The fair value is determined by external pricing services using various proprietary methods.

The table below summarizes PERF's derivative information for the year ending June 30, 2011:

Investment Derivatives	Changes in Fair Value	Fair Value	Notional (USD)
Futures			
Listed			
Commodity	$ (11,453)	$ (1,421)	$ 398,791
Equity Index	(3,903)	1,642	3,769,345
Bond	(855)	(442)	873,881
Currency	971	(103)	2,751,608
Total Futures	**(15,240)**	**(324)**	**7,793,625**
Options			
Listed			
Currency	5	(42)	271,000
Bond Options	(34)	(173)	34,300
Subtotal Listed	(29)	(215)	305,300
OTC			
Swaptions	1,101	3,733	480,700
Inflation	48	(22)	7,500
Credit Index	4	(3)	2,400
Interest Rate	953	(1,005)	300,300
Subtotal OTC	2,106	2,703	790,900
Total Options	**2,077**	**2,488**	**1,096,200**
Swaps			
OTC			
Interest Rate Swaps	(881)	4,035	1,295,387
Inflation Swaps	18	18	13,440
Credit Default Swaps Single Name	768	246	78,300
Credit Default Swaps Index	(1,097)	1,191	100,536
Total Swaps	**(1,192)**	**5,490**	**1,487,663**
Rights/Warrants			
Rights	(86)	210	708
Warrants	97	11,362	2,756
Total Rights/Warrants	**11**	**11,572**	**3,464**
TBA	**(1,436)**	**361,932**	**354,645**
Total	**$ (15,780)**	**$ 381,158**	**$ 10,735,597**

	Swap Maturity Profile at June 30, 2011 (dollars in thousdands)					
Swap Type	**< 1 yr**	**1 - 5 yrs**	**5 -1 0 yrs**	**10 - 20 yrs**	**20 + yrs**	**Total**
Credit Default - Index	$ -	$ 1,330	$ (147)	$ 8	$ -	$ 1,191
Credit Default - Single Name	-	(358)	604	-	-	246
Inflation Swaps	-	215	(197)	-	-	18
Interest Rate Swaps	2	4,141	(1,243)	1,539	(404)	4,035
Total Swap Fair Value	**$ 2**	**$ 5,328**	**$ (983)**	**$ 1,547**	**$ (404)**	**$ 5,490**

Credit Risk

Inherent in the use of Over the Counter (OTC) derivatives, the Fund is exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. The Fund uses International Swaps and Derivatives Association Master Agreements and collateral to mitigate counterparty credit risk. Securities eligible as collateral are typically United States government bills and U.S. dollar cash. Generally, any positive movement in market value requires the counterparty to transfer a minimum of $250 thousand in collateral. This margin is adjusted at a minimum weekly and can be called as frequently as daily.

The maximum amount of loss due to credit risk that the Fund would incur if the counterparty to the derivative instrument failed to perform according to the terms of the contract, without respect to any collateral or other security, or netting arrangements is the total unrealized gain of derivatives at the end of the reporting period. The aggregate fair value of investment derivative instruments in asset positions at June 30, 2011, was $7,279 thousand of which $371 thousand was uncollaterized.

Some of the Fund's master agreements are subject to credit-related contingent features. In the event the Fund's assets decline by various, pre-specified rates over predetermined time periods, the Fund is either required to post more collateral or may be required to pay off the open liability contracts given the counterparties right to terminate the contract. Contingent features that could result in an immediate payment from the counterparty include a downgrade of the counterparty below a lower specified rating, commonly A-/A3. It is important to note that these contingent features are not compulsory, rather they are voluntary.

		Fair Value			Collateral	
Swaps Counterparty	**S&P Rating**	**Receivable/ Unrealized Gain**	**Payable/ (Unrealized Loss)**	**Total Fair Value**	**Posted**	**Received**
Bank of America Corp	A	$ -	$ (422)	$ (422)	$ 480	$ -
Barclays Bank	AA-	1,784	-	1,784	-	(1,660)
BNP Paribas SA	AA-	-	(49)	(49)	-	-
BNP Paribas Securities Corp	AA-	15	-	15	402	-
Citibank	A+	161	(374)	(213)	787	(3,676)
Credit Suisse	A+	1,142	-	1,142	-	(2,196)
Deutsche Bank	A+	728	-	728	150	(1,050)
Goldman Sachs Bank	A	60	-	60	-	-
Goldman Sachs International	A	-	(173)	(173)	90	-
HSBC Securities Inc	AA-	128	-	128	-	(160)
JPMorgan Chase Bank	AA-	1,741	(122)	1,619	-	(1,630)
Merrill Lynch & Co	A	61	-	61	-	-
Morgan Stanley Capital Services	A	1,222	(206)	1,016	702	(2,080)
Royal Bank of Canada	AA-	237	(85)	152	330	(349)
Royal Bank of Scotland	A+	-	(292)	(292)	630	-
UBS	A+	-	(66)	(66)	60	-
Grand Total		$ 7,279	$ (1,789)	$ 5,490	$ 3,631	$(12,801)

Credit Default Swaps				
Investment Type		**Reference**	**Fair Value**	**Notional**
Index	Bought	CDX IG	$ 93	$ 36,736
Index	Bought	CDX EM	2,657	23,600
Index	Bought	CDX HY	20	2,700
Index	Bought	MCDX	(1,579)	37,500
Total CDS - Index			**$ 1,191**	**$ 100,536**
Single Name	Sold	Various	$ (3,136)	$ 38,250
Single Name	Bought	Various	3,382	40,050
Total CDS - Single Name			**$ 246**	**$ 78,300**

Interest Rate Risk

The Fund has exposure to interest rate risk due to investments in interest rate and inflation swaps and TBAs. The required risk disclosures are included in the Interest Rate Risk schedule.

Derivative Instruments Highly Sensitive to Interest Rate Changes			
Investment Type	**Reference Rate**	**Fair Value**	**Notional**
TBA Securities	3.50%	$ 29,627	$ 29,300
TBA Securities	4	102,923	102,560
TBA Securities	4.5	89,857	86,575
TBA Securities	5	68,892	66,010
TBA Securities	5.5	4,894	10,500
TBA Securities	6	60,853	55,400
TBA Securities	6.5	4,886	4,300
Total TBA Securities		**$ 361,932**	**$ 354,645**
Interest Rate Swap	Pay Variable AUD-BBR 3 mo./Receive Fixed 5.25%	73	23,286
Interest Rate Swap	Pay Variable MXN-TII 28 day/Receive Fixed 6.5%	2	230
Interest Rate Swap	Pay Variable BZDIOVRA/Receive Fixed Various (10% - 13%)	517	46,984
Interest Rate Swap	Receive Variable NZD-BBR 3 mo./Pay Fixed Rate Various 3.70% - 4.70%	(432)	50,628
Interest Rate Swap	Pay Variable 6 mo. EURIBOR/Receive Fixed Various 2.1% - 3.9%	(79)	596,454
Interest Rate Swap	Pay Variable 3 mo. USD-LIBOR 3 mo./Receive Fixed Various 2.1% - 4.6%	816	263,575
Interest Rate Swap	Pay Fixed Various 3.0% - 4.2%/Receive Variable 6 mo. GBP-LIBOR	4,687	214,665
Interest Rate Swap	Pay Fixed Various 2.11% - 2.14%/Receive Variable 3 mo. CDOR	58	35,965
Interest Rate Swap	Pay Fixed Various 1.25% - 4.2%/Receive Variable 6 mo. USD-LIBOR	(1,607)	63,600
Total Interest Rate Swaps		**$ 4,035**	**$ 1,295,387**
Inflation Swap	Pay Variable CPURNSA/Receive Fixed 1.84%	215	5,800
Inflation Swap	Pay Variable CPURNSA/Receive Fixed 2.46%	(128)	3,100
Inflation Swap	Pay Variable CPURNSA/Receive Fixed 2.66%	(69)	4,540
Total Inflaction Swaps		**$ 18**	**$ 13,440**

Foreign Currency Risk

The Fund is exposed to foreign currency risk on its foreign currency forward contracts and futures contracts. The required risk disclosures are included in the Foreign Currency Risk schedule.

At June 30, 2011, PERF's investments included the following currency forwards balances:

Foreign Currency Contract Receivable	733.1
Foreign Currency Contract Payable	733.4

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 $4.0 billion of which $1.8 billion was outstanding as of June 30, 2011. These amounts include five Euro-denominated and one Norwegian Kroner-denominated commitment to limited liability partnerships converted to United States dollars at the closing exchange rate as of June 30, 2011. The expected investment term of these commitments extend through 2028. These investments had a net asset value of $2.2 billion as of June 30, 2011.

State Teachers' Retirement Fund (TRF)

Investment Policy - The Fund's Investment policy states the following:

Description of TRF

The Indiana State Teachers' Retirement Fund ("TRF" or the "Fund") is a Defined Benefit plan under Internal Revenue Code Section 401(a) and is governed by federal law, the Indiana Constitution, Indiana Code, Indiana Administrative Code, and policies set by the TRF Board of Trustees (the "Board"). 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. In order to provide the ensuing tax advantages to its members, TRF is required by Indiana law to meet all rules applicable to a qualified plan under Section 401 of the Internal Revenue Code. In addition, TRF is a trust, exempt from taxation under Section 501 of the Internal Revenue Code.

Objectives

All aspects of this policy statement should be interpreted in a manner consistent with the Fund's objectives. The objectives of the Fund have been established in conjunction with a comprehensive review of the current and projected financial requirements. These objectives are:

1. To have the ability to pay all benefit and expense obligations when due;
2. To achieve the actuarial rate of return while limiting downside risk; and
3. To control the costs of administering the Fund and managing the investments.

Description of the Primary Statutory Investment Provision

The Indiana General Assembly enacted the prudent investor standard to apply to the Board and govern all its investments. See PL 37-1996. 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. See IC 5-10.4-3-10.

Other pertinent investment requirements in the Indiana Code ("IC") include the following:

1. Fund investments must be held for the Fund by banks or trust companies under a custodial agreement or agreements. All Custodians must be domiciled in the United States. IC 5-10.4-3-13;
2. The Board may not engage in any prohibited transaction, as described in Section 503(b) of the Internal Revenue Code. IC 5-10.2-2-1.5(9); and
3. The Board must divest from firms that do business with Sudan under IC 5-10.2-9 and State Sponsors of Terror under IC 5-10.2-10.

It is the responsibility of the Board of Trustees to determine the allocation of assets among distinct capital markets.

The strategic asset allocation for employer assets effective on June 30, 2011 is as follows:

Global Equity	41%
Global Fixed Income	37%
Inflation Sensitive	18%
Absolute Return	4%
Total	100%

The asset allocation for the Guaranteed Fund, which is employee assets in the members' Annuity Savings Accounts, is 100% fixed income 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.

Moody's Rating	Total	Percentage of Debt & Cash Equivalents
Aaa	$ 1,118,720	23.5%
US Government Guaranteed	1,046,750	21.9%
Aa	281,646	5.9%
A	475,970	10.0%
Baa	657,008	13.8%
Ba	188,244	3.9%
B	65,742	1.4%
Below B	21,117	0.4%
Unrated	915,636	19.2%
Subtotal	4,770,833	100.0%
Cash - not applicable	398,762	
Total	$ 5,169,595	

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 or trust companies 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 thousand each. Deposits in the demand accounts held in excess of $250 thousand are not collateralized. Deposits with the Treasurer of State are entirely insured. Cash deposits held with the custodian, brokers and counterparty are carried at cost and are not insured or collateralized.

Assets Exposed:	
Demand Deposit Accounts – Bank Balance	$122,768
Initial/Variation Margin	3,290
Cash Collateral with Counterparty	1,640
Cash Held with Custodian	9,754
Total Exposed	$137,452

Concentration of Credit Risk – As of June 30, 2011, 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 – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Duration is a measure of interest rate risk. The longer the maturity, the more the value of the fixed-income investment will fluctuate with interest rate changes.

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.

The Fund invests in securities with contractual cash flows, such as asset-backed securities, collateralized mortgage obligations and commercial mortgage-backed securities, including securities backed by residential and commercial real estate loans. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

As of June 30, 2011, the Fund had the following duration information:

Debt Security Type	Fair Value 6/30/2011	% of All Debt Securities	Portfolio Weighted Average Effective Duration (Years)
Cash & Cash Equivalents			
Short Term Bills and Notes	$ 219,568	4.2%	0.44
Commercial Paper	3,575	0.1%	0.03
Duration Not Available	507,726	9.8%	N/A
Total Cash & Cash Equivalents	**730,869**	**14.1%**	
Investment Debt Securities			
Asset-Backed Securities	270,847	5.2%	0.62
Commercial Mortgage-Backed Securities	257,296	5.0%	2.22
Corporate Bonds	1,552,988	30.0%	3.35
Collateralized Bonds	133	0.0%	0.23
Government Issued Commercial Mortgage-Backed Securities	9,788	0.2%	4.36
Index Linked Government Bonds	102,852	2.0%	4.47
Guaranteed Fixed Income	24,569	0.5%	1.47
Government Agencies	123,835	2.4%	3.03
Government Bonds	585,744	11.3%	5.46
Government Mortgage-Backed Securities	683,106	13.2%	3.07
Bank Loans	2,846	0.1%	0.18
Municipal/Provincial Bonds	21,040	0.4%	5.65
Non-Government Backed C.M.O.s	147,890	2.9%	0.95
Other Fixed Income	699	0.0%	0.56
Duration Not Available	655,093	12.7%	N/A
Total Investment Debt Securities	**4,438,726**	**85.9%**	
Total Debt Securities	**$ 5,169,595**	**100.0%**	

Foreign Currency Risk – Foreign currency risk is defined as any deposit or investment that are denominated in foreign currencies, which bear a potential risk of loss arising from changes in currency exchange rates. As of June 30, 2011, 11.0% of the Fund's investments were in foreign currencies. The objective of the Fund's foreign currency risk policy is to effectively manage portfolio return volatility associated with foreign currency risk, allowing for a structure that will manage the level of strategic currency risk to the Fund.

The table below breaks down the Fund's exposure to each foreign currency (in thousands of dollars):

Currency	Total	% of Total
Australian Dollar	$ 43,183	0.5%
Brazilian Dollar	7,632	0.1%
British Pound Sterling	143,714	1.5%
Canadian Dollar	49,148	0.5%
Danish Koruna	3,412	0.0%
Euro Currency Unit	449,089	4.8%
Hong Kong Dollar	32,344	0.3%
Israeli New Sheqel	2,891	0.0%
Japanese Yen	183,043	1.9%
Mexican Peso	8,509	0.1%
New Zealand Dollar	528	0.0%
Norwegian Krone	7,329	0.1%
Philipine Peso	-	0.0%
Polish Zloty	4,841	0.1%
Singapore Dollar	10,561	0.1%
South Korean Won	4,247	0.0%
Swedish Krona	23,929	0.3%
Swiss Franc	63,923	0.7%
Thai Bhat	725	0.0%
Held in Foreign Currency	1,039,048	11.0%
Held in US Dollar	8,396,761	89.0%
Total	**$ 9,435,809**	**100.0%**

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. 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.

At year end, the Fund has no securities lending transactions. The custodian agreement with Northern Trust was terminated as of June 30, 2011 and as of July 1, 2011 the Fund’s new custodian was Bank of NY Mellon.

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, 2011, 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, 2011 follows (dollars in thousands):

Type of Investment	Total Short Sales
Government Mortgage Backed	$ 96,741

Derivative Financial Instruments – Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. The Fund’s derivatives are all related to fiduciary activities. The fair value of all derivative financial instruments is reported in the Statement of Fiduciary Net Assets as either assets or liabilities, and the change in the fair value is recorded in the Statement of Changes in Fiduciary Net Assets as investment income. TRF’s directly-held investments in derivatives are not leveraged. A derivative instrument could be a contract negotiated on behalf of the Master Trust and a specific counterparty. This would typically be referred to as an “OTC contract” (Over the Counter) such as swaps, forward contracts and TBAs (Mortgage To Be Announced). Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as “exchange traded”. Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term, and such changes could affect the amounts reported in the financial statements. Investments in limited partnerships may include derivatives that are not shown in the derivative total.

During the year, the Fund’s derivative investments included:

Futures

A futures contract is an agreement between two parties to buy and sell a financial instrument at a set price on a future date.

TRF’s investment managers use financial futures to replicate an underlying security or index they intend 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, TRF’s investment managers use futures contracts to adjust the portfolio risk exposure. 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. 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.

Options

Options are agreements that give the owner of the option the right, but not obligation, to buy (in the case of a call) or to sell (in the case of a put) a specific amount of an asset for a specific price on or before a specified expiration date.

The purchaser of put options pays a premium at the outset of the agreement and stands to gain from an unfavorable change (i.e., a decrease) in the price of the instrument underlying the option. The writer of a call option receives a premium at the outset of the agreement and bears the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option. Interest rate swaptions are options to enter into an interest rate swap based off a set of predetermined conditions.

Options are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. The fair value of exchange traded options is determined based upon quoted market prices.

The fair value of over the counter options is determined by external pricing services using various proprietary methods, based upon the type of option.

Rights/Warrants

Rights provide the holder with the right, but not the obligation, to buy a company’s common stock at a predetermined price, the subscription price. The right is good until its expiration date. A right permits the investor to buy at a price that may be below the actual market price for that stock. A warrant is an option to buy an underlying equity security at a predetermined price for a finite period of time.

Forwards

Foreign Currency

A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. A contract is classified as a forward contract when the settlement date is more than two days after the trade date. Risks associated with such contracts include movement in the value of a foreign currency relative to the U.S. dollar. The contracts are valued at forward exchange rates and include net appreciation / depreciation in the Statement of Fiduciary Net Assets. Realized gains or losses on forward currency contracts is the difference between the original contract and the closing value of such contract and is included in the Statement of Changes in Fiduciary Net Assets.

The Fund enters into forward currency forwards to manage exposure to fluctuations in foreign currency exchange rates on portfolio holdings and to settle future obligations.

Bond Forwards

A bond forward is a contract for the purchase or sale of debt security, to be delivered at a future agreed-upon date. Bond forwards are used to achieve the desired market exposure of a security or asset class or adjust portfolio duration.

TBA

A TBA (Mortgage To Be Announced) is a contract for the purchase or sale of agency mortgage-backed securities to be delivered at a future agreed upon date. Associated gains are derived from the change in market value of the contract due to a change in price of the underlying security. Future settlement risk is the risk of not receiving the asset or associated gains specified in the contract.

TBAs are used to achieve the desired market exposure of a security or asset class or adjust portfolio duration.

The fair value is determined by external pricing services using various proprietary methods.

Swaps

Interest Rate Swaps

Interest rate swaps are derivative instruments in which one party exchanges a stream of fixed interest rate cash flows for floating interest rate cash flows. A notional amount of principal is required to compute the actual cash amounts and is determined at the inception of the contract.

Interest rate swaps are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation.

The fair value is determined by external pricing services using various proprietary methods.

Credit Default Swaps

Credit default swap agreements involve one party (referred to as the buyer of protection) making a stream of payments to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other predetermined credit event for the referenced entity, obligation or index.

Credit default swaps are used to achieve the desired credit exposure of a security or basket of securities. One of the main advantages of a credit default swap is it allows for exposure to credit risk while limiting exposure to other risks, such as interest rate and currency risk.

The fair value is determined by external pricing services using various proprietary methods.

The table below summarizes TRF's derivative information for the year ending June 30, 2011:

Investment Derivatives	**Changes in Fair Value**	**Fair Value**	**Notional (USD)**
Futures			
Commodity Index Futures	$ (1,832)	$ (1,832)	$ 35,126
Bond Futures	(331)	(331)	563,284
Foreign Exchange Futures	2	2	67,781
	(2,161)	(2,161)	666,191
Options			
Call Swaptions (LIBOR)	(6)	(48)	8,400
Put Swaptions (LIBOR)	490	482	41,653
Inflation	3	(3)	600
Bond Options	669	5,338	21,000
	1,156	5,769	71,653
Swaps			
Interest Rate Swaps	(1,380)	(1,289)	44,027
Credit Default Swaps Single Name	(76)	(209)	61,467
Credit Default Swaps Index	906	928	55,565
	(550)	(570)	161,059
Rights/Warrants			
Rights	15	15	283
Warrants	73	73	76
	88	88	359
Forwards			
Bond Forwards	(67)	(297)	23,000
TBA	165	206,429	285,080
Total	**$ (1,369)**	**$ 209,258**	**$ 1,207,342**

	Swap Maturity Profile at June 30, 2011 (dollars in thousdands)					
Swap Type	**< 1 yr**	**1 - 5 yrs**	**5 -1 0 yrs**	**10 - 20 yrs**	**20 + yrs**	**Total**
Credit Default - Single Name	$ (76)	$ (230)	$ 97	$ -	$ -	$ (209)
Credit Default - Index	-	74	406	-	448	928
Interest Rate Swaps	73	407	(274)	(1,459)	(36)	(1,289)
Total Swap Fair Value	**$ (3)**	**$ 251**	**$ 229**	**$ (1,459)**	**$ 412**	**$ (570)**

Interest Rate Risk

The Fund has exposure to interest rate risk due to the investment in interest rate swaps and TBAs. The required risk disclosures are included in the Interest Rate Risk schedule above.

	Derivative Instruments Highly Sensitive to Interest Rate Changes		
Investment Type	**Reference Rate**	**Fair Value**	**Notional**
TBA Securities	3.5%	$ (956)	$ 1,000
TBA Securities	4.0%	52,015	66,025
TBA Securities	4.5%	123,229	153,910
TBA Securities	5.0%	29,105	61,395
TBA Securities	5.5%	825	750
TBA Securities	6.0%	2,211	2,000
Total TBA Securities		**$ 206,429**	**$ 285,080**
Interest Rate Swap	Pay Variable 6 month BP/Receive Fixed 3.5%	3	642
Interest Rate Swap	Pay Variable BRL 1D LIBOR/Receive Fixed 11.57%	73	3,905
Interest Rate Swap	Pay Variable BRL LIBOR/Receive Fixed 11.49%	(3)	1,088
Interest Rate Swap	Pay Variable 6 month LIBOR/Receive Fixed 6.0%	409	5,940
Interest Rate Swap	Pay Variable 6 month LIBOR/Receive Fixed 3.5%	22	482
Interest Rate Swap	Pay Fixed 2.5%/Receive Variable 3 month LIBOR	(24)	1,000
Interest Rate Swap	Pay Fixed 4.0%/Receive Variable 3 month LIBOR	(244)	3,300
Interest Rate Swap	Pay Fixed 3.5%/Receive Variable 3 month LIBOR	(29)	1,300
Interest Rate Swap	Pay Variable CAD 3 month BBR/Receive Fixed 5.8%	323	13,263
Interest Rate Swap	Pay Fixed 5.0%/Receive Variable 3 month LIBOR	(1,782)	11,800
Interest Rate Swap	Pay Variable 3 month CDOR/Receive Fixed 5.0%	(1)	207
Interest Rate Swap	Pay Fixed 4.25%/Receive Variable 3 month LIBOR	(36)	1,100
Total Interest Rate Swaps		**$ (1,289)**	**$ 44,027**

Credit Risk

Inherent in the use of OTC derivatives, the Fund is exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. The Fund uses International Swaps and Derivatives Association Master Agreements and collateral to mitigate counterparty credit risk. Securities eligible as collateral are typically United States government bills and U.S. dollar cash. Generally, any positive movement in market value requires the counterparty to transfer a minimum of $250 thousand in collateral. This margin is adjusted at a minimum weekly and can be called as frequently as daily.

The maximum amount of loss due to credit risk that the Fund would incur if the counterparty to the derivative instrument failed to perform according to the terms of the contract, without respect to any collateral or other security, or netting arrangements is the total unrealized gain of derivatives at the end of the reporting period. The aggregate fair value of investment derivative instruments in asset positions at June 30, 2011, was $1,451 thousand of which $212 thousand was uncollaterized.

Some of the Fund's master agreements are subject to credit-related contingent features. In the event the Fund's assets decline by various, pre-specified rates over predetermined time periods, the Fund is either required to post more collateral or may be required to pay off the open liability contracts given the counterparties right to terminate the contract. Contingent features that could result in an immediate payment from the counterparty include a downgrade of the counterparty below a lower specified rating, commonly A-/A3. It is important to note that these contingent features are not compulsory, rather they are voluntary.

		Fair Value			Collateral	
Swaps Counterparty	S&P Rating	Receivable/ Unrealized Gain	Payable/ (Unrealized Loss)	Total Fair Value	Posted	Received
Bank of America Corp	A	$ -	$ (1,293)	$ (1,293)	$ 1,510	$ -
Barclays Bank	AA-	-	(454)	(454)	130	-
Citibank	A+	353	-	353	-	(440)
Credit Suisse	A+	-	(6)	(6)	-	-
Deutshe Bank	A+	340	-	340	-	(520)
Goldman Sachs Bank	A	406	-	406	-	(290)
Goldman Sachs International	A	-	(117)	(117)	-	-
JPMorgan Chase Bank	AA-	140	-	140	-	(260)
Merrill Lynch & Co	A	3	-	3	-	-
Morgan Stanley Capital Services	A	93	-	93	-	-
Royal Bank of Canada	AA-	116	-	116	-	(260)
Royal Bank of Scotland	A+	-	(71)	(71)	-	(270)
UBS	A+	-	(80)	(80)	-	-
Grand Total		**$ 1,451**	**$ (2,021)**	**$ (570)**	**$ 1,640**	**$ (2,040)**

Credit Default Swaps				
Investment Type		**Reference**	**Fair Value**	**Notional**
Index	Sold	CDX	$ 82	$ 16,530
Index	Bought	CDX	398	35,413
Index	Bought	ABX	448	3,622
Total CDS - Index			**$ 928**	**$ 55,565**
Single Name	Sold	Various	$ (54)	$ 6,967
Single Name	Bought	Various	(155)	54,500
Total CDS - Single Name			**$ (209)**	**$ 61,467**

Foreign Currency Risk

The Fund is exposed to foreign currency risk on its foreign currency forward contracts and futures contracts. The required risk disclosures are included in the Foreign Currency Risk schedule.

At June 30, 2011, TRF's investments included the following currency forwards balances:

Forward Currency Contract Receivables	$ 261.1
Forward Currency Contract Payables	$ 260.9

Long Term Commitments for Alternative Investments – TRF had entered into long term commitments for funding alternative investments in private equity and private real estate of $1,461 million as of June 30, 2011. These investments had a net asset value of $788 million as of June 30, 2011. 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, 2011, totaled $728 million.

B. Interfund Transactions

Interfund Loans

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, 2011, the following funds had temporary cash overdrafts covered by loans from the General Fund: US DHHS Fund, $123.2 million, US Department of Agriculture Fund, $74.6 million, US Department of Labor Fund, $7.6 million, U.S. Department of Education Fund, $84.6 million, and S&S Children's Home Construction Fund, $0.2 million.

The following is a summary of the Interfund Loans as of June 30, 2011:

Interfund Loans - Current	Loans To Governmental Funds	Loans From Governmental Funds
Governmental Funds		
General Fund	$ 290,191	$ -
US DHHS	-	123,185
Nonmajor Governmental Funds	-	167,006
Total Governmental Funds	290,191	290,191
Total Interfund Loans	$ 290,191	$ 290,191

Interfund Services Provided/Used

Interfund Services Provided of $6.7 million represents amounts owed by various governmental funds to the Institutional Industries Fund and the Administrative Services Revolving Funds, both internal service funds, for goods and services rendered.

The following is a schedule of Interfund Services Provided/Used as of June 30, 2011:

Interfund Services Provided/Used	Interfund Services Provided To Governmental Funds	Interfund Services Used By Governmental Funds
Governmental Funds		
General Fund	$ -	$ 2,534
ARRA of 2009	-	1
U.S. Department of Transportation	-	6
U.S. Department of Health & Human Services	-	1,301
Nonmajor Governmental Funds	-	2,867
Total Governmental Funds	-	6,709
Proprietary Funds		
Internal Service Funds	6,709	-
Total Proprietary Funds	6,709	-
Total Interfund Services Provided/Used	$ 6,709	$ 6,709

Due From/Due Tos

Current – The $16.6 million is the State ARRA appropriation owed to the colleges and universities. Interfund balance of $6.0 million represents the accrued distribution amount from the State Lottery Commission to the Build Indiana Fund. The Indiana Finance Authority owed $250 thousand to governmental funds with $230 thousand due the General Fund and the balance of $20 thousand due non-major governmental funds.

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, 2023, or by a budget request submitted to the 2023 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, 2011:

Component Units - Current

	Due From Primary Government	Due To Component Units	Due From Component Units	Due To Primary Government
Governmental Funds				
General Fund	$ -	$ -	$ 230	$ -
ARRA of 2009	-	16,637	-	-
Nonmajor Governmental Funds	-	-	6,011	-
Total Governmental Funds	-	16,637	6,241	-
Component Units				
Indiana University	9,697	-	-	-
Purdue University	3,060	-	-	-
Nonmajor Universities	3,880	-	-	-
Indiana Finance Authority	-	-	-	230
State Lottery Commission	-	-	-	6,011
Indiana State Fair Commission	-	-	-	-
Total Component Units	16,637	-	-	6,241
Total Due From/To	**$ 16,637**	**$ 16,637**	**$ 6,241**	**$ 6,241**

Component Units - Non-current

	Due From Primary Government	Due To Component Units
Governmental Funds		
General Fund	$ -	$ 50,000
Total Governmental Funds	-	50,000
Component Units		
Board for Depositories	50,000	-
Total Component Units	50,000	-
Total Due From/To	**$ 50,000**	**$ 50,000**

Effective July 1, 2008, members who have 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 member chooses pays the retirement benefits to the member. The member'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 minus any amount withdrawn by the member under IC 5-10.2-3-6.5.

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

(1) the amount credited to the member in the member's annuity savings account, minus any amount withdrawn by the member; and
(2) the proportionate actuarial cost of the member'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, 2011:

Within Component Units	Due From Component Units	Due To Component Units
Discretely Presented Component Units Pension Trust:		
Pension Trust		
Public Employees' Retirement Fund	$ 738	$ 1,054
State Teachers' Retirement Fund	1,054	738
Total Discretely Presented Component Units Pension Trust	1,792	1,792
Total Due From /To	$ 1,792	$ 1,792

The State has established a due from agency fund in the General Fund and a due to General Fund in the Local Distributions agency fund for the over distribution of taxes collected on behalf of local units of government computed as of June 30, 2011. It is the State's intention to have the total repaid through adjustments in future distributions in accordance with state law (CAGIT: IC 6-3.5-1.1-9(b)(2); COIT: IC 6-3.5-6-17(b)(2); and CEDIT: IC 6-3.5-7-11(b)(2). The following schedule presents the Due from/Due to between the General Fund and the Agency Fund:

Between General Fund and Agency Funds	Due from Agency Funds	Due to General Fund
Governmental Funds		
General Fund	$ 539,697	$ -
Agency Funds		
Local Distributions	-	539,697
Total Due From/To	**$ 539,697**	**$ 539,697**

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: $660.4 million was transferred in from the State Gaming Fund which were wagering taxes from riverboats and slot machines at horse tracks; $560.8 million was transferred in from the Public Welfare-Medicaid Assistance Fund of which $207.3 million was inter-governmental transfers (IGT) from disproportionate share hospital and supplemental payments; $144.1 million was a return of funds at fiscal year end; $98.8 million was qualifying assessment fees that can only be used for the State's share of Medicaid services under Title XIX of the Social Security Act; $30.2 million was received by a state psychiatric hospital for their operations; $29.4 million was the State Operated Facilities' Disproportionate share of Medicaid; $22.0 million was for IGT Medicaid Assistance; $16.4 million was from reimbursement of Medicaid expenditures from parties other than medical providers and Medicaid recipients; and $12.6 million was from Intermediate Care Facility for the Mentally Retarded (ICF/MR) assessment fees. The Build Indiana Fund transferred in $236.2 million as Motor Vehicle Excise Tax Cut Replacement distributions. $57.6 million was transferred in from the Tobacco Master Settlement Fund for various health and welfare purposes including residential services for the developmentally disabled, Indiana's Children with Special Health Care Needs health insurance coverage, and community health centers. $52.0 million was transferred to the Office of Medicaid Policy and Planning's State Medicaid General Fund and to the Division of Family Resources' Division of Family and Children Local Office fund from the Hospital Care for the Indigent Fund. $52.0 million was transferred in from the Fund 6000 Programs of which $21.9 million was distribution of financial institutions tax per IC 6-5.5; $11.7 million was transferred to the Office of Medicaid Policy and Planning's State Medicaid General Fund which were appropriation and reversion transfers; $9.4 million was transferred in for Indiana Veterans' Home administration from the Comfort-Welfare Fund's receipts of resident fees and Medicaid and Medicare reimbursements; $5.1 million was transferred in from permit fees collected from business that sell alcoholic beverages per IC 7.1-4-9-4; and $4.0 million was transferred in from the Skills 2016 Training Fund for the Department of Workforce Development's Employment and Training Administration fund. $31.6 million was transferred in from the U.S. Department of Health and Human Services Fund of which $26.1 million was for the Office of Medicaid Policy and Planning's FSSA Medicaid Fund; $3.6 million was reimbursement of federal indirect costs to the State Budget Agency; $0.8 million was for Division of Family Resources information systems; $0.5 million was for the Attorney General's Office's Medicaid and welfare fraud units; $0.4 million was for county prosecutors and judges state match returned at fiscal year end; and $0.2 million was an allocation of federal indirect costs by the Department of Child Services. The Medicaid Indigent Care Trust Fund transferred in $26.1 million for the Office of Medicaid Policy and Planning's State Medicaid General Fund to cover Medicaid Assistance expenditures and to cover the state match of Medicaid supplemental payments under IC 12-15-20-2.

The following were transfers out from the General Fund: The Public Welfare Medicaid Assistance Fund received $1.9 billion in transfers for Medicaid current obligations and for Medicaid administration to enable 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. $316.4 million was transferred to the U.S. Department of Health and Human Services Fund in support of: the State Medicaid program; the Family and Children Fund of the Department of Child Services; child care services and the temporary assistance for needy families program both administered through FSSA's Division of Family Resources; county child care services offices' administration and child welfare services administration both administered through the Department of Child Services; information systems for the Department of Child Services; client services provided through the Division of Disability and Rehabilitation Services; adoption services through the Department of Child Services; and other health and human services programs and services. $268.7

million was transferred to the State Student Assistance Commission of Indiana mostly for the awarding of the State's grants and scholarships for Hoosier students to attend colleges. The Mental Health Centers Fund received transfers in totaling $88.3 million for services to adults who are seriously mentally ill in comprehensive community health centers and for administration by the Department of Mental Health. The Build Indiana Fund received $86.8 million from riverboat wagering and pari-mutuel taxes which went to the Lottery and Gaming Surplus Account. $71.3 million was transferred to the Federal Food Stamp Program administered by FSSA's Division of Family Resources. $61.5 million was transferred to the Hospital Care for the Indigent Fund for the Hospital Care for the Indigent Program. $52.4 million was transferred from the General Fund to the Motor Vehicle Highway Fund for State Police administration and pensions. $28.3 million was transferred to the U.S. Department of Education Fund of the FSSA's Division of Disability and Rehabilitative Services mostly for vocational rehabilitation and children's prevention services.

Medicaid Assistance Fund – The Medicaid Assistance Fund had a transfer in of $1.9 billion from the General Fund to support the state Medicaid program administered through the Office of Medicaid Policy and Planning. $31.6 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. $30.0 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. $3.0 million was transferred in from the Hospital Care for the Indigent Fund to support care of indigents at state hospitals.

Transfers out included $560.8 million to the General Fund of which $207.3 million was inter-governmental transfers (IGT) from disproportionate share hospital and supplemental payments, $144.1 million was a return of funds at fiscal year end, $98.8 million was qualifying assessment fees that can only be used for the State's share of Medicaid services under Title XIX of the Social Security Act, $30.2 million was received by a state psychiatric hospital for their operations, $29.4 million was the State Operated Facilities' Disproportionate share of Medicaid, $22.0 million was for IGT Medicaid Assistance, $16.4 million was from reimbursement of Medicaid expenditures from parties other than medical providers and Medicaid recipients, and $12.6 million was from Intermediate Care Facility for the Mentally Retarded (ICF/MR) assessment fees.

Major Moves Construction Funds – The Major Moves Construction Fund received $124.2 million of interest earned from the Next Generation Trust Fund and transferred per IC 8-14-15-10. The Major Moves Construction Fund had a transfer out of $521.8 million to the State Highway Department for construction and maintenance of the State's highways, roads, and bridges.

ARRA of 2009 Fund – The American Recovery and Reinvestment Act of 2009 Fund received $639.7 thousand from the U.S. Department of Justice Fund to support the Supreme Court's Edward Byrne Memorial Justice Assistance Grant program. $140.8 thousand was received from the U.S. Department of Homeland Security Fund for the National Oceanic and Atmospheric Administration habitat restoration program of the Indiana Department of Natural Resources. The Tobacco Master Settlement Agreement Fund transferred in $105.0 thousand for the Indiana Department of Health's ARRA-State Loan Repayment program whose objective is to increase the State's ability to address the shortages of primary health care practitioners.

The American Recovery and Reinvestment Act of 2009 Fund transferred out $362.3 thousand to the U.S. Department of Labor Fund for expenditure adjustments made by the Indiana Department of Workforce Development.

U.S. Department of Transportation Fund– The U.S. Department of Transportation Fund had the following major transfers in: $323.1 million of state and local match money was transferred in from the State Highway Department Fund for use by the Indiana Department of Transportation for transportation projects; and $68.0 million was received from the Public Mass Transportation Fund for the promotion and development of efficient and effective public transportation in Indiana.

The U.S. Department of Transportation Fund transferred out $4.9 million and $2.6 million to the State Highway Department Fund and the Public Mass Transportation Fund, respectively, at fiscal year end.

U.S. Department of Health and Human Services Fund – The U.S. Department of Health and Human Services (USDHHS) Fund had transfers in totaling $316.4 million from the General Fund for the State Medicaid program; child care services and the temporary assistance for needy families program both administered through the Division of Family

Resources; county child care offices and welfare services administration both run through the Department of Child Services (DCS); information systems for DCS; the Division of Mental Health's Child Psychiatric Service Fund; client services provided through the Division of Disability and Rehabilitation Services; administrative costs of the DCS; and other health and human services programs and services. $38.9 million was received from the Tobacco Settlement Fund for the programs and services of the Indiana Family and Social Services' Bureau of Developmental Disabilities and Office of Medicaid Policy and Planning. $0.9 million was received from the Tobacco Master Settlement Fund for the Indiana Department of Health's U.S. Department of Health and Human Services Fund.

The U.S. Department of Health and Human Services transferred out to the General Fund $31.6 million of which: $26.1 million was for the Office of Medicaid Policy and Planning's FSSA Medicaid Fund; $3.6 million was reimbursement of federal indirect costs to the State Budget Agency; $0.8 million was for the Division of Family Resources information systems; $0.5 million was for the Attorney General's Office's Medicaid and welfare fraud units; $0.4 million was county prosecutors and judges state match returned at fiscal year end; and $0.2 million was an allocation of federal indirect costs by the Department of Child Services. The Welfare-Work Incentive Fund received $10.7 million for the FSSA administration account. The Fund 6000 Programs received $9.7 million for expenditures of the Division of Disability and Rehabilitation Services' programs of crisis management, objective assistance system for independent services (OASIS), and outreach – state operating services. $8.7 million was transferred to the U.S. Department of Education Fund for education grant programs and services at the Division of Disability and Rehabilitation Services, Indiana School for the Blind, and Indiana Department of Education.

Proprietary Funds

Non-Major Enterprise Funds

The Inns and Concessions Fund – This fund had transfers out of $2.6 million, representing cash contributions to the Department of Natural Resources (DNR) which are to be used for repayments of bonds made by the Indiana Finance Authority.

Internal Service Funds

$24.6 million was transferred from the State Employee Disability Fund to the State Employee Health Insurance Fund for the payment of future other post-employment benefit liabilities.

A summary of interfund transfers for the year ended June 30, 2011 is as follows:

	Operating transfers in	Operating transfers (out)	**Net transfers**
Governmental Funds			
General Fund	$ 1,731,406	$ (3,078,812)	**$ (1,347,406)**
Public Welfare-Medicaid Assistance Fund	2,040,353	(560,830)	**1,479,523**
Major Moves Construction Fund	124,158	(521,785)	**(397,627)**
ARRA of 2009	885	(397)	**488**
U.S. DOT Fund	394,715	(7,898)	**386,817**
U.S. DHHS Fund	374,005	(60,587)	**313,418**
Nonmajor Governmental Fund	2,284,509	(2,717,104)	**(432,595)**
Proprietary Funds			
Inns and Concessions	-	(2,618)	**(2,618)**
Internal Service Funds	24,564	(24,564)	**-**
Total	$ 6,974,595	$ (6,974,595)	**$ -**

C. Taxes Receivable/Tax Refunds Payable

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

	Governmental Activities			
	General Fund	Special Revenue Funds	Capital Projects Funds	Total Primary Government
Income taxes	$ 1,442,531	$ 2,135	$ -	**$ 1,444,666**
Sales taxes	899,128	4,469	-	**903,597**
Fuel taxes	-	115,791	-	**115,791**
Gaming taxes	524	7,515	-	**8,039**
Inheritance taxes	43,852	-	-	**43,852**
Alcohol and tobacco taxes	27,610	15,175	1,859	**44,644**
Insurance taxes	2,741	-	-	**2,741**
Financial institutions taxes	-	67,696	-	**67,696**
Other taxes	16,295	14,886	-	**31,181**
Total taxes receivable	2,432,681	227,667	1,859	**2,662,207**
Less allowance for uncollectible accounts	(402,342)	(38,097)	(4)	**(440,443)**
Net taxes receivable	**$ 2,030,339**	**$ 189,570**	**$ 1,855**	**$ 2,221,764**
Tax refunds payable	**$ 57,899**	**$ 9,629**	**$ -**	**$ 67,528**

D. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2011, was as follows:

Primary Government – Governmental Activities

Governmental Activities:	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Capital assets, not being depreciated/amortized:				
Land	$ 1,502,521	$ 121,866	$ (878)	$ 1,623,509
Infrastructure	8,038,460	194,880	(16,855)	8,216,485
Construction in progress	1,483,716	509,124	(219,131)	1,773,709
Total capital assets, not being depreciated/amortized	11,024,697	825,870	(236,864)	11,613,703
Capital assets, being depreciated/amortized:				
Buildings and improvements	1,607,232	3,353	(53,640)	1,556,945
Furniture, machinery, and equipment	493,256	29,467	(19,108)	503,615
Computer software	35,790	2,042	(22)	37,810
Infrastructure	24,212	55	(1,600)	22,667
Total capital assets, being depreciated/amortized	2,160,490	34,917	(74,370)	2,121,037
Less accumulated depreciation/amortization for:				
Buildings and improvements	(820,976)	(36,158)	34,584	(822,550)
Furniture, machinery, and equipment	(323,104)	(41,216)	17,337	(346,983)
Computer software	(34,411)	(833)	-	(35,244)
Infrastructure	(14,076)	(518)	828	(13,766)
Total accumulated depreciation/amortization	(1,192,567)	(78,725)	52,749	(1,218,543)
Total capital assets being depreciated/amortized, net	967,923	(43,808)	(21,621)	902,494
Governmental activities capital assets, net	$ 11,992,620	$ 782,062	$ (258,485)	$ 12,516,197

Primary Government – Business-Type Activities

Business-Type Activities:	Balance, July 1	Increases	Decreases	Balance, June 30
Capital assets, being depreciated:				
Buildings and improvements	$ 149	$ -	$ -	$ 149
Furniture, machinery, and equipment	232	29	-	261
Infrastructure	-	-	-	-
Total capital assets, being depreciated	381	29	-	410
Less accumulated depreciation for:				
Buildings and improvements	(82)	(18)	-	(100)
Furniture, machinery, and equipment	(211)	(15)	-	(226)
Total accumulated depreciation	(293)	(33)	-	(326)
Total capital assets being depreciated, net	88	(4)	-	84
Business-type activities capital assets, net	$ 88	$ (4)	$ -	$ 84

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

Governmental activities:	
General government	$ 6,148
Public safety	32,785
Health	952
Welfare	4,995
Conservation, culture and development	11,254
Education	1,530
Transportation	21,061
Total depreciation/amortization expense - governmental activities	$ 78,725
Business-type activities:	
Inns and Concessions	$ 33
Total depreciation expense - business-type activities	$ 33

E. Leases

The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2011 and the assets acquired through capital leases are as follows:

Future minimum lease payments

Year ending June 30,	Operating leases	Capital leases Governmental Activities
2012	$ 24,849	$ 104,475
2013	21,680	101,817
2014	17,224	101,827
2015	13,986	102,833
2016	13,071	101,736
2017-2021	16,334	506,397
2022-2026	-	509,289
2027-2031	-	310,119
2032-2036	-	4,422
Total minimum lease payments (excluding executory costs)	**$ 107,144**	**1,842,915**
Less:		
Remaining premium(discount)		(20,862)
Amount representing interest		(596,741)
Present value of future minimum lease payments		**$ 1,225,312**

Assets acquired through capital lease

Building	$ 45,900
Machinery and equipment	2,346
Infrastructure	1,199,759
less accumulated depreciation	(12,250)
	$ 1,235,755

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 $32.1 million for the year ended June 30, 2011. A table of future minimum lease payments (excluding executory costs) is presented above.

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, 2011 were as follows:

Changes in Long-Term Obligations	Balance, July 1, as Restated	Increases	Decreases	Balance, June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities:						
Compensated absences	$ 145,434	$ 3,045	$ (6,707)	$ 141,772	$ 79,377	$ 62,395
Due to component unit	57,073	9,564	-	66,637	16,637	50,000
Net pension obligation	948,080	117,845	-	1,065,925	-	1,065,925
Other postemployment benefits	112,405	18,247	(12,423)	118,229	-	118,229
Pollution remediation	58,261	-	(16,952)	41,309	8,699	32,610
Intergovernmental payable	162,446	35,107	(10,001)	187,552	157,552	30,000
Capital leases	1,269,936	2,995	(47,619)	1,225,312	47,063	1,178,249
	$ 2,753,635	$ 186,803	$ (93,702)	$ 2,846,736	$ 309,328	$ 2,537,408
Business-type activities:						
Compensated absences	$ 496	$ 176	$ (200)	$ 472	$ 203	$ 269
Claims liability	45,473	8,145	(20,555)	33,063	3,702	29,361
	$ 45,969	$ 8,321	$ (20,755)	$ 33,535	$ 3,905	$ 29,630

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, Prosecuting Attorney's Retirement Fund, and the State Teachers' Retirement Fund (Pre-1996 Account) as presented in Note V(E), other postemployment benefits, pollution remediation, amounts due to component units, 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, 2011, 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 governmental funds, there is an increase of $148.9 million in net assets of the General Fund and a corresponding decrease in net assets of the Department of Revenue's Collection Fund (Non-major Governmental fund) for electronically filed estimated corporate income tax not transferred in prior years.

In the fund statements for governmental funds, and the government-wide statements, net assets of the ARRA of 2009 Fund increased $305.4 million for adjustments for cash omitted from financial statement presentation in prior years.

In the fund financial statements for Special Revenue Funds, and the government-wide statements, net assets decreased by $13.7 million due to a change in presentation of the BMV holding fund.

In the fund statements for governmental funds, and the government-wide statements, there is an increase of $2.8 million in net assets for existing cash that was incorrectly recorded in the prior year
.

In the fund statements for governmental funds and the government-wide statements, there is a decrease of $751 thousand due to errors relating to current receivable and payable accruals in 2010.

In the fund statements for permanent funds, there was a decrease of $2.6 million for the reclassification of three funds to private-purpose trust funds. For the government-wide statements, there was a decrease of $4.1 million for the aforementioned reclassification of three permanent funds to private-purpose trust funds and a $1.5 million decrease for the reclassification of an internal service fund to an agency fund.

For the government-wide statements, there is a decrease of $33.0 thousand in net assets for infrastructure assets included in INDOT infrastructure as of June 30, 2010.

For the government-wide statements, there is a decrease of $11.8 million in net assets for Department of Administration (DoA) work in process. This was primarily the result of incorrectly capitalizing maintenance projects as of June 30, 2010.

For the government-wide statements, there is an increase of $64.1 million in net assets for capital assets. This was the result of not capitalizing capital assets by June 30, 2010 that were acquired prior to this date, for corrections to acquisition cost by state agencies, and for the elimination of duplicate assets found in the 2010 report.

For the government-wide statements, there is an increase of $6.6 million for software that was in development by June 30, 2010 from implementing GASB statement number 51, Accounting and Financial Reporting for Intangible Assets.

For the government-wide statements, there is an increase of $3.5 million in net assets for capital assets acquired through leases that were not included in the prior year.

For the Internal Service funds and the government-wide statements, there is an increase of $33.0 million in net assets for the correction of errors. There was an increase of $34.8 million in net assets because parts of the Administrative Services Revolving and Institutional Industries Funds were not included in last year's financial statements. Net assets for the Aviation Rotary Fund increased by $0.1 million for aircraft omitted in the prior year financial statements. Net assets for the Administrative Services Revolving fund decreased by $1.9 million because the Motor Pool's 2010 ending balance for gasoline inventory was overstated by this amount. Net assets for internal service funds decreased by $1.5 million for the reclassification of a fund from an internal service fund to an agency fund.

The net assets for business type activities increased by $23.0 thousand for correction of errors by the Inns and Concessions.

For the discrete component units, the Indiana Economic Development Corporation's net assets increased by $5.5 million for loans receivable not included in their 2010 financial statements.

There was an increase of $1.8 million in beginning net assets for the correction of an error by Indiana State University for a foundation pledge receivable that should have been recorded in the prior year as the conditions were met. Purdue University's net assets increased by $3.9 million comprised of a $9.4 million increase for Foundation trust funds omitted in the prior year financial statements and a decrease of $5.5 million to agree the foundation's net assets to the underlying accounting records.

The following schedule reconciles June 30, 2010 net assets as previously reported, to beginning net assets, as restated:

	Governmental Activities	Business-Type Activities	Discretely Presented Component Units (Non Fiduciary)
June 30, 2010, fund balance/retained earnings/net assets as reported	$ 17,527,882	$ (1,610,113)	$ 9,627,982
Correction of errors	389,031	23	11,229
Reclassifications of funds	(4,099)	-	-
Balance July 1, 2010 as restated	$ 17,912,814	$ (1,610,090)	$ 9,639,211

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
2011				
Unpaid Claims, July 1	$ 4,004	$ 39,641	$ 4,932	**$ 48,577**
Incurred Claims and Changes in Estimate	28,644	276,553	21,405	**326,602**
Claims Paid	(28,504)	(282,449)	(21,206)	**(332,159)**
Unpaid Claims, June 30	**$ 4,144**	**$ 33,745**	**$ 5,131**	**$ 43,020**
2010				
Unpaid Claims, July 1, as restated	$ 4,584	$ 40,515	$ 4,137	**$ 49,236**
Incurred Claims and Changes in Estimate	28,638	277,708	21,189	**327,535**
Claims Paid	(29,218)	(278,582)	(20,394)	**(328,194)**
Unpaid Claims, June 30	**$ 4,004**	**$ 39,641**	**$ 4,932**	**$ 48,577**

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) $300,000 for a cause of action that accrues before January 2006; (B) $500,000 for a cause of action that accrues between 2006 and 2008; or (C) $700,000 for a cause of action that accrues on or after January 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 $11.3 million to be made from the Tort Claim Fund during the next fiscal year. During the fiscal year ending June 30, 2011, the State paid $7.7 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, 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. A four-day bench trial was conducted. The Court took the matter under advisement and gave the parties time to submit proposed findings of fact and conclusions of law. In July 2009, 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). In November 2009, Plaintiffs reduced their settlement demand to $20 million. The State responded with an offer of $8.5 million (inclusive of fees and costs) and later increased the offer to $10 million. The matter is fully briefed in the Court of Appeals. In its October 2010 opinion, the Court of Appeals reversed in part, affirmed in part and remanded to trial court for determination of damages; excused exhaustion of administrative remedies, but limited back pay to 10 days (instead of 20 years) for merit employees; affirmed 20 years of back pay for non-merit employees. Impact of the opinion is a reduction in the trial court's judgment from $43 million to approximately $19 million. In November 2010, both Plaintiffs and the State filed Petitions for Rehearing. The State's Petition for Rehearing denied. Plaintiff's Petition for Rehearing granted in part remanding to trial court for determination of if/when individual merit plaintiffs filed administrative complaints. Plaintiffs and the State each filed Petitions for Transfer to the Indiana Supreme Court, which were granted in June 2011. Oral argument was held in the Supreme Court in September 2011 and taken under advisement.

In August 2011, due to a sudden wind gust resulting from inclement weather conditions, an outdoor stage collapsed at the Indiana State Fair resulting in multiple injuries and deaths. Tort claim notices against the Indiana State Fair Commission and the State have been filed with the Indiana Attorney General. Lawsuits against the State and other parties have been filed and other lawsuits are expected. The State contends that immunities and limitations on damages under the Indiana Tort Claims Act apply to these claims.

Other Litigation

The State on behalf of the Indiana Family and Social Services Administration (FSSA) is currently involved in the following case that could result in significant liability to the State:

In May 2010 the State of Indiana, on behalf of the Indiana Family and Social Services Administration (FSSA), and counterclaim Plaintiff sued each other regarding counterclaim Plaintiff's state welfare system contract entered into in 2006. In October 2009 the State announced its intention to terminate the 10-year contract early effective December 2009 due to counterclaim Plaintiff's deficient performance. The State and counterclaim Plaintiff engaged in a series of informal dispute resolution meetings to try to resolve the competing claims. The State, represented by outside counsel, filed suit against counterclaim Plaintiff for breach of contract and unjust enrichment seeking to recover $438 million in payments, indemnification, damages, costs, fees, interest, treble damages, declaratory judgment, and other relief. Counterclaim Plaintiff filed suit against the State seeking deferred costs and fees, costs for Plaintiff's equipment retained by the State and other fees and costs related to the termination of the contract in excess of $100 million. The State and counterclaim Plaintiff filed amended complaints in November 2010. The Court denied the State's motion to dismiss the counterclaim Plaintiff's tort claims in March 2011. The State answered and filed counterclaims to the counterclaim Plaintiff's amended complaint in May 2011. The counterclaim Plaintiff answered the State's counterclaims in June 2011. The parties are currently engaged in expert discovery and depositions. Dispositive motions were filed November 15, 2011 with supplemental briefing through mid-December 2011. Trial is set for February 2012.

Other Loss Contingencies

The U.S. Office of Inspector General (USOIG) has issued four audit reports that are dated September 2008 through June 2011 on Indiana's Medicaid Assistance Program. Findings in these reports identify several issues including state psychiatric hospitals that were ineligible to receive Medicaid Inpatient payments, coding issues, and unreported Medicaid overpayments. The reports request repayments totaling $111 million, but FSSA believes the possible loss contingency for these findings totals $42 million. FSSA management is working to arrange a settlement of these findings. It is unknown how much of this loss contingency, if any, will have to be repaid to the federal government.

Construction Commitments

As of June 30, 2011, the Indiana Department of Transportation had outstanding construction commitments totaling $1.6 billion for road and bridge projects. It is anticipated that these projects will be financed with approximately 6% State funds, 2% local funds, 54% Federal funds, and 38% from the Major Moves Construction Fund.

The Indiana Department of Administration, Public Works Division, had remaining construction commitments totaling $5.4 million for building and improvement projects of the State's agencies as of June 30, 2011. These projects are to be funded through State appropriations, the State Highway Department Fund, capital projects funds, and federal funds.

The State had $18.5 million in total commitments for software in development as of June 30, 2011. These commitments are to be funded through federal funds and state dedicated funds.

Encumbrances

Significant encumbrances by major funds and non-major funds in the aggregate as of June 30, 2011 were as follows:

Governmental Funds	Encumbrances
General Fund	$ 324,259
ARRA of 2009	132,611
US Department of Transportation	1,316,617
US Department of Health & Human Services	259,362
Non-Major Governmental Funds	1,359,871
Total	**$ 3,392,720**

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%. 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 2011 was $57.2 million. Total outstanding loans were $14.8 million, resulting in total assets of $72.0 million. Because the API increased by more than 2%, $53.5 million was transferred from the General Fund to the Rainy Day Fund.

E. Employee Retirement Systems and Plans

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

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

The accrual basis is used for financial statement reporting purposes. Receivables are not maintained on the accounting records, but are calculated or estimated for financial statement reporting purposes. Throughout the year, the investments are maintained on the accounting records at the net asset value per the custodian 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:

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

<u>Plan Description</u> The State Police Retirement Fund (SPRF) is a defined benefit, single-employer PERS, and is administered by the Treasurer of the State of Indiana as Trustee under a Pension Trust Agreement with the Indiana Department of State Police. Indiana Code 10-12-2-2 grants authority to the Department to establish and operate an actuarially sound pension plan governed by a pension trust. It also authorizes the Department to make annual contributions as necessary to prevent any deterioration in the actuarial status of the trust.

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.

<u>Funding Policy</u> 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, 2010. 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, 2011, the most recent actuarial valuation date, the plan was 77 percent funded. The actuarial accrued liability for benefits was $470.9 million, and the actuarial value of assets was $361.5 million, resulting in an unfunded actuarial accrued liability (UAAL) of $109.4 million. The covered payroll (annual payroll of active employees covered by the plan) was $64.9 million, and the ratio of the UAAL to the covered payroll was 168 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, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 888-526-1687, or by visiting PERF's website, www.in.gov/inprs.

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 over thirty years, and prevent the State's unfunded accrued liability from increasing.

Funded Status and Funding Progress As of July 1, 2010, the most recent actuarial valuation date, the plan was 72 percent funded. The actuarial accrued liability for benefits was $97.8 million, and the actuarial value of assets was $70.3 million, resulting in an unfunded actuarial accrued liability (UAAL) of $27.5 million. The covered payroll (annual payroll of active employees covered by the plan) was $26.7 million, and the ratio of the UAAL to the covered payroll was 103 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 or chief deputy prosecuting attorney; or serve as the executive director or assistant executive director of the Indiana Prosecuting Attorneys Council or as a state-paid deputy prosecuting attorney.

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, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 888-526-1687, or by visiting PERF's website, www.in.gov/inprs.

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 PERF Board of Trustees on the recommendations of the actuary, is to be appropriated from the State's General Fund.

Funded Status and Funding Progress As of July 1, 2010, the most recent actuarial valuation date, the plan was 53 percent funded. The actuarial accrued liability for benefits was $49.2 million, and the actuarial value of assets was $26.2 million, resulting in an unfunded actuarial accrued liability (UAAL) of $23.0 million. The covered payroll (annual payroll of active employees covered by the plan) was $21.0 million, and the ratio of the UAAL to the covered payroll was 109 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, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 888-526-1687, or by visiting PERF's website, www.in.gov/inprs.

Funding Policy The amount required by the funding policy 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's General Fund.

Funded Status and Funding Progress As of July 1, 2010, the most recent actuarial valuation date, the plan was 83 percent funded. The actuarial accrued liability for benefits was $4.9 million, and the actuarial value of assets was $4.1 million, resulting in an unfunded actuarial accrued liability (UAAL) of $0.8 million. The benefit formula is determined based on service rather than compensation. The unfunded liability per active participant was $41,702 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 or justice of any of the following courts: Supreme Court of the State of Indiana; Court of Appeals; Circuit Court of a Judicial Circuit; Indiana Tax Court; or county courts including Superior, Criminal, Probate, Juvenile, Municipal and County 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, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 888-526-1687, or by visiting PERF's website, www.in.gov/inprs.

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 statute also provide for remittance of docket fees and court fees. These are considered employer contributions.

Funded Status and Funding Progress As of July 1, 2010, the most recent actuarial valuation date, the plan was 67 percent funded. The actuarial accrued liability for benefits was $364.1 million, and the actuarial value of assets was $242.1 million, resulting in an unfunded actuarial accrued liability (UAAL) of $122.0 million. The covered payroll (annual payroll of active employees covered by the plan) was $36.7 million, and the ratio of the UAAL to the covered payroll was 332 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, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 888-526-1687, or by visiting PERF's website, www.in.gov/inprs. At June 30, 2011, the number of participating political subdivisions was 1,131.

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 8.6% 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, 2010, the most recent actuarial valuation date, the state employees portion of the plan was 67 percent funded. The actuarial accrued liability for benefits was $2.7 billion, and the actuarial value of assets was $1.8 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $0.9 billion. The covered payroll (annual payroll of active employees covered by the plan) was $1.7 billion, and the ratio of the UAAL to the covered payroll was 51 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---					
	SPRF	PERF -State	ECRF	JRS	PARF	LRS	TRF - Pre-1996 Account
Annual Pension Cost and Net Pension Obligation (Asset)							
Annual required contribution	$ 12,266.6	$ 118,199.9	$ 5,237.0	$ 16,076.9	$ 1,662.6	$ 63.4	$ 850,493.0
Interest on net pension obligation	960.3	(4,579.2)	(187.1)	(1,870.3)	328.6	(16.5)	69,737.0
Adjustment to annual required contribution	(1,105.5)	5,218.3	213.2	2,203.2	(382.5)	27.6	(78,730.0)
Annual pension cost	12,121.4	118,839.0	5,263.1	16,409.8	1,608.7	74.5	841,500.0
Contributions made	(9,449.7)	(111,554.8)	(5,255.9)	(18,630.7)	(170.0)	-	(727,766.0)
Increase (decrease) in net pension obligation	2,671.7	7,284.2	7.2	(2,220.9)	1,438.7	74.5	113,734.0
Net pension obligation, beginning of year	13,718.2	(63,160.8)	(2,581.1)	(25,797.0)	4,532.9	(227.3)	929,829.0
Net pension obligation, end of year	$ 16,389.9	$ (55,876.6)	$ (2,573.9)	$ (28,017.9)	$ 5,971.6	$ (152.8)	$ 1,043,563.0
Significant Actuarial Assumptions							
Investment rate of return	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
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%	3.00%
Cost of living adjustments	N/A	1.00%	1.00%	4.00%	N/A	1.00%	1.00%
Contribution rates:							
State	22.40%	8.60%	20.75%	51.50%	8.75%	Flat Dollar Amount **	pay-as-you-go
Plan members	5.00% - 6.00%	3.00%	4.00%	6.00%	6.00%	0.00%	3.0%
Actuarial valuation date	7/1/2011	6/30/2010	6/30/2010	6/30/2010	6/30/2010	6/30/2010	6/30/2010
Actuarial cost method	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	traditional unit cost	entry age normal cost
Amortization method	level dollar	level dollar	level dollar	level dollar	level dollar	level dollar	level dollar
Amortization period	30 years	30 years	30 years	30 years	30 years	30 years	30 years
Amortization period (from date)	7/1/2010	7/1/2008	7/1/2007	7/1/2006	7/1/2007	7/1/1992	N/A
Amortization period (open or closed)	closed	closed	closed	closed	closed	closed	closed
Asset valuation method	smoothed basis	4-year smoothed market value with 20% corridor	4-year smoothed market value with 20% corridor	4-year smoothed market value with 20% corridor	4-year smoothed market value with 20% corridor	4-year smoothed market value with 20% corridor	4-year smoothed market value with 20% corridor
Historical Trend Information							
Year ended June 30, 2011							
Annual pension cost (APC)	$ 12,121.4	*	*	*	*	*	*
Percentage of APC contributed	78.0%	*	*	*	*	*	*
Net pension obligation (asset)	$ 16,389.9	*	*	*	*	*	*
Year ended June 30, 2010							
Annual pension cost (APC)	$ 14,117.4	118,839.0	5,263.1	16,409.8	1,608.7	74.5	841,500.0
Percentage of APC contributed	67.1%	93.9%	99.9%	113.5%	10.6%	0.0%	86.5%
Net pension obligation (asset)	$ 13,718.2	(55,876.6)	(2,573.9)	(28,017.9)	5,971.6	(152.8)	1,043,563.0
Year ended June 30, 2009							
Annual pension cost (APC)	$ 10,266.8	$ 108,594.0	$ 4,444.2	$ 16,384.6	$ 1,302.8	$ 52.5	$ 691,168.0
Percentage of APC contributed	92.3%	102.4%	119.1%	127.3%	13.0%	190.5%	102.2%
Net pension obligation (asset)	$ 9,071.9	$ (63,160.8)	$ (2,581.1)	$ (25,797.0)	$ 4,532.9	$ (227.3)	$ 929,829.0
Year ended June 30, 2008							
Annual pension cost (APC)	$ 9,082.8	$ 99,674.7	$ 3,681.5	$ 10,199.4	$ 1,014.4	$ 71.9	$ 667,175.0
Percentage of APC contributed	103.6%	107.2%	131.9%	156.1%	16.9%	139.0%	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

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.
** - $113,099 based on June 30, 2010 actuarial valuation.

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, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 888-286-3544, or at STRF's website, www.in.gov/inprs.

At June 30, 2011, the number of participating employers was 381.

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 actuary and approved by the Fund's Board of Trustees.

As of June 30, 2010, TRF was 44% 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 33% funded and the 1996 Account is 95% funded.

The funded ratio of the Fund has decreased from 45% at June 30, 2004, to the ratio of 44% at June 30, 2010. The actuarial value of the Fund's assets as of the June 30, 2010 valuation was $8.8 billion and the actuarial accrued liability was $19.9 billion. The difference is the Fund's unfunded actuarial accrued liability of $11.1 billion. The annual covered payroll as of the June 30, 2010, actuarial valuation was $4.3 billion and the ratio of the unfunded actuarial liability to the annual covered payroll was 257%.

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, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 888-526-1687, or by visiting PERF's website, www.in.gov/inprs.

At June 30, 2011, the number of participating employer units totaled 166 (which includes 260 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 19.7 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 *	
Historical Trend Information				
Year ended June 30, 2010				
Annual required contribution	$	850,493	$	126,558
Percentage contributed		86%		103%
Employer contribution	$	727,766	$	130,775
Year ended June 30, 2009				
Annual required contribution	$	700,307	$	62,881
Percentage contributed		101%		102%
Employer contribution	$	706,366	$	64,285
Year ended June 30, 2008				
Annual required contribution	$	678,050	$	117,773
Percentage contributed		100%		113%
Employer contribution	$	675,682	$	133,196

STRF - State Teachers' Retirement Fund - Pre-1996 Account
PFPF - 1977 Police Officers and Firefighters' Retirement Fund (Administered by PERF)
* - year ended December 31 for 2008; June 30 for 2009 and 2010. Actuarial valuation date changed from January 1 to June 30 beginning with June 30, 2009 valuation. For the fiscal year ending June 30, 2009, the first six months are included in the 2008 data. Therefore, 2009 is for only six months.

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, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 888-526-1687, or by visiting PERF's website, www.in.gov/inprs.

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, 2011 the rate was established at 10.0 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):

	State Personnel Healthcare Plan	Legislature's Healthcare Plan	Indiana State Police Healthcare Plan	Conservation and Excise Police Health Care Plan
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	$ 4,664	$ 561	$ 30,155	$ 4,423
Interest on net OPEB obligation	1,093	27	4,515	458
Amortization adjustment to ARC	(1,258)	(37)	(5,755)	(625)
Annual OPEB Cost	4,499	551	28,915	4,256
Contributions made	(16,922)	(353)	(13,787)	(1,336)
Change in net OPEB obligation	(12,423)	198	15,128	2,920
Net OPEB obligation - beginning of year	15,615	608	86,003	10,180
Net OPEB obligation - end of year	$ 3,192	$ 806	$ 101,131	$ 13,100

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 2011 monthly premiums (except for grandfathered LP current retirees) as shown in the following chart.

	Monthly Premium
State Personnel Healthcare Plan (SP) and Legislature's Healthcare Plan (LP)	
Consumer Driven Health Plan #1	
Single (Non-Tobacco)	$ 398.71
Family (Non-Tobacco)	1,134.77
Consumer Driven Health Plan #2	
Single (Non-Tobacco)	435.80
Family (Non-Tobacco)	1,307.58
Traditional PPO	
Single (Non-Tobacco)	699.44
Family (Non-Tobacco)	1,995.15
Indiana State Police Healthcare Plan (ISPP)	
Basic Plan - Medical Only	
Retiree Only (Pre-Medicare)	248.58
Retiree Plus One Dependent (Pre-Medicare)	319.72
Retiree Only (Post-Medicare)	109.47
Retiree Plus One Dependent (Post-Medicare)	131.79
Optional Plan - Medical, Dental, & Vision	
Retiree Only (Pre-Medicare)	290.68
Retiree Plus One Dependent (Pre-Medicare)	397.15
Retiree Only (Post-Medicare)	127.57
Retiree Plus One Dependent (Post-Medicare)	168.18
Conservation and Excise Police Health Care Plan (CEPP)	
Single - Under Age 60 (Pre-Medicare)	300.00
Family - Under Age 60 (Pre-Medicare)	450.00
Single - Age 60 -64 (Pre-Medicare)	200.00
Family - Age 60-64 (Pre-Medicare)	300.00
Single (Post-Medicare)	90.00
Family (Post-Medicare)	140.00

The State of Indiana's annual OPEB cost, the percentage of annual OPEB cost contributed , and the net OPEB obligation for June 30, 2009 through June 30, 2011 for each of the plans were as follows (dollar amounts in thousands):

	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
State Personnel Healthcare Plan	6/30/2011	$ 4,499	376.1%	$ 3,191
	6/30/2010	6,105	31.3%	15,615
	6/30/2009	7,624	23.6%	11,423
Legislature's Healthcare Plan	6/30/2011	$ 551	64.0%	$ 806
	6/30/2010	512	61.1%	608
	6/30/2009	493	61.0%	409
Indiana State Police Healthcare Plan	6/30/2011	$ 28,915	47.7%	$ 101,131
	6/30/2010	41,224	21.9%	86,003
	6/30/2009	34,831	22.7%	53,787
Conservation and Excise Police Health Care Plan	6/30/2011	$ 4,257	31.4%	$ 13,101
	6/30/2010	5,271	24.7%	10,180
	6/30/2009	4,128	23.8%	6,212

Funded Status and Funding Progress The funded status of the plans as of June 30, 2011, was as follows (dollar amounts in thousands):

	State Personnel Healthcare Plan	Legislature's Healthcare Plan	Indiana State Police Healthcare Plan	Conservation and Excise Police Health Care Plan
Actuarial accrued liability (a)	$ 37,733	$ 9,092	$ 306,132	$ 49,510
Actuarial value of plan assets (b)	14,007	-	5,280	-
Unfunded actuarial accrued liability (funding excess) (a) - (b)	$ 23,726	$ 9,092	$ 300,852	$ 49,510
Funded ratio (b)/(a)	37.1%	0.0%	1.7%	0.0%
Covered payroll (c)	N/A	N/A	N/A	N/A
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(a)-(b)]/(c))	N/A	N/A	N/A	N/A

GASB 45 regulations permit employers to use the most recent available actuarial information up to two years prior to the current period. Accordingly, the State has elected to use the actuarial results for the period ending on June 30, 2010 for the period ending June 30, 2011.

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	6/30/2011	6/30/2011	6/30/2011	6/30/2011
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	Market Value of Assets	N/A	Market Value of Assets	N/A
Actuarial assumptions:				
Inflation rate	3.0%	3.0%	3.0%	3.0%
Investment rate of return	7.0%	4.5%	5.3%	4.5%
Projected salary increases	4.0%	4.0%	4.0%	4.0%
Healthcare inflation rate	9.2%	9.2% pre-65 & 10.0% post-65	9.2% pre-65 & 10.0% post-65	9.2% pre-65 & 10.0% post-65

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, 2010 projected to June 30, 2011 with adjustments for known experience for the period ending June 30, 2011. 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, 2010 except for the pre-funding of retiree health benefits for ISPP and SPP. However, the actuarial valuation date and the healthcare inflation rates were updated for the actuarial results projected to June 30, 2010.

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 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, 2011, the plan participants consisted of:

Description	**Number**
Active participants with accounts, not yet retired	30,037
Retired participants with accounts	3,760
Total	**33,797**

At June 30, 2011, plan participants' retirement medical plan account balances totaled $207.6 million which consisted of $121.6 million in unretired active participants' accounts and $86.0 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, 2011, the State contributed $27.2 million to the State Retiree Health Fund. Another $24.9 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 $52.1 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 $50.6 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 fifty-six 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 $41.3 million of which $8.7 million is estimated to be payable within one year and $32.6 million estimated to be payable in more than one year. State agencies calculated their estimated liabilities using various approaches including existing agreements, contractor bids/surveys, 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, 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 $10.9 million. Of this total, $0.2 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. The State recognized $0.3 million of program revenue for two sites whose realized recoveries exceeded the pollution remediation liability.

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
Valuation Date: July 1, 2011							
Actuarial value of assets	$ 361,457	*	*	*	*	*	*
Actuarial accrued liability (AAL)	470,852	*	*	*	*	*	*
Excess of assets over (unfunded) AAL	(109,395)	*	*	*	*	*	*
Funded ratio	77%	*	*	*	*	*	*
Covered payroll	64,948	*	*	*	*	*	*
Excess (unfunded) AAL as a percentage of covered payroll	-168%	*	*	*	*	*	*
Valuation Date: July 1, 2010							
Actuarial value of assets	$ 363,487	$ 1,803,664	$ 70,327	$ 242,143	$ 26,166	$ 4,075	$ 5,382,410
Actuarial accrued liability (AAL)	447,064	2,678,031	97,862	364,123	49,174	4,909	16,282,066
Excess of assets over (unfunded) AAL	(83,577)	(874,367)	(27,535)	(121,980)	(23,008)	(834)	(10,899,656)
Funded ratio	81%	67%	72%	67%	53%	83%	33%
Covered payroll	66,603	1,730,480	26,709	36,722	21,016	**	1,865,102
Excess (unfunded) AAL as a percentage of covered payroll	-125%	-51%	-103%	-332%	-109%	**	-584%
Valuation Date: July 1, 2009							
Actuarial value of assets	$ 356,056	$ 2,121,550	$ 68,170	$ 240,954	$ 26,467	$ 4,730	$ 5,109,086
Actuarial accrued liability (AAL)	453,688	2,443,039	89,296	330,551	44,632	5,087	16,027,093
Excess of assets over (unfunded) AAL	(97,632)	(321,489)	(21,126)	(89,597)	(18,165)	(357)	(10,918,007)
Funded ratio	78%	87%	76%	73%	59%	93%	32%
Covered payroll	68,283	1,749,781	25,238	36,196	20,782	**	2,030,484
Excess (unfunded) AAL as a percentage of covered payroll	-143%	-18%	-84%	-248%	-87%	**	-538%
Valuation Date: July 1, 2008							
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%

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, 2010: The unfunded liability is expressed per active participant and there were 20 active participants. The unfunded liability per active participant was $41,702; July 1, 2009: The unfunded liability is expressed per active participant and there were 33 active participants. The unfunded liability per active participant was $10,817; 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).

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)
State Personnel Healthcare Plan						
6/30/2010	$ 14,007	$ 37,733	$ 23,726	37.1%	N/A	N/A
6/30/2009	$ -	$ 51,306	$ 51,306	0.0%	N/A	N/A
6/30/2008	$ -	$ 67,405	$ 67,405	0.0%	N/A	N/A
Legislature's Healthcare Plan						
6/30/2010	$ -	$ 9,092	$ 9,092	0.0%	N/A	N/A
6/30/2009	$ -	$ 8,402	$ 8,402	0.0%	N/A	N/A
6/30/2008	$ -	$ 8,009	$ 8,009	0.0%	N/A	N/A
Indiana State Police Healthcare Plan						
6/30/2010	$ 5,280	$ 306,132	$ 300,852	1.7%	N/A	N/A
6/30/2009	$ -	$ 407,846	$ 407,846	0.0%	N/A	N/A
6/30/2008	$ -	$ 341,923	$ 341,923	0.0%	N/A	N/A
Conservation and Excise Police Healthcare Plan						
6/30/2010	$ -	$ 49,510	$ 49,510	0.0%	N/A	N/A
6/30/2009	$ -	$ 57,305	$ 57,305	0.0%	N/A	N/A
6/30/2008	$ -	$ 45,308	$ 45,308	0.0%	N/A	N/A

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	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2011	$ 4,664	362.8%	$ 561	62.8%	$ 30,155	45.7%	$ 4,423	30.2%	$ 52,075	100.0%
2010	6,292	30.4%	519	60.3%	42,106	21.4%	5,373	24.3%	55,502	100.0%
2009	7,716	23.3%	497	60.6%	35,271	22.4%	4,178	23.5%	67,213	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. 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 agency 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, or is carried forward to the next year in the State's reserve funds to provide a cushion against a potential downturn in general fund revenue. Capital appropriations are released by the State Budget Agency after approval by the State Budget Committee (if equal to or greater than $100,000) or by the State Budget Agency via administrative action (if less than $100,000). 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, certain recurring expenditures are not budgeted (e.g., tort claims) according to instructions from the State Budget Agency to the various agencies. The Budget Agency monitors all funds regularly in addition to monitoring excess general fund revenue that will be available at the end of the fiscal year to cover non-budgeted, recurring expenditures or to increase the level of state reserves.

State of Indiana
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2011
(amounts expressed in thousands)

	General Fund			
	Budget		Actual	Variance to Final Budget
	Original	Final		
Revenues:				
Taxes:				
Income	$ 5,366,326	$ 5,366,326	$ 5,418,508	$ 52,182
Sales	6,438,400	6,438,400	6,220,101	(218,299)
Fuels	-	-	-	-
Gaming	660,700	660,700	94,064	(566,636)
Inheritance	167,500	167,500	148,944	(18,556)
Alcohol and tobacco	295,904	295,904	283,622	(12,282)
Insurance	177,200	177,200	185,439	8,239
Other	267,255	267,255	234,468	(32,787)
Total taxes	13,373,285	13,373,285	12,585,146	(788,139)
Current service charges	164,488	164,488	216,759	52,271
Investment income	65,077	65,077	23,105	(41,972)
Sales/rents	994	994	1,094	100
Grants	-	-	58,808	58,808
Other	27,955	27,955	34,189	6,234
Total revenues	13,631,799	13,631,799	12,919,101	(712,698)
Expenditures:				
Current:				
General government	1,005,612	1,354,609	1,011,738	342,871
Public safety	812,542	838,473	682,828	155,645
Health	70,134	59,061	47,683	11,378
Welfare	3,147,446	3,457,128	625,003	2,832,125
Conservation, culture and development	128,385	187,507	67,646	119,861
Education	9,078,909	9,100,352	8,717,811	382,541
Transportation	1,650	4,236	1,762	2,474
Total expenditures	14,244,678	15,001,366	11,154,471	3,846,895
Excess of revenues over (under) expenditures	(612,879)	(1,369,567)	1,764,630	(3,134,197)
Other financing sources (uses):				
Total other financing sources (uses)	(1,347,407)	(1,347,407)	(1,347,407)	-
Net change in fund balances	$ (1,960,286)	$ (2,716,974)	417,223	$ 3,134,197
Fund balances July 1, as restated			1,534,236	
Fund balances June 30			**$ 1,951,459**	

Public Welfare-Medicaid Assistance				Major Moves Construction Fund			
Budget		Actual	Variance to Final Budget	Budget		Actual	Variance to Final Budget
Original	Final			Original	Final		
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
643	643	230,923	230,280	-	-	-	-
-	-	-	-	220,894	220,894	156,980	(63,914)
-	-	-	-	-	-	-	-
4,094,715	4,094,715	4,441,972	347,257	-	-	-	-
-	-	4	4	-	-	-	-
4,095,358	4,095,358	4,672,899	577,541	220,894	220,894	156,980	(63,914)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	7,646,588	6,130,473	1,516,115	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	535,000	684,616	40,381	644,235
-	7,646,588	6,130,473	1,516,115	535,000	684,616	40,381	644,235
4,095,358	(3,551,230)	(1,457,574)	(2,093,656)	(314,106)	(463,722)	116,599	(580,321)
1,479,523	1,479,523	1,479,523	-	(397,627)	(397,627)	(397,627)	-
$ 5,574,881	$ (2,071,707)	21,949	$ 2,093,656	$ (711,733)	$ (861,349)	(281,028)	$ 580,321
		97,998				1,983,922	
		$ 119,947				**$ 1,702,894**	

continued on next page

State of Indiana
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2011
(amounts expressed in thousands)

	ARRA of 2009 Fund			
	Budget		Actual	Variance to Final Budget
	Original	Final		
Revenues:				
Taxes:				
Income	$ -	$ -	$ -	$ -
Sales	-	-	-	-
Fuels	-	-	-	-
Gaming	-	-	-	-
Inheritance	-	-	-	-
Alcohol and tobacco	-	-	-	-
Insurance	-	-	-	-
Other	-	-	-	-
Total taxes	-	-	1	1
Current service charges	-	-	252	252
Investment income	-	-	-	-
Sales/rents	-	-	-	-
Grants	1,547,508	1,547,508	1,180,443	(367,065)
Other	98	98	-	(98)
Total revenues	1,547,606	1,547,606	1,180,696	(366,910)
Expenditures:				
Current:				
General government	(517,438)	(371,071)	324,087	(695,158)
Public safety	7,518	20,583	15,335	5,248
Health	5,744	42,875	10,627	32,248
Welfare	2,119	1,177,007	335,319	841,688
Conservation, culture and development	13,771	67,163	47,158	20,005
Education	160	384,682	163,672	221,010
Transportation	620,737	873,434	280,403	593,031
Total expenditures	132,611	2,194,673	1,176,601	1,018,072
Excess of revenues over (under) expenditures	1,414,995	(647,067)	4,095	(651,162)
Other financing sources (uses):				
Total other financing sources (uses)	488	488	488	-
Net change in fund balances	$ 1,415,483	$ (646,579)	4,583	$ 651,162
Fund balances July 1, as restated			(193)	
Fund balances June 30			**$ 4,390**	

U.S. Department of Transportation Fund				U.S. Department of Health and Human Services Fund			
Budget		**Actual**	**Variance to Final Budget**	**Budget**		**Actual**	**Variance to Final Budget**
Original	**Final**			**Original**	**Final**		
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	44	44	-	(44)
-	-	-	-	44	44	-	(44)
3	3	183	180	589	589	744	155
-	-	-	-	11	11	-	(11)
-	-	-	-	-	-	7	7
801,468	801,468	883,530	82,062	1,083,762	1,083,762	1,067,950	(15,812)
36	36	11	(25)	8,352	8,352	4,067	(4,285)
801,507	801,507	883,724	82,217	1,092,758	1,092,758	1,072,768	(19,990)
2	1,360	527	833	258	21,802	11,999	9,803
5,237	63,475	20,743	42,732	1,691	11,430	4,895	6,535
-	-	-	-	22,207	337,390	142,750	194,640
-	-	-	-	234,343	1,991,495	1,240,498	750,997
3,018	4,609	1,351	3,258	-	-	-	-
-	-	-	-	864	3,130	1,444	1,686
1,308,360	3,506,035	984,985	2,521,050	-	-	-	-
1,316,617	3,575,479	1,007,606	2,567,873	259,363	2,365,247	1,401,586	963,661
(515,110)	(2,773,972)	(123,882)	(2,650,090)	833,395	(1,272,489)	(328,818)	(943,671)
386,817	386,817	386,817	-	313,418	313,418	313,418	-
$ (128,293)	$ (2,387,155)	262,935	$ 2,650,090	$ 1,146,813	$ (959,071)	(15,400)	$ 943,671
		(119,461)				(125,750)	
		$ 143,474				**$ (141,150)**	

Budget/GAAP Reconciliation
Major Funds

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

(amounts expressed in thousands)	**GENERAL FUND**	**PUBLIC WELFARE-MEDICAID ASSIS**	**MAJOR MOVES CONSTRUCTION FUND**	**2009 ARRA FUND**	**U.S. DEPARTMENT OF TRANSPORTATION**	**U.S. DEPARTMENT OF HEALTH AND HUMAN**	**Total**
Net change in fund balances (budgetary basis)	$ 417,223	$ 21,949	$ (281,028)	$ 4,583	$ 262,935	$ (15,400)	**$ 410,262**
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)	80,928	34,920	(43,115)	(82,798)	(1,533)	164,720	**153,122**
Expenditures are recorded when the liability is incurred (GAAP) as opposed to when payment is made (budgetary)	50,741	57,485	(228)	38,304	(17,995)	(14,393)	**113,914**
Net change in fund balances (GAAP basis)	**$ 548,892**	**$ 114,354**	**$ (324,371)**	**$ (39,911)**	**$ 243,407**	**$ 134,927**	**$ 677,298**

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

Roads	Average International Roughness Index (IRI)		
	2011	2010	2009
Interstate Roads (excluding Rest Areas and Weigh Stations)	82%	84%	78%
NHS Roads - Non-Interstate (excluding Rest Areas and Weigh Stations)	85%	88%	81%
Non-NHS Roads	95%	97%	77%

The condition of road pavement is based on the International Roughness Index (IRI), which is a measure of the roughness of the pavement in terms of inches per mile, and applies both to Portland cement concrete (PCC) and hot mix asphalt (HMA) pavements. IRI's range from zero for a pavement that is perfectly smooth to ratings above 170 for a pavement that warrants replacement. The condition index is used to classify roads in excellent condition (0-79), good condition (80-114), fair condition (115-149), marginal condition (150-169), and poor condition (above 170). It is the State's policy to maintain a network average of no more than 95 IRI. Condition assessments are determined on an annual basis for all roads maintained by INDOT. The ratings provided are based on data gathered during the summer (May to October) for each fiscal year. The data is evaluated and compared to standard criteria by the end of the fiscal year.

Bridges	Average Sufficiency Rating		
	2011	2010	2009
Interstate Bridges	88.9%	88.8%	90.6%
NHS Bridges - Non-Interstate	89.9%	90.0%	90.6%
Non-NHS Bridges	87.4%	87.4%	88.7%

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)

	2011	2010	2009	2008	2007
Roads					
Interstate Roads (including Rest Areas and Weigh Stations):					
Needed	$ 222,707	$ 241,935	$ 263,764	$ 120,147	$ 212,485
Actual	194,727	226,401	246,089	256,482	248,803
NHS and Non-NHS Roads - Non-Interstate (including Rest Areas and Weigh Stations)					
Needed	314,282	381,433	391,641	419,001	145,720
Actual	364,173	423,949	571,000	374,770	297,223
Roads at State Institutions and Properties					
Needed	2,046	2,073	1,734	1,225	2,529
Actual	3,386	1,635	4,884	3,146	3,069
Total					
Needed	539,035	625,441	657,139	540,373	360,734
Actual	562,286	651,985	821,973	634,398	549,095
Bridges					
Interstate Bridges					
Needed	$ 62,746	$ 75,181	$ 82,668	$ 34,723	$ 37,157
Actual	54,505	51,416	37,931	43,904	37,070
NHS Bridges - Non-Interstate					
Needed	27,240	25,706	24,438	4,695	10,220
Actual	27,085	24,299	7,794	13,568	14,154
Non-NHS Bridges					
Needed	84,736	79,055	48,214	26,694	31,549
Actual	73,713	60,861	39,707	34,138	35,118
Bridges at State Institutions and Properties					
Needed	-	5	-	-	-
Actual	-	354	253	3	-
Total					
Needed	174,722	179,947	155,320	66,112	78,926
Actual	155,303	136,930	85,685	91,613	86,342

Data provided by Comparative Report of Preservation Costs

SUPPLEMENTAL AUDIT OF

FEDERAL AWARDS

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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 $3,409,320,553 in federal awards that are not included in the schedule for the year ended June 30, 2011. 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.

Subsequent to the original report date of February 17, 2012, the following major programs were subjected to additional audit procedures: Transportation Investment Generating Economic Recovery (TIGER), Temporary Assistance to Needy Families (TANF) Cluster, Medicaid Cluster, Childrens' Health Insurance Program (CHIP), Justice Assistance Grant (JAG) Program Cluster, Child Support Enforcement, Adoption Assistance, Highway Planning and Construction Cluster, and Prevention & Treatment of Substance Abuse Block Grant (SAPT). These audit procedures resulted in two additional findings on TIGER, TANF Cluster, Medicaid Cluster, and CHIP – 2011-DOT(800)-1 and 2011-FSSA(500,503)-7. It was also concluded that non-compliance to TIGER, TANF Cluster, Medicaid Cluster, CHIP, and the JAG Program Cluster was material to the program, resulting in a qualified opinion. The Schedule of Expenditures of Federal Awards (SEFA) and the related Data Collection Form (SF-SAC), when applicable, were modified as follows: JAG Program Cluster total added; TANF Cluster amounts transferred to CCDF Cluster adjusted accordingly; ARRA Stimulus Child Support Enforcement funds and Prevention & Treatment of Substance Abuse Block Grant (SAPT) funds passed to subrecipients added/adjusted. Total Federal Awards Expended did not change; total amounts passed to subrecipients increased by 2.9%.

As described in items 2011 FSSA(500,503)-7, 2011-DOT(800)-1 and 2011-CJI(032)-2 in the accompanying Schedule of Findings and Questioned Costs, the State of Indiana did not comply with requirements regarding Eligibility applicable to TANF Cluster (Temporary Assistance to Needy Families) Medicaid Cluster, and Childrens' Health Insurance Program (CHIP), Reporting applicable to its Transportation Investment Generating Economic Recovery (TIGER) program, and Subrecipient Monitoring applicable to the JAG Program Cluster (Justice Assistance Grant). Compliance with such requirements is necessary, in our opinion, for the State to comply with requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraphs, the State of Indiana did not comply, in all material respects, with the requirements referred to above that could have a direct and material effect on the TANF Cluster, Medicaid Cluster, Childrens' Health Insurance Program (CHIP), Transportation Investment Generating Economic Recovery (TIGER) and the JAG Program Cluster.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Indiana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-CJI(032)-1, 2011-CJI(032)-3, 2011-CJI(032)-4, 2011-DOE(700)-1, 2011-DWD(510)-1, 2011-DWD(510)-2, 2011-DWD(510)-3, 2011-FSSA(500)-2, 2011-SBA-1, 2011-SBA-2, 2010-ISBA-1, 2010-FSSA-5; 2010-FSSA-6; 2010-FSSA-8; 2010FSSA-9, 2010-FSSA-10, 2010-FSSA-11, 2009-FSSA-4, 2009-FSSA-6, 2009-FSSA-7, 2008-FSSA-3, 2008-FSSA-5, 2008-FSSA-7, 2005-FSSA-30, 2003-FSSA-16, and 2000-FSSA(DCS)-1.

Internal Control Over Compliance

The management of the State of Indiana is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Indiana's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there is no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

A deficiency in 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 and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as 2011-CJI(032)-2, 2011-DCS(502)-3, 2011-FSSA(500,503)-7, 2011-SBA(057)-1, 2010-FSSA-11, 2009-FSSA-4, 2008-FSSA-3, 2008-FSSA-5, 2008-FSSA-7, and 2005-FSSA-30 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2011-CJI(032)-1, 2011-CJI(032)-3, 2011-CJI(032)-4, 2011-DCS(502)-1, 2011-DCS(502)-2, 2011-DOE(700)-1, 2011-DOE(700)-2, 2011-DOT(800)-1, 2011-DWD(510)-1, 2011-DWD(510)-2, 2011-DWD(510)-3, 2011-FSSA(497)-1, 2011-FSSA(500)-2, 2011-FSSA(410)-3, 2011-FSSA(503)-4, 2011-FSSA(503)-5, 2011-FSSA(503)-6, 2011-SBA(057)-2, 2010-DCS-2, 2010-DCS-4, 2010-ISBA-1, 2010-FSSA-5, 2010-FSSA-6, 2010-FSSA-8, 2010-FSSA-9, 2010-FSSA-10, 2009-DCS-1, 2009-IDOE-3, 2009-IDOE-6, 2009-FSSA-2, 2009-FSSA-6, 2009-FSSA-7, 2008-FSSA-10, 2007-FSSA-2, 2007-FSSA-6, 2006-FSSA-2, 2006-FSSA-11, 2006-FSSA-12, 2006-FSSA-13, 2006-FSSA-14, 2005-FSSA-16, 2005-FSSA-19, 2005-FSSA-20, 2005-FSSA-23, 2004-FSSA-5, 2004-FSSA-6, 2004-FSSA-8, 2003-FSSA-16, 2000-FSSA(DCS)-1, 2000-FSSA(DCS)-2 to be significant deficiencies.

The State of Indiana's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. 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, Indiana Governor, Indiana Auditor of State, Indiana Treasurer of State, others within the entity, 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.

STATE BOARD OF ACCOUNTS

February 17, 2012, except for Transportation Investment Generating Economic Recovery (TIGER), Temporary Assistance to Needy Families (TANF) Cluster, Medicaid Cluster, Childrens' Health Insurance Program (CHIP), Justice Assistance Grant (JAG) Program Cluster, Child Support Enforcement, Adoption Assistance, Highway Planning and Construction Cluster, and Prevention & Treatment of Substance Abuse Block Grant (SAPT) as to which the date is October 22, 2012.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF AGRICULTURE					
Supplemental Nutrition Assistance Program (SNAP) Cluster					
Supplemental Nutrition Assistance Program (SNAP)	10.551				
Food Stamp Assistance		500		$ 1,373,152,896	$ -
SNAP EBT - STATE EXCHANGE - 20		500	2010IS802642	625	-
SNAP EBT - STATE EXCHANGE - 20		500	2011IS802642	850	-
Total for Program				1,373,154,371	-
State Administrative Matching Grants for SNAP	10.561				
FOOD STAMPS IMPACT 2007IE25184		500	2007IE251842	(15,889)	-
08IS251942 FOOD STAMPS IMPACT		500	2008IS251942	1,000	-
SNAP FOODS STAMPS IMPACT		500	2009IQ650342	175,436	-
SNAP SAE / FOODS STAMPS IMPACT		500	2009IS251442	(763,240)	-
SNAP E&T/FOOD STAMP IMPACT		500	2009IS251942	(85,191)	-
SNAP/E&T/Food Stamp Impact		500	2009IS252042	(976)	-
FSP 100% E &T ADMIN		500	20108E251842	4,611	-
SNAP State Exchange		500	2010IS803642	17,165	-
SNAP - SAE - 2011 - 2011IS2514		500	21N400099	23,666,189	-
SNAP - SAE - 2010 - 2010IS2514		500	2IN400099	22,386,458	-
SNAP E&T 50% OPER.		500	2IN400099	1,363,854	-
SNAP E&T 50% PART. REIMB		500	2IN400099	3,304	-
SNAP 100% E&T - FY2010		500	2IN420126	80,181	-
SNAP 100% E&T - FY11		500	2IN420126	316,985	-
SNAP 2yr Nutrition Education		500	2IN43009	2,202,096	2,202,096
FY11 SNAP State Exchange		500		4,968	-
SNAP E&T 50% PART. REIMB -FY1		500		25	-
SNAP E&T 50% OPER. FY11 - 2011		500		1,321,787	-
Total for Program				50,678,762	2,202,096
Total for Cluster				1,423,833,133	2,202,096
Child Nutrition Cluster					
School Breakfast Program (SBP)	10.553				
School Breakfast Program 2007-		718	2008IN109942	7,917	-
Breakfast Program 2009-2010		550	2IN300059	5,845	-
Breakfast Program 2009-2010		560	2IN300059	22,653	-
Breakfast Program 2009-2010		615	2IN300059	206,238	-
Breakfast Program 2009-2010		718	2IN300059	12,706,829	12,706,829
School Breakfast Program		718	2IN300059	(10)	(10)
Breakfast Program 2010-2011		550	2IN300260	43,084	-
Breakfast Program 2010-2011		560	2IN300260	4	-
Breakfast Program 2010-2011		615	2IN300260	108,000	-
Breakfast Program 2010-2011		718	2IN300260	44,828,714	44,828,714
Total for Program				57,929,274	57,535,533
National School Lunch Program (NSLP)	10.555				
School Food Program 2007-2008		718	2008IN109942	32,089	32,089
School Food Program 2009-2010		550	2IN300059	31,145	-
School Food Program 2009-2010		560	2IN300059	152,804	-
School Food Program 2009-2010		615	2IN300059	286,257	-
National School Lunch Program		718	2IN300059	19,637	19,637
School Food Program 2009-2010		718	2IN300059	50,374,773	49,558,874
School Food Program 2010-2011		550	2IN300260	55,528	-
School Food Program 2010-2011		560	2IN300260	20,287	-
School Food Program 2010-2011		615	2IN300260	311,700	-
School Food Program 2010-2011		718	2IN300260	167,584,176	-
Food Commodities		718	N/A	39,391,475	39,391,475
Total for Program				258,259,871	89,002,075
Special Milk Program for Children (SMP)	10.556				
Special Milk Program 2007-2008		718	2008IN109942	51	51
Special Milk Program 2009-2010		718	2IN300059	84,870	84,870
Special Milk Program 2010-2011		718	2IN300260	106,643	106,643
Total for Program				191,565	191,564
Summer Food Service Program for Children (SFSPC)	10.559				
Summer Food Service Program		718	2IN300059	6,985,992	6,984,430
Summer Feeding Program 2010-20		718	2IN300260	383,678	382,231
Food Commodities			N/A	41,474	41,474
Total for Program				7,411,144	7,408,135
Total for Cluster				323,791,854	154,137,307
Emergency Food Assistance Cluster					
Emergency Food Assistance Program (Admin Costs)	10.568				
ARRA - TEFAP - ARRA		400	2IN840001	846,757	-
SNAP TEFAP		400	2IN400221	86,191	-
2009 The Emergency Food Assistance		400		1,099,191	-
Non Cash TEFAP		400		5,068,864	5,068,864
Total for Program/Cluster				7,101,002	5,068,864

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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF AGRICULTURE (continued)					
Plant and Animal Disease, Pest Control, and Animal Care	10.025				
Noxious Weed-Giant Hogweed		300	08-8218-0302-CA	(8,429)	-
Giant Hogweed Survey Activities		300	09-8218-0302-CA	7,436	-
CAPS Grant - Entomology		300	09-8218-0332-CA	(1,486)	-
2009 Emerald Ash Borer		300	09-8218-0431-CA	23,066	-
Chronic Wasting Disease		300	09-9618-0129CA	4,095	-
2009 VHS		351	09-9618-0880CA	24,155	-
Giant Hogweed Survey Activities		300	10-8218-0302-CA	4,313	-
CAPS Grant - Entomology		300	10-8218-0332-CA	134,330	-
Emerald Ash Borer Survey		300	10-8218-0431-CA	166,506	-
FY10 Scrapie		351	10-9618-00139	48,115	-
Chronic Wasting Disease (CWD)		300	10-9618-0129CA	44,343	-
FY10 Johne's Disease Program		351	10-9618-0159CA	2,139	-
2010 VHS		351	10-9618-0880CA	21,635	-
FY10 Tuberculosis		351	10-9618-1039CA	74,258	-
Traceability Cooperative		351	10-9618-1053CA	81,123	-
2011 Giant Hogweed Surveys		300	11-8218-0302-CA	1,813	-
Scrapie Surveillance		351		83	-
Total for Program				627,496	-
Wetlands Reserve Program	10.072				
Goose Pond Fiber Optic Cable		300	66-52KY-6-6726	186,338	-
Market Protection and Promotion	10.163				
National Organic Certification		036	12-25-A-4150-CA	15,824	15,824
National Organic Certification		036	12-25-A-5169	13,378	13,378
National Organic Certification		036	12-25-A-5308	12,846	12,846
Total for Program				42,048	42,048
Specialty Crop Block Grant	10.170				
2008 Specialty Crop Block Grant		036	12-25-B-0787	123,936	123,936
Specialty Crop Block Grant		036	12-25-B-0846	61,782	61,782
Specialty Crop Block Grant		036	12-25-B-0922	67,107	67,107
Specialty Corp Block Grant		036	12-25-B-1067	155,232	155,232
Total for Program				408,057	408,057
Cooperative Agreements with States for Intrastate Meat & Poultry Inspection					
FY10 Cooperative Meat & Poultry	10.475	351	12-37-A-311	396,051	-
FY11 Cooperative Meat & Poultry		351	Indiana FY2011 Allocation	1,020,408	-
2011 Public Health Data Community		351	PHDCIS-11	1,579	-
Total for Program				1,418,038	-
Food Safety Cooperative Agreements					
Food Emergency Response Network	10.479	400	FSIS-C-45-2005/04 00	64,618	-
Special Supplemental Nutrition Program for Women, Infants and Children	10.557				
WIC Contingency Food		400	2IN700002	77,634,331	-
Women, Infant and Children		400	2IN700012	46,058,306	-
WIC Breastfeeding Peer Counsel		400	2IN700012	558,971	-
WIC Senior Farmers Market Program		400	2IN810001	921	-
WIC Peer Counseling Program		400	MWSSNP2-5:NE4-2-1	81,618	-
Total for Program				124,334,146	-
Child and Adult Care Food Program	10.558				
Child Care Food Program 2007-2008		718	2008IN109942	289	289
Child Care Food Program 2009-2010		718	2IN300059	15,014,705	14,762,767
Childcare Food Program 2010-2011		718	2IN300260	30,386,335	30,243,702
Total for Program				45,401,329	45,006,758
State Administrative Expenses for Child Nutrition	10.560				
Child Nutrition SAE 2009-2010		718	2IN300059	2,043,493	-
Child Nutrition SAE Program		718	2IN300260	57,067	-
CN SAE 2010-2011		718	2IN300260	167,034	-
Total for Program				2,267,595	-
Commodity Supplemental Food Program	10.565				
2009, 2010, 2011, 2012 Commodities		400		317,656	-
WIC Farmers' Market Nutrition Program	10.572				
CAP FM ADMIN EXPENSE		400		240,121	-
Team Nutrition Grants	10.574				
CNP Team Nutrition		718	8IN300001	193,294	193,294
CNP Team Nutrition		718	8IN300001	47,635	47,635
Total for Program				240,929	240,929
Senior Farmers' Market Nutrition Program	10.576				
Commodity Assistance Program		400	2010IY830342	59,733	-

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

STATE OF INDIANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
July 1, 2010 to June 30, 2011
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF AGRICULTURE (continued)					
Child Nutrition Discretionary Grants	10.579				
CN School Food Equip Grant		718		418,065	418,065
ARRA - Child Nutrition Recovery Act		700	2IN340260	30,338	30,338
Total for Program				448,403	448,403
Fresh Fruit and Vegetable Program	10.582				
Fresh Fruit & Vegetable Prog 2010		718	2IN310059	537,132	391,870
Fresh Fruit & Vegetable Program 2011		718	2IN310059	1,423,344	1,423,344
Total for Program				1,960,476	1,815,214
Forestry Research	10.652				
Forestry Inventory and Analysis		300	08-CA-11242305-011	118,250	-
Cooperative Forestry Assistance	10.664				
2006 Consolidated Payment Grant		300	06-DG-11244225-030	59,750	-
08 Forestry Assistance		300	08-DG-11420004-208	147,701	-
Volunteer Fire Assist-Core		300	08-DG-11420004-220	19,096	-
6000 13060		300	09-DG-11420004-155	5,829	-
2009 Consolidated Forestry Grant		300	09-DG-11420004-211	238,645	-
Trapping & Treatment Program		300	10/1/2004	81,709	-
Cooperative Forestry Assistance		300	10-DG-11420004-193	227,802	-
Volunteer Fire Assistance		300	10-DG-11420004-194	304,062	-
		300	10-DG-11420004-195	29,216	-
Trapping & Treatment Program		300	11/1/2004	63,960	-
NASF state assessment grant		300	IN-009	3,558	-
Total for Program				1,181,328	-
Forest Legacy Program	10.676				
2006 Legacy Acquisition		300	06-DG-11244225-031	9,819	-
2007 Forest Legacy Acquisition		300	07-DG-11420004-200	54,200	-
2007 Forest Legacy Administrat		300	07-DG-11420004-326	11,807	-
3001000094		300	Legacy Adm-2006	614	-
Total for Program				76,441	-
Forest Land Enhancement Program	10.677				
FLEP		300	06-DG-11244225-230	2,266	-
					-
Forest Stewardship Program	10.678				
Forest Stewardship (SPST)		300	09-DG-11420004-209	77,704	
					-
Forest Health Protection	10.680				
Restoration of At Risk Trees		300	09-DG-11420004-210	25,499	-
EAB Delimitation Survey		300	09-DG-11420004-343	21,164	-
Targeted Zip Code Survey		300	10-DG-11420004-300	1,314	-
Slowing Ash Mortality		300	10-DG-11420004-356	4,805	-
Total for Program				52,782	-
Wood Education and Resource Center	10.681				
Wood Education Resource Center		300	10-DG-11420004-158	1,430	-
Wildlife Habitat Incentive Program	10.914				
Pest Management		300	WHIP7252KY08IBH	52,315	-
Total U.S. Department of Agriculture				1,934,305,488	209,369,674
U.S. DEPARTMENT OF COMMERCE					
Economic Development Cluster					
Economic Adjustment Assistance	11.307				
Economic Adjustment Strategy		038	06-69-05330	63,088	34,585
Economic Adjustment Assistance		038	06-69-05610	43,066	-
Total for Program/Cluster				106,154	34,585
Coastal Zone Management Administration Awards	11.419				
Coastal Zone Management		300	NA07NOS4190067	(87,171)	-
Coastal Zone Management		300	NA08NOS4190420	4,489	-
Indiana Lake Michigan Coastal		300	NA09NOS4190079	195,085	-
Coastal Zone Management Admin		300	NA10NOS4190187	220,553	-
Total for Program				332,956	-
Habitat Conservation - Dunes Creek Daylighting Final Phase	11.463				
ARRA - Dunes Creek Daylighting		300	NA09NMF4630289	247,454	-
Public Safety Interoperable Communications Grant Program	11.555				
Public Safety Interoperable		286	2007-GS-H7-0041	75,444	-
Public Safety Interoperable		385	2007-GS-H7-0041	1,048,341	13,070
Total for Program				1,123,784	13,070

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF COMMERCE (continued)					
State Broadband Data and Development Grant Program -- ARRA	11.558				
ARRA - SBDD-Indiana Office of Technology		067	18-5-m09003	701,247	-
Minority Business Enterprise Center	11.800				
Minority Business Enterprise		061	05-10-07005-01	167,302	-
Total U.S. Department of Commerce				2,678,897	47,655
U.S. DEPARTMENT OF DEFENSE					
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113				
Newport Army Chemical Demilitarization		495	DOD MOU *	5,372	-
Newport Chemical Non-Stockpile		495	DOD MOU *	68,769	-
Newport Stockpile Environmental		495	DOD MOU *	(97)	-
US Army Corps of Engineers		495	W912DY-08-2-0118	44,765	-
Department of Defense		495	W912DY-10-2-0216	116,275	-
Total for Program				235,084	-
Military Construction, National Guard	12.400				
Lafayette Armed Forces Reserve		110	W912L9-07-2-2001	4,537,848	-
Greenwood-Franklin Armed Force		110	W912L9-08-2-2001	16,472,843	-
Operational Readiness Training		110	W912L9-10-2-2002	1,339,770	-
Operational Readiness Training		110	W912L9-10-2-2003	1,813,508	-
Department of Public Works (DPW)		110	W912l9-09-2-2001	2,596,387	-
Total for Program				26,760,357	-
National Guard Military Operations and Maintenance (O&M) Projects	12.401				
ARRA - Indiana Sustainment		110	W912L9-09-2-9041	262,146	-
ARRA - Indiana Sustainment		110	W912L9-09-2-9056	5,574,156	-
APP10 10 ARNG ATPM		110	W912L9-10-2-1010	25,853	-
W912L9-11-2-1001		110	W912L9-11-2-1001	12,576,192	-
W912L9-11-2-1002		110	W912L9-11-2-1002	445,534	-
W912L9-11-2-1003		110	W912L9-11-2-1003	1,461,309	-
W912L9-11-2-1004		110	W912L9-11-2-1004	28,375	-
W912L9-11-2-1005		110	W912L9-11-2-1005	2,258,381	-
W912L9-11-2-1007		110	W912L9-11-2-1007	780,265	-
W912L9-11-2-1010		110	W912L9-11-2-1010	42,269	-
W912L9-11-2-1021		110	W912L9-11-2-1021	496,577	-
W912L9-11-2-1021T		110	W912L9-11-2-1021T	468,809	-
W912L9-11-2-1023F		110	W912L9-11-2-1023F	480,741	-
W912L9-11-2-1023T		110	W912L9-11-2-1023T	414,893	-
W912L9-11-2-1024F		110	W912L9-11-2-1024F	744,060	-
USPFO for IN		110	W912L9-11-2-1040	33,222	-
		110	W912L908210010	3,110	-
APP1 09 ARNG RPOM		110	W912L909210010	483,964	-
APP2 09 ARNG ENV		110	W912L909210020	5,469	-
APP5 09 ARNG COMMO		110	W912L909210050	6,243	-
APP7 09 ARNG RTLP		110	W912L909210070	87,913	-
APP10 09 ARNG ATPM		110	W912L909210100	566	-
APP1 10 ARNG RPOM		110	W912L91021001	9,332,812	-
APP2 10 ARNG ENV		110	W912L91021002	247,097	-
APP3 10 ARNG SEC		110	W912L91021003	751,239	-
APP4 10 ARNG ESSIO&M		110	W912L91021004	53,303	-
APP5 10 C4IM		110	W912L91021005	1,317,594	-
APP7 10 ARNG SRP		110	W912L91021007	1,116,332	-
APP21 10 ANG BAER FOMA		110	W912L91021021F	199,533	-
APP21 10 ANG HULMAN FOMA		110	W912L91021021T	197,061	-
APP23 10 ANG BAER SEC		110	W912L91021023F	222,897	-
APP23 10 ANG HULMAN SEC		110	W912L91021023T	164,119	-
APP24 10 ANG BAER FIRE		110	W912L91021024F	229,413	-
Total for Program				40,511,448	-
National Guard ChalleNGe Program	12.404				
APP3 10 HYCA TRVL		110		15,545	-
Hoosier Youth Challenge		110	W912L9-10-2-4000	2,168,437	-
USFPO fir IN		110	W912L9-11-2-4003	5,288	-
MCA 09 HYCA		110	W912L909240000	1,865	-
Total for Program				2,191,135	-
Total U.S. Department of Defense				69,698,023	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
CDBG - State Administered CDBG Cluster					
Community Development Block Grant/State's Program	14.228				
2000 CDBG Grant		038	B-00-DC-180001	4,778	4,778
2001 CDBG Grant		038	B-01-DC-180001	2,085	2,085
2002 CDBG Grant		038	B-02-DC-180001	8,713	8,713
2003 CDBG Grant		038	B-03-DC-180001	30,925	30,925
2005 CDBG Grant		038	B-05-DC-180001	49,603	49,603
2006 Community Development		038	B-06-DC-18-0001	1,614,476	1,576,483
2008 Community Development		038	B-07-DC-18-0001	1,676,631	1,676,631
2008 Community Development		038	B-08-DC-18-0001	2,609,017	2,424,428
Supplemental CDBG Disaster Grant		038	B-08-DF-18-0001	11,794,431	11,648,940

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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (continued)					
CDBG - State Administered CDBG Cluster (continued)					
Community Development Block Grant/State's Program (continued)					
Disaster Recovery Assistance Grant		038	B-08-DI-18-0001	85,752,839	85,463,304
2009 Community Development		038	B-09-DC-18-0001	20,116,296	19,813,228
2010 Community Development		038	B-10-DC-18-0001	4,746,430	4,746,430
1999 CDBG Grant		038	B-99-DC-180001	3,500	3,500
Total for Program				128,409,722	127,449,047
ARRA - Community Development Block Grant/State's Program	14.255				
ARRA - CDBG - Title I Assistance		038	B-09-DY-18-0001	6,036,935	6,008,821
Total for Cluster				134,446,657	133,457,868
Fair Housing Assistance Program - State and Local	14.401				
HUD Grant - 00258		258		1,004	-
Fair Housing Assistance Program		258	6FPSLP0004	41,435	-
HUD-Fair Housing Assistance		258	FF205D045008	1,962	-
HUD-Fair Housing Assistance		258	FF205K055008	3,140	-
Fair Housing Assistance Program		258	FF205K095008	11,126	-
HUD-Fair Housing Assistance		258	IFF205K075008	8,377	-
Total for Program				67,044	-
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900				
Lead Based Paint Hazard Control		400	INLHB0450-09	328,643	-
Lead and Healthy Homes		400	INLHB0450-09	30,846	-
Total for Program				359,490	-
Total U.S. Department of Housing and Urban Development				134,873,190	133,457,868
U.S. DEPARTMENT OF INTERIOR					
Fish and Wildlife Cluster					
Sport Fish Restoration Program	15.605				
Statewide Fisheries Management		300	F-10-D-43	959,597	-
Sport Fish Restoration		300	F-21-D-20	746,890	-
Statewide Hatchery Operations		300	F-21-D-21	717,296	-
Indiana Aquatic Resources Education		300	F-24-E-14	125,872	-
Lake Michigan Yellow Perch Dynamics		300	F-27-R-2	106,587	-
Federal Aid Coordination		300	FW-14-C-57	79,003	-
Statewide Public Access		300	FW-21-D-43	493,147	-
Indian Public Access Program		300	FW-21-D-44	397,055	-
Technical Assistance		300	FW-26-T-20	181,139	-
Total for Program				3,806,585	-
Wildlife Restoration	15.611				
National CP33 Monitoring Program		300	080300-331528-05	12,500	-
Fish and Wildlife Area Development		300	FW-22-D-44	1,318,554	-
Fish and Wildlife Area Development		300	FW-22-D43	1,636,215	-
Private Lands Technical Assist		300	W-34-T-2	612,925	-
Status of Bovine Tuberculosis		300	W-35-R-2	28,125	-
IN Wildlife Surveys and Monitoring		300	W-36-R-1	247,322	-
Wildlife Restoration Activities		300	W-37-D-1	85,362	-
Wildlife Restoration Activities		300	W-39-HM-1	118,998	-
Herre (Pheasants Forever) Tracking		300	W-42-L-1	382,875	-
IN Wildlife Surveys and Monitoring		300	w-38-r-1	76,789	-
Total for Program				4,519,665	-
Total for Cluster				8,326,250	-
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250				
State Regulatory Assistance		300	S10AP15796	1,286,133	-
FY11 Indiana A&E Grant		300		886,833	-
Total for Program				2,172,966	-
Abandoned Mine Land Reclamation (AMLR) Program	15.252				
AML		300		866,915	-
Indiana Abandoned Mine Land		300	S08AP12632	2,157,527	-
Indiana Abandoned Mine Land		300	S09AF15163	1,468,939	-
FY 2010 Indiana AML Grant		300	S10AF16264	7,892,334	-
FY 2010 Indiana AML Grant		800	S10AF16264	79,906	-
Total for Program				12,465,620	-
Fish and Wildlife Management Assistance	15.608				
Great Lakes Restoration Initiative		300	30181AG075	460,092	-
Electrical Upgrade at Mixsawba		300	F11AP00055	6,325	-
Total for Program				466,417	-
Cooperative Endangered Species Conservation Fund	15.615				
Non-6000 Funds		300	E-1-15	22,514	-
NiSource Gas Transmission Line		300	E-9-HP-1	1,542,376	-
Total for Program				1,564,890	-

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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF INTERIOR (continued)					
Clean Vessel Act	15.616				
Clean Vessel Pump Out CV-1-10		495	CV-1-10	43,473	-
Clean Vessel Pump Out CV-1-7		495	CV-1-7	157	-
Clean Vessel Pump Out grant		495	V-1-11	1,228	-
Clean Vessel Pump Out grant		495	V-1-12	54,378	-
Clean Vessel Act Pumpout Grant		495	V-1-13	31,433	-
Clean Vessel Act Pumpout Grant		495	V-1-14 Clean Vessel Pumpt	6,510	-
Clean Vessel Pump Out Grant		495	V-1-9	8,072	-
Tier 1 Y-4-B-1		495	Y-4-B-1	16,286	-
Tier 1 Rising Sun & Inland Y-5		495	Y-5-B-1	6,979	-
Total for Program				168,516	-
Firearm and Bow Hunter Education and Safety Program	15.626				
Wells County Conservation Club		300	W-32-S-16	7,858	-
Indiana Hunter Education Program		300	W-33-E-1	180,216	-
Hoosier Outdoor Heritage		300	W-40-E-1	25,005	-
Total for Program				213,079	-
Landowner Incentive Program	15.633				
Tier 1 Land Owner Incentive Program		300	I-4-T-1	69,543	-
State Wildlife Grants	15.634				
Wildlife Diversity Survey & Monitoring		300	T-3-5	57,616	-
Wildlife Diversity Survey and Monitoring		300	T-3-6	81,390	-
Recovery of Allegheny Woodrats		300	T-7-R-10	100,588	-
Recovery Actions to Secure IN		300	T-7-R-11	43,111	-
Role of Wild Mammals and Birds		300	T-7-R-12	2,211	-
Assessment of Eastern Hellbend		300	T-7-R-3	112,129	-
Assessment to Gene flow		300	T-7-R-4	139,160	-
Red dace in Mill Creek Wabash		300	T-7-R-6	15,832	-
Local & Landscape Habitat Association		300	T-7-R-7	99,448	-
Timber Rattlesnake Investigation		300	T-7-R-8	49,069	-
Box Turtle Investigations		300	T-7-R-9	162,429	-
State Wildlife Grant Project Coordination		300	T-9-C-4	38,157	-
State Wildlife Grant Project Coordination		300	T-9-C-5	112,973	-
Total for Program				1,014,113	-
Research Grants					
Landscape Conservation Cooperative	15.650	300	30181AG088	1,090	-
National Outreach and Communication Program					
Provided by Recreational Boating	15.653	300	RBFF-07-G-085	25,000	-
Endangered Species Conservation Recovery Implementation Funds					
Endangered Species Reserch-Ind	15.657	300	S-1-TW-1	20,386	-
Historic Preservation Fund Grants-In-Aid	15.904				
Annual Historic Preservation		300	18-09-21820	358,989	-
DHPA 2010 Federal Award		300	18-10-21921	701,022	-
DHPA 2011 Federal Award		300	18-11-31921	1,675	-
Total for Program				1,061,686	-
Outdoor Recreation - Acquisition, Development and Planning	15.916				
Linza Graham Park		300	18-00560	200,000	-
Central Park		300	18-00562.1	158,026	-
Argo Community Park Expansion		300	18-00565	58,658	-
Indiana Statewide Outdoor Recreation		300	18-00566	31,159	-
Pine Knob Park Phase 2		300	18-00568	29,842	-
Fowler Park Pool Replacement		300	18-00569	267,474	-
Kreager Park Boundless		300	18-00570	200,000	-
3001000205		300	18-0552	20,392	-
Total for Program				965,551	-
Save America's Treasures					
Preserve America Mounds	15.929	300	18-10-AP-5010	4,385	-
Total U.S. Department of Interior				28,539,491	-
U.S. DEPARTMENT OF JUSTICE					
JAG Program Cluster					
Edward Byrne Memorial Justice Assistance Grant Program	16.738				
2006 Edward Byrne Memorial		032	2006-DJ-BX-0051	6,694	6,694
FY08 Justice Assistance Grant		022	2008-DJ-BX-0018	15,997	-
FY08 Justice Assistance Grant		032	2008-DJ-BX-0018	444,715	268,933
FY08 Justice Assistance Grant		615	2008-DJ-BX-0018	29,539	-
2008 Edward Byrne Memorial Justice Grant		032	2008-DJ-BX-0752	84,124	66,557
2008 Edward Byrne Memorial Justice Grant		022	2009-DJ-BX-0049	299,938	-
2008 Edward Byrne Memorial Justice Grant		026	2009-DJ-BX-0049	68,457	-
2008 Edward Byrne Memorial Justice Grant		032	2009-DJ-BX-0049	2,596,212	2,452,281
2008 Edward Byrne Memorial Justice Grant		100	2009-DJ-BX-0049	511,267	-
2008 Edward Byrne Memorial Justice Grant		610	2009-DJ-BX-0049	5,403	-
2008 Edward Byrne Memorial Justice Grant		615	2009-DJ-BX-0049	314,769	-
FY10 Justice Assistance Grant		032	2010-DJ-BX-0254	399,599	399,384

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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF JUSTICE (continued)					
JAG Program Cluster (continued)					
Edward Byrne Memorial Justice Assistance Grant Program (continued)					
FY10 Justice Assistance Grant		100	2010-DJ-BX-0254	658,946	-
FY10 Justice Assistance Grant		610	2010-DJ-BX-0254	22,042	-
FY10 Justice Assistance Grant		615	2010-DJ-BX-0254	187,699	-
Total for Program				5,645,401	3,193,849
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.803				
ARRA - FY 2009 Recovery Act		022	2009-SU-B9-0047	340,398	-
ARRA - FY 2009 Recovery Act		032	2009-SU-B9-0047	3,291,659	3,159,163
ARRA - FY 2009 Recovery Act		100	2009-SU-B9-0047	1,594,436	-
ARRA - FY 2009 Recovery Act		286	2009-SU-B9-0047	1,507,479	-
Total for Program				6,733,973	3,159,163
Total for Cluster				12,379,374	6,353,012
Sexual Assault Services Formula Program	16.017				
IN Sexual Assault Services		532	2009-KF-AX-0020	157,616	151,466
Indiana Sexual Assault Svcs		032	2010-KF-AX-0016	52	-
Total for Program				157,668	151,466
Prisoner ReEntry Initiative Demonstration (Offender Reentry)	16.202				
BJA FY 07 Prisoner Reentry		615	2007-RE-CX-0018	168,578	-
BJA FY 07 Prisoner Reentry		720	2007-RE-CX-0018	28,841	-
Collaborative Reentry Project		615	2008-RE-CX-0014	205,849	-
Total for Program				403,267	-
Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)	16.203				
IDOC eLearning CASOM Project		615	2007-WP-BX-0026	373	-
Indiana Comprehensive Sex Offenders		615	2008-DD-BX-0056	300,000	-
Indiana Sex Offender Management		615	2008-WP-BX-K011	59,896	-
IN CASOM Prevention Education		615	2010-WP-BX-0013	4,329	-
Total for Program				364,597	-
Juvenile Accountability Block Grants	16.523				
2007 Juvenile Accountability Block		032	2007-JB-FX-0025	82,786	82,786
Juvenile Accountability Block		032	2008-JB-FX-0044	529,525	529,482
Juvenile Accountability Block		615	2008-JB-FX-0044	60,635	-
FY09 Juvenile Accountability		032	2009-JB-FX-0066	69,296	47,178
FY10 Juvenile Accountability		032	2010-JB-FX-0086	19,453	
Total for Program				761,695	659,446
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540				
2007-OJJDP Title-II-Formula Grant		032	2007-JF-FX-0008	8,724	7,591
08 OJJDP T-II Formula Grants		032	2008-JF-FX-0025	16,097	15,837
OJJDP FY 09 Title Formula Grant		032	2009-JF-FX-0022	828,728	707,117
OJJDP FY 09 Title Formula Grant		615	2009-JF-FX-0022	31,328	-
Title II Formula Grants Program		032	2010-JF-FX-0043	229,910	219,910
Title II Formula Grants Program		615	2010-JF-FX-0043	23,644	-
Title II Formula Grants Program		719	2010-JF-FX-0043	15,064	-
Total for Program				1,153,495	950,455
Missing Children's Assistance	16.543				
Internet Crimes against Children		100	2008-MC-CX-K006	365,788	-
Court Appointed Special Advocates	16.756				
National CASA Association		022	IN10911-09-0709-S	9,902	-
National CASA Association		022	IN10911-09-1009-C	12,500	-
National CASA Association		022	IN10911-10-0710-S	46,889	-
Total for Program				69,290	-
Title V - Delinquency Prevention Program	16.548				
FY 2007 Bryne Justice Assistance		022	2007-DJ-BX-0081	21,288	-
FY 2007 Bryne Justice Assistance		026	2007-DJ-BX-0081	49,047	-
FY 2007 Bryne Justice Assistance		032	2007-DJ-BX-0081	45,361	45,361
FY 2007 Bryne Justice Assistance		100	2007-DJ-BX-0081	25,547	-
FY 2007 Bryne Justice Assistance		615	2007-DJ-BX-0081	14,841	-
Total for Program				156,085	45,361
State Justice Statistics Program for Statistical Analysis Centers	16.550				
Indiana State Justice Statistics		032	2009-BJ-CX-K052	822	822
National Criminal History Improvement Program	16.554				
08 National Criminal History		022	2008-RU-BX-K012	170,084	-
2009 IN National Criminal History		022	2009-RU-BX-K030	74,375	-
Total for Program				244,459	-

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF JUSTICE (continued)					
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560				
2008 Paul Coverdell Forensic S		032	2008-CD-BX-0031	37,502	37,502
NIJ FY 09 Coverdell Forensic S		032	2009-CD-BX-0075	50,676	50,676
NIJ FY 09 Coverdell Forensic S		100	2009-CD-BX-0075	123,727	-
Total for Program				211,905	88,178
Crime Victim Assistance	16.575				
VA-B4-2006		032	2006-VA-GX-0039	(138,910)	(138,910)
2007 VOCA Assistance Grant Program		022	2007-VA-GX-0056	91,471	-
2007 VOCA Assistance Grant Program		032	2007-VA-GX-0056	48,631	48,631
OVC FY2008 VOCA Victim Assistance		022	2008-VA-GX-0031	23,667	-
OVC FY2008 VOCA Victim Assistance		032	2008-VA-GX-0031	796,472	601,555
OVC FY2008 VOCA Victim Assistance		615	2008-VA-GX-0031	9,456	-
FY2009 VOCA Victim Assistance		032	2009-VA-GX-0049	2,354,263	2,293,212
FY2010 VOCA Victim Assistance		032	2010-VA-GX-0049	4,859,541	4,858,604
FY2010 VOCA Victim Assistance		046	2010-VA-GX-0049	52,209	-
Total for Program				8,096,800	7,663,092
Crime Victim Compensation	16.576				
2007-VOCA-Crime-Victim-Compensation		032	2007-VC-GX-0048	120,035	120,035
OVC FY 2008 VOCA Victim Compensation		032	2008-VC-GX-0023	16,685	16,685
FY 2009 VOCA Victim Compensation		032	2009-VC-GX-0046	1,908,054	1,800,325
Total for Program				2,044,774	1,937,045
Edward Byrne Memorial State and Local Law Enforcement Assistance	16.580				
Byrne Grant - Outreach		046	2010-DG-BX-0131	202,623	-
Drug Court Discretionary Grant Program	16.585				
Statewide Program		022	2010-DC-BX-0123	59,243	-
Understanding Domestic Violence		022	2010-WC-AX-0002	893	-
Total for Program				60,136	-
Violence Against Women Formula Grant	16.588				
ARRA - STOP Recovery Act Formula		032	2009-EF-S6-0020	1,354,276	1,325,288
Indiana's FY 2008 STOP Violence		032	2008-WF-AX-0011	72,336	46,357
IN 2009 STOP Violence Against Women		032	2009-WF-AX-0006	754,941	635,155
FY10 STOP Violence Against Women		032	2010-WF-AX-0022	1,845,707	1,842,218
Total for Program				4,027,260	3,849,018
Residential Substance Abuse Treatment for State Prisoners	16.593				
2006-Res.-Sub.-Abuse-Treatment		032	2006-RT-BX-0053	14,500	14,500
2007-Res.-Sub.-Abuse-Treatment		032	2007-RT-BX-0054	(1,622)	(1,622)
2007-Res.-Sub.-Abuse-Treatment		615	2007-RT-BX-0054	2,704	-
2009 Indiana Residential Substance Abuse Treatment		032	2009-RT-BX-0052	94,992	94,992
2010 Indiana Residential Substance Abuse Treatment		032	2010-RT-BX-0011	36,084	36,084
2011 Indiana Residential Substance Abuse Treatment		615	2010-RT-BX-0011	106,250	-
Total for Program				252,908	143,954
Corrections Training and Staff Development	16.601				
NIC Cooperative Agreement Award		515	10K124GKD6	8,257	-
NIC Cooperative Agreement Award		615	10M17GKF4	46,366	-
Total for Program				54,623	-
State Criminal Alien Assistance Program	16.606				
State Criminal Alien Assistance		615	2008-AP-BX-0204	1,240,533	-
SCAAP GRANT		026	2008-AP-BX-1581	60,000	-
SCAAP GRANT		615	2008-AP-BX-1581	433,256	-
FY09 SCAAP		615	2009-G7115-IN-AP	245,029	-
Total for Program				1,978,818	
Community Prosecution and Project Safe Neighborhood	16.609				
2007 PSN Northern District		032	2007-GP-CX-0010	44,823	44,823
2007 PSN Southern District		032	2007-GP-CX-0062	16,732	16,732
Project Safe Neighborhood		032	2008-GP-CX-0049	62,189	62,189
FY08 Project Safe Neighborhood		032	2008-GP-CX-0050	49,044	49,044
FY 2009 Project Safe Neighborhood		032	2009-GP-BX-0032	88,830	81,000
FY 2009 Project Safe Neighborhood		032	2009-GP-BX-0033	19,672	6,589
FY 2010 Project Safe Neighborhood		032	2010-GP-BX-0009	45,000	45,000
FY 2010 Project Safe Neighborhood		032	2010-GP-BX-0010	4,116	3,851
Total for Program				330,406	309,228
Public Safety Partnership and Community Policing Grants	16.710				
Methamphetamine Initiative		100	2007CKWX0298	4,705	-
2007-Community Policing		032	2007CKWXK017	103,329	94,263
Child Sexual Predator Program		100	2009CSWX0010	24,068	-
Total for Program				132,101	94,263

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

STATE OF INDIANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
July 1, 2010 to June 30, 2011
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF JUSTICE (continued)					
Enforcing Underage Drinking Laws Program	16.727				
2007-Enforce-Underag-Drink-Law		032	2007-AH-FX-0041	313,863	313,863
2008 Enforcing the Underage Drinking		032	2008-AH-FX-0032	(252,890)	(256,390)
2009 Enforcing the Underage Drinking		032	2009-AH-FX-0088	21,293	13,179
2009Enforcing the Underage Drinking		230	2009-AH-FX-0088	26,400	-
FY10 Enforcing Underage Drinking		032	2010-AH-FX-0109	1,450	-
Total for Program				110,115	70,652
Statewide Automated Victim Information Notification (SAVIN)	16.740				
IDOC 2007 SAVIN Application		615	2006-VN-CX-0015	(734,815)	-
SAVIN 2008 Enhancements		615	2008-VN-CX-0005	499,450	-
Indiana SAVIN 2009		022	2009-VN-CX-0015	48,157	-
Indiana SAVIN 2009		615	2009-VN-CX-0015	210,083	-
Total for Program				22,874	-
Forensic DNA Backlog Reduction Program	16.741				
FY08 Forensic DNA Backlog Reduction		100	2008-DN-BX-K085	94,625	-
DNA Backlog Reduction		100	2009-DN-BX-K119	463,599	-
FY11 Forensic DNA Backlog Reduction		100	2010-DN-BX-K150	267,808	-
Total for Program				826,032	-
Paul Coverdell Forensic Sciences Improvement Grant	16.742				
FY2010 Indiana Paul Coverdell		100	2010-CD-BX-0005	385,843	-
Anti Gang Initiative	16.744				
FY2007 Anti-Gang-Initiative		032	2007-PG-BX-0067	5,804	5,804
FY2007 Anti-Gang-Initiative		032	2007-PG-BX-0068	39,062	39,062
2008-PSN Comprehensive Anti-Gang		032	2008-PG-BX-0003	766,271	701,640
2008-PSN Comprehensive Anti-Gang		100	2008-PG-BX-0003	25,977	-
Total for Program				837,114	746,506
Capital Case Litigation	16.745				
Juvenile Justice & Mental Healing		615	2010-MO-BX-0047	5,334	-
Support for Adam Walsh Act Implementation Grant Program	16.750				
Indiana Comprehensive Sex Offender		615	2010-AW-BX-0048	72,101	-
Harold Rogers Prescription Drug Monitoring Program	16.754				
BJA FY 10 Harold Rogers Prescription Drug		250	2008-PM-BX-0014	204,142	
BJA FY 10 Harold Rogers Prescription Drug		250	2008-PM-BX-0016	112,408	
BJA FY 10 Harold Rogers Prescription Drug		250	2010-PM-BX-0013	96,300	-
Total for Program				412,850	-
Recovery Act - Internet Crimes against Children Task Force Program (ICAC)	16.800				
ARRA - OJJDP FY09 Recovery Act		100	2009-SN-B9-K051	383,378	-
ARRA - Recovery Act - State Victim Assistance Formula Grant Program	16.801				
ARRA - OVC FY09 VOCA Victim Assistance		032	2009-SG-B9-0094	347,818	312,180
ARRA - Recovery Act - State Victim Compensation Formula Grant Program	16.802				
ARRA - OVC FY 09 VOCA Victim Compensation		032	2009-SF-B9-0105	2,211	2,211
OVC FY 10 VOCA Victim Compensation		032	2010-VC-GX-0010	1,039,798	1,031,405
Total for Program				1,042,008	1,033,616
Second Chance Prisoner Reentry Initiative	16.812				
FY10 Second Chance Act Technology		515	2010-RV-BX-0004	116,473	-
Indiana Second Chance Juvenile		615	2010-CZ-BX-0062	125,998	-
Total for Program				242,471	-
Other Assistance - Drug Enforcement Administration					
Marijuana Eradication	16	100	2010-75	375,505	-
2011 Marijuana Eradication		100	2011-75	103,205	-
Total for Program				478,710	-
Total U.S. Department of Justice				38,615,542	24,408,294
U.S. DEPARTMENT OF LABOR					
Employment Service Cluster					
Employment Service	17.207				
ARRA - US DOL ESGRANT - ARRA		510	ES-17559-08-55-A-18	6,599,749	181,261
US DOL ESGRANT		510	ES-16212-07-55-A-18	(17,066)	-
US DOL ESGRANT		510	ES-17559-08-55-A-18	672,628	14,523
US DOL ESGRANT - Wagner-Peyser		510	ES-19201-09-55-A-18	6,671,831	2,013,921
US DOL ESGRANT - Wagner-Peyser		510	ES-20748-10-55-A-18	4,546,063	185,462
ES Grant for PY2005		510	ES148630555	(63)	-
Total for Program				18,473,141	2,395,167

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF LABOR (continued)					
Employment Service Cluster (continued)					
Disabled Veterans' Outreach Program (DVOP)	17.801				
US DOL/VETS' (DVOP)		510	DV-19650-10-55-5-18	493,881	58,037
US DOL/VETS' (DVOP)		510	DV-19650-10-55-5-18	993,420	112,294
US DOL VETS GRANT		510	E-9-5-8-5064	(29)	-
US DOL/VETS' (DVOP)		510	E-9-5-9-5064	3,185	-
Total for Program				1,490,457	170,331
Local Veterans Employment Representative Program (LVER)	17.804				
US DOL/VETS' (LVER)		510	DV-19650-10-55-5-18	633,816	72,450
FY11 LVER		510	DV-19650-10-55-5-18	1,208,882	111,547
US DOL VETS GRANT		510	E-9-5-8-5064	(154)	-
US DOL/VETS' (LVER)		510	E-9-5-9-5064	4,648	-
Total for Program				1,847,192	183,997
Total for Cluster				21,810,789	2,749,495
WIA Cluster					
WIA Adult Program	17.258				
ARRA - WIA Adult Activities-St		510	AA-17120-08-55-A-18	2,356,672	2,356,672
US DOL WIA GRANT		510	AA-16027-07-55-A-18	555,216	546,344
US DOL WIA Grant		510	AA-17120-08-55-A-18	1,444,089	1,097,761
WIA Youth/Adult/Dislocated Workers		510	AA-18639-09-55-A-18	2,605,384	2,218,683
WIA Adult Dislocated Workers		510		12,531,455	12,022,781
Total for Program				19,492,816	18,242,241
WIA Youth Activities	17.259				
ARRA - WIA Youth Formula Grant		510	AA-17120-08-55-A-18	9,197,600	9,197,600
US DOL WIA Grant		510	AA-17120-08-55-A-18	1,626,902	1,249,316
WIA YOUTH FORMULA GRANT		510	AA-18639-09-55-A-18	7,894,387	7,745,933
WIA YOUTH FORMULA GRANT		510	AA-20193-10-55-A-18	12,444,112	11,736,590
US DOL WIA GRANT		510		495,279	485,093
Total for Program				31,658,280	30,414,532
WIA Dislocated Workers	17.260				
ARRA - WIA Dislocated Workers		510	AA-17120-08-55-A-18	16,910,895	13,811,957
ARRA - Recovery Act -WIA DIS Worker		510	EM-20489-10-60-A-18	67,181	67,000
US DOL WIA GRANT		510	AA-16027-07-55-A-18	1,186,147	1,035,769
US DOL WIA Grant		510	AA-17120-08-55-A-18	2,572,594	2,092,086
WIA Youth/Adult/Dislocated Worker		510	AA-18639-09-55-A-18	4,197,047	4,829,396
NEG WIA F08 IN-06 IN Weather		510	EM-17482-08-60-A-18	269,955	524,653
NEG WIA F08-IN RV INDUSTRY LAY		510	EM-17760-08-60-A-18	1,351,219	1,345,000
Total for Program				26,555,038	23,705,861
Total for Cluster				77,706,134	72,362,634
Labor Force Statistics	17.002				
US DOL BLS GRANT		510		378,387	-
Labor Force Statistics		510	W9J18018	1,108,149	-
Total for Program				1,486,536	-
Compensation and Working Conditions	17.005				
BLS Occupational Safety and Health		225	OS-18527-10-75-J-18	32,074	-
Survey of Occupational Injuries		225	OS-20406-11-75-J-18	62,961	-
Total for Program				95,035	-
Unemployment Insurance	17.225				
ARRA - US DOL UI Administration		510	UI-19581-10-55-A-18	3,932,474	-
ARRA - Unemployment Benefits		510		79,380,312	-
Federal Reimbursement		510		1,474,798,324	-
State UI		510		830,306,253	-
US DOL UI BASE GRANT		510	UI-16745-08-55-A-18	(503)	-
US DOL/UI GRANT		510	UI-18019-09-55-A-18	1,593,095	-
US DOL UI Administration Grant		510	UI-19581-10-55-A-18	37,115,001	317,742
US DOL UI Administration Grant		510	UI-21098-11-55-A-18	26,085,040	988,842
Total for Program				2,453,209,996	1,306,584
Senior Community Service Employment Program	17.235				
ARRA - Title V - Older Workers		498	AD-18366-09-60-A-18	26,933	26,933
Older Americans-State Agencies		498	AD-18707-09-60-A-18	363,089	363,089
Older Americans-State Agencies		498	AD-19978-10-60-A-18	2,574,345	2,574,345
Older Workers Program		498	AD-19978-10-60-A-18	1,046,157	1,046,157
Total for Program				4,010,523	4,010,523
Trade Adjustment Assistance	17.245				
US DOL UI GRANT		510	TA-17850-09-55-A-18	3,371,942	-
Trade Adjustment Assistance		510	TA-19705-10-55-A-18	19,133,637	346,839
Trade Training Adm & program		510	TA-21219-11-55-A-18	13,631	-
Total for Program				22,519,210	346,839

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF LABOR (continued)					
WIA Pilots, Demonstration and Research Projects	17.261				
Career Advancement Account (CAA)		510	MI157410660	328,826	328,826
Work Incentive Grants	17.266				
Navigator Award		510	WI155600660	24,933	67,147
Incentive Grants - WIA Section 503	17.267				
WIA TITLE V INCENTIVE GRANT		510	PI-19148-09-55-A-18	562,950	562,942
H-1B Job Training Grants	17.268				
H-B NON-Immigrant Petitioner		510	WR154060660	1,002,636	1,002,686
Work Opportunity Tax Credit Program	17.271				
ES NAT ACT - Work Opportunities		510	ES-16212-07-55-A-18	114,583	23,731
ES NAT ACT - Work Opportunities		510	ES-17559-08-55-A-18	486,152	170,300
ES NAT ACT - Work Opportunities		510	ES19201-09-55-A-18	12,901	-
Total for Program				613,636	194,031
Temporary Labor Certification for Foreign Workers	17.273				
ES NATL ACT - ALIEN LABOR CERT		510	ES-20748-10-55-A-18	70	-
ES NATL ACT - ALIEN LABOR CERT		510	ES19201-09-55-A-18	33,680	-
Total for Program				33,750	-
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275				
ARRA - State Labor Market Info		510	GJ-19846-10-60-A-18	1,788,412	993,317
ARRA - State Energy Sector		510	GJ-19953-10-60-A-18	393,664	375,975
Total for Program				2,182,076	1,369,292
WIA Dislocated Worker Formula Grants	17.278				
WIA Dislocated Workers Formula		510	AA-20193-10-55-A-18	14,449,410	11,598,126
Occupational Safety and Health-State Program	17.503				
OSHA 23(G) Operational Program		225	SP-20968-SPI	1,176,314	-
OSHA 23(G) Operational Program		225	SP19413SP0	477,043	-
Total for Program				1,653,357	-
Consultation Agreements	17.504				
OSHA 21 (d) Consultation Program		225	CS-20907-CSI	476,043	-
OSHA 21 (d) Consultation Program		225	CS19369CSO	181,162	-
Total for Program				657,205	-
OSHA Data Initiative	17.505				
Data Collection Program		225		28,121	-
ODI - Data Collection Program		225	DC18094DC9	38,109	-
Data Collection Program		225	DC19545DCO	34,481	-
Total for Program				100,711	-
Homeless Veterans Reintegration Project	17.805				
Homeless Veterans		510	VW-19182-09-60-5-18	31,769	30,750
Homeless Veterans		510	VW-19182-09-60-5-18	496,608	495,000
Total for Program				528,377	525,750
Other Assistance					
ARRA - Department of Labor	17	510	UIPL #1409	(112,599)	-
Total U.S. Department of Labor				2,602,863,491	96,424,875
U.S. DEPARTMENT OF TRANSPORTATION					
Highway Planning and Construction Cluster					
Highway Planning and Construction	20.205				
ARRA - ARRA INDOT Highway Construction		800	N 4510.705	264,730,229	-
FHWA - FY11 - Continuing Resolution		100		102,879	-
FHWA - FY11 - Continuing Resolution		300		236,490	-
2008 FHWA		800		12,427,583	-
FHWA future federal years		800		588,421	-
2010 FHWA funds		800		371,939,543	-
FHWA - FY11 - Continuing Resolution		800		360,376,323	-
154 Transfer Funds		039	NHTSA	77,524	-
154 Transfer Funds		100	NHTSA	630,973	-
154 Transfer Funds		103	NHTSA	169,065	-
154 Transfer Funds		800	NHTSA	1,548,227	-
2009 63200 FHWA funds		800	RTA-000-1661	64,146,376	-
Highway Planning and Construction		090		3,255	-
Highway Planning and Construction		800		22,577,707	-
Total for Program				1,099,554,595	-

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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF TRANSPORTATION (continued)					
Highway Planning and Construction Cluster (continued)					
Recreational Trails Program	20.219				
Interlake (Redbird OHV Area 1H		300	RT06(001)	28,666	-
Riverwalk Trail Perry Co		300	RT06(006)	65,041	-
Southeatway Park Rec Trail		300	RT06(007)	129,875	-
Lawerence County Park		300	RT06(008)	125,607	-
Akron Hiking & Biking Trails		300	RT07(003)	122,751	-
Little Turtle Waterway		300	RT07(004)	18,042	-
2007 Franklin Trail Extension		300	RT07(007)	115,124	-
Turkey Creek Corridor		300	RT07(008)	141,724	-
Redbird OHV AREA		300	RT08(001	92,662	-
2008 Outdoor Rec Tipton Park Trails		300	RT08(003)	55,727	-
2008 Outdoor Rec Burkhart Creek		300	RT08(006)	37,728	-
Development of Interlake OHV/		300	RT08(008)	48,419	-
Administration of 2010 RTP Program		300	RT09(002)	56,641	-
Dubois Ruritan Trail Project		300	RT09(009)	120,603	-
3001000189		300	RTP Admin	10,701	-
Total for Program				1,169,313	-
Total for Cluster				1,100,723,908	-
Federal Transit Cluster					
Federal Transit -- Capital Investment Grants	20.500				
FY 2009 Sect 5310 Statewide Grant		800		1,825,105	-
Development of PLV Approaches		800	3-18-0000-07	161,975	-
Federal Transit Capital Investment		800		495,432	-
Total for Program				2,482,512	-
Federal Transit -- Formula Grants	20.507				
FY2010 NE Corridor AA/DEIS		800	IN-95-X028-00	1,175,495	-
Total for Cluster				3,658,007	-
Transit Services Programs Cluster					
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513				
Replacement/Expansion Vehicles		800	IN-16-X005-00	8,595	-
Job Access - Reverse Commute Program	20.516				
FY2009 Job Access and Reverse		800	IN-37-X104-00	119,251	-
New Freedom Program	20.521				
FY 2009 New Freedom		800	IN-57-X059-00	768,505	-
FY2010 Addition of Operating		800	IN-57-X059-01	116,632	-
Total for Program				885,137	-
Total for Cluster				1,012,983	-
Highway Safety Cluster					
State and Community Highway Safety	20.600				
CODES-Crash Outcome Data Evaluation		385	DTN I22-07-H-00096	1,144	-
FY11 NHTSA 402		032		3,140,387	3,103,892
FY11 NHTSA 402		039		73,168	-
FY11 NHTSA 402		100		658,942	-
2009-NHTSA-402-HWY-SAFETY		032		1,395,881	1,395,881
Total for Program				5,269,522	4,499,773
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601				
FY11 Alcohol SAFETEA -LU -410		032		1,323,601	1,313,676
FY11 Alcohol SAFETEA -LU -410		039		14,621	-
FY11 Alcohol SAFETEA -LU -410		100		133,943	-
FY11 Alcohol SAFETEA -LU -410		103		167,258	-
FY11 Alcohol SAFETEA -LU -410		230		34,565	-
Federal Carryover $		032	NHTSA	892,340	844,173
Total for Program				2,566,328	2,157,849
Occupant Protection	20.602				
FY11 Safetea-lu 405		032		186,126	186,008
2009-NHTSA-405-OP		032		76,995	76,995
Total for Program				263,121	263,003
Safety Belt Performance Grants	20.609				
FY11 NHTSA 406		032		79,900	79,893
2008-NHTSA-406-Safety-Belt		032	NHTSA	1,352,622	1,352,622
2008-NHTSA-406-Safety-Belt		100	NHTSA	669,325	-
2008-NHTSA-406-Safety-Belt		230	NHTSA	124,993	-
Total for Program				2,226,840	1,432,515
State Traffic Safety Information System Improvement Grants	20.610				
FY11 data program SAFETEA 408		022		57,431	-
FY11 data program SAFETEA 408		032		52,659	50,228
FY11 data program SAFETEA 408		385		141	-
FY11 data program SAFETEA 408		400		78,224	-

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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF TRANSPORTATION (continued)					
Highway Safety Cluster (continued)					
State Traffic Safety Information System Improvement Grants (continued)					
2009-NHTSA-408-Data-Safetea-LU		022	NHTSA	100,412	-
2009-NHTSA-408-Data-Safetea-LU		032	NHTSA	67,795	1,496
2009-NHTSA-408-Data-Safetea-LU		385	NHTSA	136,543	-
2009-NHTSA-408-Data-Safetea-LU		400	NHTSA	101,071	-
Total for Program				594,275	51,723
Incentive Grant Program to Prohibit Racial Profiling	20.611				
The Highway Traffic Safety Adm		022		325,319	-
Incentive Grant Program to Increase Motorcyclist Safety	20.612				
2009-NHTSA-2010-Motorcycle		032	NHTSA	14,050	
2010 Motorcycle Safety		032		54,892	54,892
Total for Program				68,942	54,892
Child Safety and Child Booster Seat Incentive Grants	20.613				
2011 Child Seats		032		349,833	349,833
Child Safety & Child Booster		032	NHTSA	250,000	250,000
Total for Program				599,833	599,833
Total for Cluster				11,914,180	9,059,587
National Motor Carrier Safety	20.218				
FY11 Motor Carrier Safety Assistance		100	FM-MCG-0024-11-01-02	2,442,301	-
NEW ENTRANT SAFETY AUDIT		100	FM-MNE-0033-11-01-00	195,007	-
FY10 MCSAP Basic/Incentive Grant		100	MC101810000000	2,855,207	-
FMCSA Purdue		100	MH091830000000	45,206	-
FMCSA Media		100	MH091860000000	650	-
Motor Carrier Safety Administration		100	MH101010000000	509,664	-
Motor Carrier Safety Administration		100	MH101820000000	100,099	-
Motor Carrier Safety Administration		100	MH101830000000	137,631	-
State New Entrant Safety Assurance		100	MN101810000000	694,261	-
FMCSA Rural Road		100	mh091850000000	50,995	-
Total for Program				7,031,021	-
Commercial Driver's License Program Improvement Grant	20.232				
FY 2009 Commercial Driver's License		022	CD-09-IN-1	195,922	-
Implement PH I Auto Knowledge		235	CD07(181)	300,582	-
FY2010 Commercial Driver's License		022	CD101810000000	201,554	-
Total for Program				698,058	-
Safety Data Improvement Program	20.234				
Safety Data Improvement		022	SD-09-18-01-G-00000	15,829	-
Commercial Vehicle Information Systems and Networks	20.237				
Commercial Vehicle Information		090	IT091810000000	135,836	-
VWS Enhancement and Expansion		800	IT091830000000	99,456	-
Total for Program				235,292	-
Formula Grants for Other Than Urbanized Areas	20.509				
ARRA - FTA's Non-Urbanized Area		800	IN-86-X001	1,705,400	-
2008 Federal Transit		800		139,728	-
Federal Transit Administration		800		2,654,484	-
Operating, Capital, RTAP		800	IN-18-X028	12,926,865	-
Total for Program				17,426,478	-
National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants	20.614				
Indiana FARS		100	DTNH22-07-H-000126	120,889	-
Pipeline Safety Program Base Grants	20.700				
2008 One-Call Grant		200	DTPH56-08-G-PHPC10	51	51
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703				
Hazardous Materials Emergency		385	HM-HMP-0022-09-01-00	222,129	222,129
Hazardous Materials Emergency		385	HM-HMP-0181-10-01-00	53,506	53,506
Total for Program				275,635	275,635
Surface Transportation Discretionary Grants for Capital Investment	20.932				
Capital Investment Grant		800		1,402,554	
ARRA - FY 2009 ARRA TIGER Award		800	Indianapolis	1,385,669	-
ARRA - FY 2009 ARRA TIGER Award		800	Milton & Madison	8,249,220	-
Total for Program				9,634,889	-
Total U.S. Department of Transportation				1,154,149,773	9,335,273
U.S. DEPARTMENT OF THE TREASURY					
Other Assistance					
Emergency Economic Stabilization	21	720		17,801	-
Total U.S. Department of the Treasury				17,801	-

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

STATE OF INDIANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
July 1, 2010 to June 30, 2011
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION					
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002				
ADA Charge Resolution		258	EECCN090026	6,134	-
Total Equal Employment Opportunity Commission				6,134	-
GENERAL SERVICES ADMINISTRATION					
Donation of Federal Surplus Personal Property	39.003				
Donation of Federal Surplus Personal Property -- Non cash assistance		061	N/A	3,623,837	-
HAVA Early Payments	39.011				
HAVA Early payments - Section 101		063	369940	1,395,919	1,395,919
Total for General Services Administration				5,019,756	1,395,919
NATIONAL ENDOWMENT FOR THE ARTS AND HUMANITIES					
Accessibility Grant	45.024				
AccessAbility		705	09-3900-7018	18,738	18,738
Promotion of the Arts - Partnership Agreements	45.025				
ARRA - State & Regional: Art		705	09-6188-2114	97,289	68,249
Partnership grant		705	09-6100-2016	107,608	24,983
Partnership grant		705	10-6100-2044	652,924	652,624
Total for Program				857,821	745,856
Grants to States	45.310				
Library Services and Technology		730	LS-00-08-0015-08	(23)	-
Library Services and Technology		440	LS-00-09-015-09	193	-
Library Services and Technology		665	LS-00-09-015-09	13	-
Library Services and Technology		730	LS-00-09-015-09	1,286,709	557,737
2010 LSTA Grants		440	LS-00-10-0015-10	1,380	-
2010 LSTA Grants		614	LS-00-10-0015-10	4,466	-
2010 LSTA Grants		616	LS-00-10-0015-10	4,637	-
2010 LSTA Grants		620	LS-00-10-0015-10	1,143	-
2010 LSTA Grants		630	LS-00-10-0015-10	4,071	-
2010 LSTA Grants		635	LS-00-10-0015-10	2,835	-
2010 LSTA Grants		640	LS-00-10-0015-10	3,460	-
2010 LSTA Grants		650	LS-00-10-0015-10	2,279	-
2010 LSTA Grants		661	LS-00-10-0015-10	4,923	-
2010 LSTA Grants		685	LS-00-10-0015-10	3,036	-
2010 LSTA Grants		687	LS-00-10-0015-10	3,528	-
2010 LSTA Grants		730	LS-00-10-0015-10	1,931,459	555,443
Total for Program				3,254,109	1,113,180
Laura Bush 21st Century Librarian Program	45.313				
Librarian Leading in Diversity		730	RE-01-08-0049-08	341,596	-
Total National Endowment for the Arts and Humanities				4,472,264	1,877,774
SMALL BUSINESS ADMINISTRATION					
Small Business Development Centers	59.037				
Small Business Development Center		260	0-603001-Z-0015-25	1,467,688	1,058,591
Small Business Development Center		260	0-603001-Z-0015-26	681,624	428,327
Small Business Jobs Act Program		260	1-603001-Z-0122	94,809	11,529
Indiana Small Business Develop		260	6-603001-Z-0015-21	14,995	-
Small Business Development Center		260	9-603001-Z-0015	31,148	31,148
Supplemental Funding to SBDC		260	9-603001-Z-0645	1,850	-
Total for Program				2,292,114	1,529,595
Total for Small Business Administration				2,292,114	1,529,595
U.S. DEPARTMENT OF VETERANS AFFAIRS					
All Volunteer Force Educational Assistance	64.124				
SAA FY09		160	V101 (223C) P-49	17,557	-
SAA FY10		160	V101 (223C)P-5017	449,867	-
Total for Program				467,425	-
Total Department of Veterans Affairs				467,425	-
ENVIRONMENTAL PROTECTION AGENCY					
State Indoor Radon Grants	66.032				
Indiana Indoor Radon Prevention		400	K1-00E13104	38,266	-
State Indoor Radon Grant		400	K1-00E13106-0	1,768	-
Total for Program				40,034	-
Survey, Studies, Investigation Demonstration and Special Purpose Activities Relating to the Clean Air Act	66.034				
Ambient Air PM 2.5 Monitoring		495	PM98577305	837,174	-
2008 Indoor Environments - Home		400	XA00E66401	23,774	-
Total for Program				860,948	-

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

STATE OF INDIANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
July 1, 2010 to June 30, 2011
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
ENVIRONMENTAL PROTECTION AGENCY (continued)					
National Clean Diesel Emissions Reduction Program	66.039				
ARRA - National Clean Diesel Funding		495	2A-83441301	856,060	-
National Clean Diesel Funding		495	DE-00E81501	23,610	-
Total for Program				879,670	-
State Clean Diesel Grant Program	66.040				
ARRA - Clean Diesel		495	2D-00E83201	1,053,482	-
State Clean Diesel Grant Program		495	DS-00E66701	254,494	-
Total for Program				1,307,976	-
Water Pollution Control State, Interstate and Tribal Program Support	66.419				
Water Pollution Control		495	I-00E00728	13,365	-
Supplemental 106 Monitoring		495	I-96555708	69,811	-
Watershed Monitoring Grant		495	I96555707	63,202	-
Total for Program				146,378	-
State Underground Water Source Protection	66.433				
State Underground Injection		300	G-99590110	11,810	-
2011 Underground Injection		300	G-99590111-1	66,272	-
Total for Program				78,082	-
Water Quality Management Planning	66.454				
ARRA - Water Quality Management		495	2P-00E74016	494,271	-
Water Quality Planning - FY 07		495	C6-00E38801	88,214	-
2009 Water Quality Management		495	C6-00E72001	52,204	-
Water Quality Management Planning		495	C6-00E72010	21,099	-
Total for Program				655,788	-
Capitalization Grants for Clean Water State Revolving Funds	66.458				
Clean Water Grant		300	MOU IFA FY11	66,174	-
Nonpoint Source Implementation Grants	66.460				
Surface Water Non-point Source		495	C9-97548207	538,275	-
Surface Water grant		495	C9-97548209	(216,920)	-
FY2011 Clean Water Act, Sec 31		495	C9-97548211-0	11,964	-
319 Surface Water C9975482-06		495	C9975482-06	517,381	-
Nonpoint Source Implementation		495	C9975482-08	811,020	-
CEP-IDEM-CSA 319 (h) Non Point		495	C997548201-1	(74)	-
CEP-IDEM-CWA 319 (h) NONPOINT		495	C997548202	221,624	-
CEP-IDEM-CWA Section 319(h) NO		495	C997548203	489,524	-
NON-POINT Source Implementation		495	C997548204	400,844	-
NON-POINT Source Implementation		495	C997548205	181,389	-
Surface Water Grant. Nonpoint		495	C997548210	1,077,732	-
Total for Program				4,032,760	-
Regional Wetland Program Development Grant	66.461				
Mapping Wetlands Impacts, Mitigation		495	CD00E39801-0	13,056	-
Great Lakes Program	66.469				
Indiana Lake Beaches Sanitary		495	GL-00E00453	140	-
Hoosier Prairie Restoration		300	GL-00E00589	48,660	-
Lake Michigan LaMP and AOC Cap		495	GL-00E00724	25,078	-
LAMP GRANT GL00E20401		495	GL-00E20401	34,798	-
Total for Program				108,676	-
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471				
ERG Operator Cert. CT965138-01		495	CT965138-01	275,092	
Beach Monitoring and Notification Program Implementation Grants	66.472				
Beach Monitoring and Notification		300	CU-00E73101	10,500	-
Beach Monitoring and Notification		495	CU-00E73101	120,067	-
Beach Monitoring and Notification		300	CU-00E73102	1,400	-
Beach Monitoring and Notification		495	CU-00E73102	28,530	-
Great Lakes Monitoring FY08		495	CU00E52701	130,930	-
Total for Program				291,427	-
Water Protection Grants to States	66.474				
FY07 COUNTER TERRORISM WP-00E0		495	WP-00E09601	44,972	-
FY2009 Counter Terrorism		495	WP-00E76501	197	-
Counter-Terrorism WP975634-01		495	WP975634-01	57,480	-
Total for Program				102,649	-
Performance Partnership Grants	66.605				
BG985432-08 2008 PPG FY 07-09		495	BG98543208	(5,828,269)	-
Performance Partnership Grant		495	BG985432-10	9,293,707	-
Total for Program				3,465,438	-

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
ENVIRONMENTAL PROTECTION AGENCY (continued)					
Environmental Information Exchange Network Grant Program and Related Assistance	66.608				
Environmental Information Exchange		495	OS-83438101	34,955	-
Exch Network Impl OS831964-01		495	OS831964-01	(13,200)	-
Exchange Network 07 Grant		495	OS83348401-0	(21,862)	-
Environmental Information Exchange		495	OS83410401	44,642	-
Total for Program				44,535	-
Environmental Policy and Innovation Grants	66.611				
Auto Salvage Env. Results		495	PI975839-01	59,602	-
Total for Program					
TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	66.707				
Lead Based Paint Program		400	PB-00E44703	117,806	-
Indiana Lead Based Paint Program		400	PB-00R44704	197,329	-
Total for Program				315,135	-
Pollution Prevention Grants Programs	66.708				
Reducing Toxics Through Pollution		495	NP-00E30902	20,948	-
Capacity Building Grant	66.709				
Permit Compliance System Grant		495	EA00E23301-0	37,593	-
Source Reduction Assistance	66.717				
Reducing Greenhouse Gas Emission		495	X9-00E00322	11,111	-
Superfunds State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreement	66.802				
Superfund State Political Subdivision		495	V-00E00780-3	16,903	-
Continental Steel Superfund		495	V-98576802	57,878	-
SUPERFUNDS-Management Assistance		495	V00E00779	6,282	-
Superfund State Political Subdivision		495	V00E188-02	330,693	-
COMBINED SUPERFUNDS V965003-02		495	V965003-02	132,673	-
Galen Myers Remedial V965884-0		495	V965884	60,704	-
Continental Steel Remd Action		495	V985768-01	33	-
Cont. Steel Remd Design V98576		495	V985768-01	(22)	-
Total for Program				605,144	-
Underground Storage Tank Prevention, Detection and Compliance Program	66.804				
State Underground Storage Tank		495	L00E49701	137,202	-
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805				
Underground Storage Tank Program		495	L-00E490702	590,375	-
Leaking Underground Storage Tank		495	LS-00598117	1,220,319	-
Leaking Underground Storage		495	LS00598116	180,373	-
Total for Program				1,991,067	-
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809				
Core Superfund State and Indian Tribe		495	Estimated $	1,534	-
Superfund State and Indian Tribe		495	VC005990-04	128,754	-
Total for Program				130,288	-
Total Environmental Protection Agency				15,676,773	-
U.S. DEPARTMENT OF ENERGY					
State Energy Program	81.041				
ARRA - SEP Formula Grants		038	DE-EE0000169	42,180,469	42,137,193
State Energy Grant		038	DE-FG26-07NT43163	685,029	374,901
State Energy Grant		615	DE-FG26-07NT43163	69,600	-
Total for Program				42,935,098	42,512,094
Regional Biomass Energy Programs	81.079				
Indiana's Biomass Program		038	CGLG-06-003	25,072	25,000
Conservation Research and Development	81.086				
ARRA - Clean Cities ARRA Funds		038	DE-EE0002544	529,813	508,364
ARRA - Clean Cities ARRA Funds		800	DE-EE0002544	4,110,545	-
E85/B20 for I-65 and Beyond:		038	DE-FC26-06NT43014	111,932	56,816
Total for Program				4,752,290	565,180
State Energy Program Special Projects	81.119				
Industrial Energy Efficiency		038	DE-EE000355	351,586	351,586
DOE - Administration (SHOPP Grant)		038	DE-FC01-01EI37395	3,061	-
Total for Program				354,647	351,586
Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122				
ARRA - Recovery Act - Energy A		038	DE-OE0000085	892	892
ARRA - Recovery Act - Energy A		385	DE-OE0000085	72,834	4,546
ARRA - State Electricity Regulatory		200	DE-OE0000166	234,247	234,237
Total for Program				307,972	239,675

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF ENERGY (continued)					
Energy Efficient Appliance Rebate Program (EEARP)	81.127				
ARRA - State Energy Efficient		038	DE-EE0001591	2,759,134	2,759,134
Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128				
ARRA - STATE OF INDIANA ENERGY		038	DE-EE0000725	12,283,576	11,775,828
Total for U.S. Department of Energy				63,417,790	58,228,497
U.S. DEPARTMENT OF EDUCATION					
Title I, Part A Cluster					
Title I Grants to Local Educational Agencies	84.010				
Education of Disadvantaged 2007		615	S010A070014	(6,655)	-
Title I Education of Disadvantaged		615	S010A080014	(50,735)	-
Title I Education of Disadvantaged		700	S010A080014	395,787	352,500
Title 1 Grant to LEAS		700	S010A090014	35,092,807	33,763,137
Title I Grant to LEAS		700	S010A100014	159,548,726	157,735,751
Total for Program				194,979,930	191,851,388
Title I Grants to Local Education Agencies, Recovery Act	84.389				
ARRA - Title 1 Grant		700	S389A090014	48,866,525	48,866,525
Total for Cluster				243,846,455	240,717,913
Special Education Cluster (IDEA)					
Special Education Grants to States (IDEA, Part B)	84.027				
Individuals w/Disabilities Edu		550	H027A080084	479,224	-
Individuals w/Disabilities Edu		615	H027A080084	129	-
Individuals w/Disabilities Edu		700	H027A080084	4,810,944	4,731,285
Individuals w/Disabilities FY0		550	H027A090084	24,211	-
Individuals w/Disabilities FY0		560	H027A090084	152,930	-
Individuals w/Disabilities FY0		615	H027A090084	120,988	-
Individuals w/Disabilities FY0		700	H027A090084	46,424,227	43,562,047
State Grant - Education Staff		550	H027A100084	136,862	-
State Grant - Education Staff		560	H027A100084	168,608	-
State Grant - Education Staff		615	H027A100084	138,110	-
State Grant - Education Staff		700	H027A100084	169,206,882	167,868,564
Total for Program				221,663,114	216,161,896
Special Education Preschool Grants (IDEA Preschool)	84.173				
Special Education Preschool 08		700	H173A080104	43,910	43,910
Special Education Preschool 09		550	H173A090104	16	-
Special Education Preschool 09		560	H173A090104	23	-
Special Education Preschool 09		700	H173A090104	1,243,627	1,243,627
State Grants		700	H173A100104	6,066,865	6,066,865
Total for Program				7,354,442	7,354,403
Special Ed Grants to States (IDEA Part B), Recovery Act	84.391				
ARRA - Special Education Part		560	H391A090084	9,178	-
ARRA - Special Education Part		615	H391A090084	61,481	-
ARRA - Special Education Part		700	H391A090084	80,055,074	80,055,074
Total for Program				80,125,733	80,055,074
Special Ed Preschool (IDEA Preschool), Recovery Act	84.392				
ARRA - Special Education Preschool		700	H392A090104	2,594,060	2,594,060
Total for Cluster				311,737,348	306,165,433
Vocational Rehabilitation Cluster					
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126				
VR Section 110 Basic Support 2		497		32,571,396	-
Title I, Section 113 H126A0900		497	H126A090019	70,473	-
VR Section 110 Basic Support 2		497	H126A100019B	21,485,054	-
Total for Program				54,126,923	-
Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act	84.390				
ARRA - Basic Support		497	H390A090019	10,338,989	-
Total for Cluster				64,465,912	-
Early Intervention Services (IDEA) Cluster					
Special Education - Grants for Infants and Families	84.181				
Infants & Families w/ Disabilities		497	H181A070030	(34,088)	-
First Step		497	H181A080030	837,500	-
Infants and Toddlers with Disabilities		497	H181A090030	7,171,848	-
Infants and Toddlers with Disabilities		497	H181S100030	8,674,872	-
Total for Program				16,650,132	-
First Steps ARRA	84.393				
ARRA - INFANTS AND FAMILIES WI		497	H393A090030A	3,597,051	-
Total for Cluster				20,247,183	-

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF EDUCATION (continued)					
Educational Technology State Grants Cluster					
Education Technology State Grants	84.318				
Educational Technology 08		700	S318X080014	422,829	655,004
Educational Technology State Grant		700	S318X090014	1,423,946	953,343
Educational Technology State Grant		700	S318X100014	278,065	226,650
Total for Program				2,124,840	1,834,997
Education Technology State Grants, Recovery Act	84.386				
ARRA - Education Technology State Grants		700	S386A090014	2,772,060	2,772,060
Total for Cluster				4,896,900	4,607,057
School Improvement Grants Cluster					
School Improvement Grants	84.377				
School Improvement Grants		700	S377A080016	146,500	146,500
School Improvement Grants		700	S377A090015A	1,654,802	1,654,802
Total for Program				1,801,302	1,801,302
School Improvement Grants, Recovery Act	84.388				
ARRA - School Improvement Grant		700	S388A090015	3,126,469	3,227,374
Total for Cluster				4,927,771	5,028,676
State Stabilization Fund Cluster					
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394				
ARRA - State Fiscal Stabilization		700	S394S090015	312,460	312,460
		057		25,000,000	25,000,000
Total for Program				25,312,460	25,312,460
State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397				
State Fiscal Stabilization		570	FAI 18-003	476,681	-
ARRA - State fiscal Stabilization		050	S397A090015	40,190,852	-
ARRA - State fiscal Stabilization		057	S397A090015	13,675,394	10,049,018
ARRA - State fiscal Stabilization		570	S397A090015	256,674	-
Total for Program				54,599,601	10,049,018
Total for Cluster				79,912,062	35,361,478
Independent Living State Grants Cluster					
Independent Living State Grants	84.169				
State Independent Living Service		497		335,763	335,763
Independent Living H169A090020		497	H169A090020	2,908	-
Aid to Independent Living		497	H169A100020B	(33,326)	-
Total for Program				305,345	335,763
Independent Living State Grants Recovery Act	84.398				
ARRA - State Independent Living		497	H398A090020	281,753	281,753
Total for Cluster				587,098	617,516
Independent Living Services for Older Individuals who are Blind Cluster					
Independent Living Services for Older Individuals Who are Blind	84.177				
Blind Independent Living 2010		497	H177B100014B	283,928	-
09 Blind Independent Living		497	H177BO90014	233,753	-
Total for Program				517,681	-
Other Assistance	84				
ARRA - Independent Living - OI		497	H399A090014	351,587	-
Total for Cluster				869,268	-
Education of Homeless Children and Youth Cluster					
Education for Homeless Children and Youth	84.196				
McKinney Homeless Child. & Youth		700	S196A080015	23,062	-
Education for Homeless Children		700	S196A090015	319,227	260,256
Education for Homeless Children		700	S196A100015	149,275	149,043
Total for Program				491,564	409,300
McKinney-Vento Homeless Grant, Recovery Act	84.387				
ARRA - Education for Homeless		700	S387A090015	79,859	5,044
Total for Cluster				571,422	414,344
Statewide Data Systems Cluster					
Statewide Data Systems	84.372				
State Longitudinal Data Sys		700	R372A070013	1,689,230	-
Total for Program/Cluster				1,689,230	-
Teacher Incentive Fund Cluster					
Teacher Incentive Fund	84.374				
Indiana's Teacher Incentive Fund		700	S374A100020	209,648	137,579
Total for Program/Cluster				209,648	137,579

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF EDUCATION (continued)					
Adult Education - Basic Grants to States	84.002				
Adult Basic Education 08		615	V002A080014	(4)	-
Adult Education - State Administration		510	V002A090014	56,404	-
Adult Education - State Administration		560	V002A090014	5,833	-
Adult Education - State Administration		615	V002A090014	143,756	-
Adult Education - State Administration		700	V002A090014	1,085,068	950,575
Adult Education - State Administration		510	V002A100014	157,494	-
Adult Education - State Administration		615	V002A100014	202,299	-
Adult Education - State Administration		700	V002A100014	5,648,228	5,639,153
Total for Program				7,299,078	6,589,728
Migrant Education - State Grant Program	84.011				
Title I Language Acquisition		700	S011A080014	578,697	278,366
Title 1 - Part C Migrant Education		700	S011A09001	2,512,335	1,998,346
Migrant Education		700	S011A100014	316,429	269,155
Total for Program				3,407,460	2,545,867
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013				
Title I Neglected/Delinquent		615	S013A080014	135,441	-
Neglected and Delinquent FY09		615	S013A090014	335,980	-
Neglected and Delinquent		615	S013A100014	277,298	-
Total for Program				748,718	-
Career and Technical Education - Basic Grants to States	84.048				
US DOE PERKINS BASIC GRANT		510	V048A070014A	278,522	-
US DOE PERKINS BASIC GRANT		510	V048A080014A	1,854,516	-
US DOE Perkins Basic Grant		036	V048A090014A	85,072	-
US DOE Perkins Basic Grant		510	V048A090014A	1,720,502	-
US DOE Perkins Basic Grant		615	V048A090014A	16,485	-
US DOE Perkins Basic Grant		700	V048A090014A	3,744,073	3,637,370
US DOE Perkins Basic Grant		510	V048A100014A	6,812,062	-
US DOE Perkins Basic Grant		700	V048A100014A	10,538,313	10,255,712
Total for Program				25,049,546	13,893,081
Career and Technical Education -National Programs	84.051				
US DOE PERKINS Promoting		700	V051C080015	114,450	113,582
Leveraging Educational Assistance Partnership	84.069				
Leveraging Educational Assistance		715	N069A080015	1,415	1,415
LEVERAGING EDUCATIONAL ASSISTANCE		715	N069A100016 - 10A	669,698	669,698
SPECIAL LEVERAGING EDUCATIONAL		715	N069B100013 - 10A	895,347	895,347
Total for Program				1,566,460	1,566,460
Rehabilitation Services - Client Assistance Program	84.161				
Client Assistance Program		044	H161A100015B	77,932	-
FY 11 Client Assistance Program		044	H161A110015-11D	116,182	-
Total for Program				194,115	-
Safe and Drug-Free Schools and Communities - National Programs	84.184				
IN Youth Drug Use and Violence		700	Q184W100007	15,885	-
Byrd Honors Scholarships	84.185				
FY11 Robert C. Byrd Honor Scholarship		715		194,125	194,125
Robert C. Byrd Honors Scholarship		715	P185A090015	(750)	(750)
Robert C. Byrd Honors Scholarship		715	P185A100015	846,315	846,315
Total for Program				1,039,690	1,039,690
Safe and Drug Free Schools and Communities - State Grants	84.186				
Safe & Drug Free Schools 08		700	Q186A080015	18,588	(8,480)
Safe and Drug-Free Schools		700	Q186A090015	1,817,761	1,774,954
Safe and Drug Free Indiana Schools		032	Q186B070016	(2,750)	-
Safe & Drug-Free Schools & Communities		032	Q186B080016	315,576	315,576
Safe & Drug-Free Schools & Communities		032	Q186B090016	428,436	409,875
Total for Program				2,577,612	2,491,925
Even Start State Educational Agencies	84.213				
Even Start State Grants		700	S213C090015	102,490	102,490
Even Start State Grant		700	S213C100015	715,939	715,936
Total for Program				818,429	818,426
Assistive Technology	84.224				
ATTAIN H224 09		497	H224A090014	301,702	-
Assistive Technology Act 2010		497	H224A100014A	174,504	-
Total for Program				476,207	-
Projects with Industry	84.234				
US DOE Perkins Tech Prep Grant		700	V243A100014	1,222,188	1,168,841
Program of Protection and Advocacy of Individual Rights	84.240				
Protection and Advocacy Program		044	H240A100015B	206,807	-

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF EDUCATION (continued)					
Tech-Prep Education	84.243				
US DOE Perkins Tech Prep Grant		510		181,785	-
US DOE Perkins Tech Prep Grant		700		247,074	213,477
US DOE Perkins Tech Prep Grant		510	V243A090014	(124,810)	-
US DOE Perkins Tech Prep Grant		700	V243A090014	(5,221)	-
Total for Program				298,829	213,477
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265				
In-Service Training Unit H2650		497	H265A050056	13,489	-
In-Service Training - Basic		497	H265A100048	19,626	-
Total for Program				33,115	-
Charter Schools	84.282				
Approv Charter Schools 2008		700	U282A070012	1,131,718	1,032,786
Indiana Charter School Facilities		700	U282D090013	5,749,325	5,749,327
Total for Program				6,881,043	6,782,113
Twenty First Century Community Learning Center	84.287				
21st Century After School Learning		700	S287C080014	6,324,451	6,083,267
After School Learning Center		700	S287C090014	12,520,780	11,765,596
After School Learning Center		700	S287C100014	88,014	47,186
Total for Program				18,933,244	17,896,049
Special Education - State Personnel Development	84.323				
State Personnel Development Grant		700	H323A090006	42,201	10,469
Advanced Placement Incentive Programs	84.330				
Test Fees		700	S330B100012	278,038	-
Equity and Access for All		700	S330B110002	1,434	1,434
Total for Program				279,472	1,434
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331				
Grant to States for Workplace		615	Q1331A090015A	187,041	-
Workplace and Community Transition		615	Q331A080015	84,800	-
Total for Program				271,841	-
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334				
GEARUP Award 2007		715	P334S050010	2,455,362	2,455,362
Assistive Technology-State Grants for Protection and Advocacy	84.343				
PAAT FY2010		044	H343A100015B	25,678	-
FY 11PAAT FY2010		044	H343A110015-11D	38,582	-
Total for Program				64,260	-
Reading First State Grants	84.357				
Reading First Early Education		700	S357A080015	1,310,161	1,264,625
Rural Education	84.358				
Rural and Low Income School		700	S358B080014	46,330	46,330
Rural Education Achievement		700	S358B090014	205,419	205,391
Rural and Low-Income Schools		700	S358B100014	89,972	89,972
Total for Program				341,721	341,693
English Language Acquisition Grants	84.365				
English Language Acquisition		700	S365A090014A	642,085	660,658
English Language Acquisition		700	S365A100014	4,902,990	4,859,044
English Language Acquisition		700	T365A080014	31,326	26,764
Total for Program				5,576,401	5,546,467
Mathematics and Science Partnerships	84.366				
Math and Science Partnerships		700	S366B080015	981,695	810,047
Mathematics and Science Partnerships		700	S366B090015	101,740	68,919
Total for Program				1,083,435	878,966
Improving Teacher Quality State Grants	84.367				
Title II-A Improving Teacher Quality		700	S367A080013	1,016,786	586,092
Improving Teacher Quality		700	S367A090013A	23,757,255	22,540,829
Improving Teacher Quality		700	S367A100013	9,949,559	9,949,559
Improving Teacher Quality		719	S367B090014	979,580	979,580
Improving Teacher Quality		719	S367B100014A	76,416	76,416
Total for Program				35,779,596	34,132,475
Grants for State Assessments & Related Activities	84.369				
NCLBA State Assessments 08		700	S369A080015	3,475,090	-
State Assessments and Related		700	S369A090015	618,793	-
State Assessments and Related		700	S369A100015	6,498,342	-
Total for Program				10,592,225	-

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF EDUCATION (continued)					
Striving Readers	84.371				
Striving Readers Literacy		700	S371B100013	21	-
College Access Challenge Grant Program	84.378				
College Access Challenge Grant		719	P378A090012	247,804	247,804
College Access Challenge Grant		719	P378A100012	1,369,268	1,369,268
Total for Program				1,617,072	1,617,072
Education Jobs Fund	84.410				
843410A Education Jobs Fund - ARRA		700	S410A100015	49,657,989	49,657,989
Total U.S. Department of Education				913,914,930	744,075,786
U.S. ELECTION ASSISTANCE COMMISSION					
Help America Vote Act Requirements Payments	90.401				
Title III - Help America Vote		063	IN0809RP01	1,809,204	1,794,691
HAVA		063	IN10RP01	(14,514)	-
Total for Program				1,794,691	1,794,691
Total U.S. Election Assistance Commission				1,794,691	1,794,691
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Aging Cluster					
Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers	93.044				
TIII-B Supportive Services		498	10AAINT3SP	5,197,231	4,937,369
TIII-B Supportive Services		498	11AAINT3SP	2,672,764	2,539,126
Total for Program				7,869,995	7,476,495
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045				
TITLE IIIC1&C2 Home Delivery		498	09AAINT3SP	(63,468)	20,481
Congregate & Home Delivered		498	10AAINT3SP	8,957,430	8,509,558
Congregate & Home Delivered		498	11AAINT3SP	4,466,030	4,242,728
Total for Program				13,359,992	12,772,767
Nutrition Services Incentive Program	93.053				
Nutrition Svcs Incentive Program		498	10AAINNSIP	1,319,433	-
Nutrition Svcs Incentive Program		498	11AAINNSIP	713,436	-
Total for Program				2,032,869	-
Total for Cluster				23,262,856	20,249,262
Immunization Cluster					
Immunization	93.268				
Immunizations - Non Cash Assistance		400		4,815,578	4,815,578
Immunization Program		400	2H23IP522522	4,067,665	-
Immunization and Vaccines		400	3H23IP522522-08SI	51,854	-
Immunization & Vaccines		400	5H231P522522	(32,298)	-
				8,902,799	4,815,578
ARRA - Immunization	93.712				
ARRA - ARRA Meningococcal		400	3U50CI523777-05S2	52,755	-
Total for Cluster				8,955,555	4,815,578
TANF Cluster					
Temporary Assistance for Needy Families (TANF) State Programs	93.558				
TANF 08		500	0801INTANF	14,429	-
TANF 09		500	0902INTANF	(60,012)	-
Temporary Assistance for Needy		400	1102INTANF	293,362	-
Temporary Assistance for Needy		500	1102INTANF	40,957,272	-
Temporary Assistance for Needy		502	1102INTANF	20,832,106	-
Temporary Assistance for Needy		720	1102INTANF	981,834	-
Temporary Assistance for Needy		400	G-1002INTANF	1,525,800	-
Temporary Assistance for Needy		500	G-1002INTANF	77,840,881	-
Temporary Assistance for Needy		502	G-1002INTANF	(405,894)	-
Temporary Assistance for Needy		720	G-1002INTANF	309,475	309,475
Total for Program/Cluster				142,289,253	309,475
CCDF Cluster					
Child Care and Development Block Grant	93.575				
CCDF Discretionary 0901INCCDF		500	0901INCCDF	2,684	-
CCDF Discretionary 2010		500	G1001INCCDF	30,366,058	-
CCDF Discretionary 2010		500	G1101INCCDF	46,061,193	-
Total for Program				76,429,935	-
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596				
CCDF Match/Mandatory 0901INCCD		500	0901INCCDF	(855)	-
CCDF Match/Mandatory 2010		500	G1001INCCDF	15,329,196	-
CCDF Match/Mandatory 2011		500	G1101INCCDF	33,653,359	-
Total for Program				48,981,700	-

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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)					
CCDF Cluster (continued)					
ARRA - Child Care and Development Block Grant	93.713				
ARRA - CCDF Economic; Recovery		495	G0901INCCD7	17,390	-
ARRA - CCDF Economic; Recovery		500	G0901INCCD7	24,828,095	6,313,901
Total for Program				24,845,485	6,313,901
Total for Cluster				150,257,120	6,313,901
Head Start Cluster					
Head Start	93.600				
09 Indiana Head Start State Co		500	05CD0020/04	76,993	-
Indiana Head Start State colla		500	05CD0020/05	103,504	-
Total for Program/Cluster				180,497	-
Medicaid Cluster					
State Medicaid Fraud Control Units	93.775				
Medicaid Fraud Control Unit		046	01-1001-IN-5050	1,097,318	-
Medicaid Fraud Control Unit		046	01-1101-IN-5050	2,205,871	-
Total for Program				3,303,189	-
State Survey and Certification of Health Care Providers and Suppliers	93.777				
Medicare Grant		400	05-1005-IN-5000	3,253,250	-
Medicare Medicaid CLIA-COW		400	05-1005-IN-5002	288,442	-
FY11 Clinical Laboratory		400	05-1105--IN-5002	165,025	-
Medicare Grant		400	05-1105-IN-5000	3,643,348	-
FFY2010-Title XIX Certification		400	1005IN5001	4,701,354	-
Total for Program				12,051,419	-
Medical Assistance Program (Medicaid)	93.778				
ARRA - MAP 75X0518 9599600		503	05-0905INARRA	98,623,718	-
ARRA - MAP 75X0518 15999600		503	05-1105INARRA	185,776,738	-
ARRA - Extension of Increased		503	05-1105INEXTN	174,614,919	-
ARRA - Qualifying Individual		503	1005INQUAL	1,724,810	-
ARRA - HIT Administrative Paym		503	1105INHITA	337,143	-
ARRA - Qualifying Individual		503	1105INQUAL	3,822,012	-
MP 09 - MEDICAID ASSISTANCE		503	0905IN5028	1,417,826	-
MT 09-MEDICAID ADMINISTRATION		503	0905IN5048	(1,748,518)	-
Medicaid Administration - FY10		503	1005IN5ADM	40,522,609	-
Medicaid Assistance - fy2010		503	1005in5map	846,132,494	-
Medicaid Assistance - fy2011		503	1105-IN5MAP	3,406,438,061	-
Medicaid Administration - FY11		503		156,019,794	-
Total for Program				4,913,681,605	-
State Survey and Certification Ambulatory Surgical Center Healthcare Associated Infection (ASC-HAI) Prevention Initiative -- ARRA	93.720				
ARRA - ASC HAI Program		400	05-1005-IN-5ASC	77,447	-
Total for Cluster				4,929,113,660	-
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006				
Office of Minority Health-FY08		400	5 STTMP051005-04-00	49,161	-
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041				
TVII - Elder Abuse Prevention		498	10AAINT7SP	99,899	96,902
Special Programs for the Aging - Title VII, Chapter 2 Long-Term Care Ombudsman Service for Older Individuals	93.042				
TVII - Ombudsman		498	10AAINT7SP	112,528	109,152
TVII - Ombudsman		498	11AAINT7SP	200,336	194,326
Total for Program				312,864	303,478
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043				
TIII-D Preventive Health		498	10AAINT3SP	218,861	216,236
TIII-D Preventive Health		498	11AAINT3SP	187,698	187,125
Total for Program				406,560	403,361
Special Programs for the Aging - Title IV and Title II Discretionary Projects	93.048				
Building a Community Living Project		498	90CD1200	307,697	-
IN ADRC Care Transitions Project		498	90CT0163	73,236	-
Indiana Aging and Disability		498	90DR0007	105,959	104,900
Total for Program				486,892	104,900
Alzheimer's Disease Demonstration Grants to States	93.051				
Alzheimer's Innovation Project		498	90AI000901	122,681	-
Total for Program					

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)					
National Family Caregiver Support, Title III, Part E	93.052				
Title IIIE - NFCSP		498	09AAINT3SP	(3,157)	-
TIII-E NFCSP		498	10AAINT3SP	1,748,052	-
TIII-E NFCSP		498	11AAINT3SP	1,271,607	-
Total for Program				3,016,502	-
Public Health Emergency Preparedness	93.069				
Public Health Preparedness		400	1H75TP000339-01	4,456,945	-
Degradation of Rural Healthcare		400	1U90TP000222	47,743	-
Total for Program				4,504,688	-
Environmental Public Health and Emergency Response - Addressing Asthma - 2010	93.070				
Addressing Asthma Program		400	FY12	452,406	-
Advancing System Improvements to Support Targets for Healthy People 2010	93.071				
Medicare Enrollment Assistance		210	09AAINMIDR	186,852	-
Medicare Enrollment Assistance		210	09AAINMIPP	178,711	-
Total for Program				365,563	-
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086				
Promoting Responsible Fatherhood		615	90FR0019	172,280	-
Promoting Responsible Fatherhood		615	90FR0101	168,717	-
Total for Program				340,997	-
Advancing System Improvements to Support Targets for Healthy People 2010	93.088				
Office of Women's Health Assistance		400	1 ASTWH070013-01-00	117,496	-
Emergency System for Advance Registration of Volunteer Heath Professionals	93.089				
Emergency System for Advance Registration		400	ESREP100014-01-00	59,881	-
Food and Drug Administration - Research	93.103				
Food Protection Task Force		400	R13FD003580	8,286	-
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104				
Child Mental Health Initiative		410	U9SM58518A	1,496,222	1,496,222
Maternal and Child Health Federal Consolidated Programs	93.110				
Data Integration Program		400	5 H18MC00017-12-00	33,185	-
State Implementation Grants		400	D70MC12842	237,848	-
Indiana Early Childhood Comprehensive		400	H25MC00263	168,691	-
First Time Motherhood/New Parents		400	H5MMC20281	145,939	-
Heritable Disorders		400	U22MC16507	419,002	-
Total for Program				1,004,665	-
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116				
Tuberculosis Elimination		400	2U52PS500520-28	816,058	-
Tuberculosis Cooperative Grant		400	5U52PS500520	116,087	-
Total for Program				932,145	-
Injury Prevention and Control Research and State and Community Based Programs	93.136				
Rape Prevention & Education Program		400	5VF1CE001115	806,596	-
Protection and Advocacy for Individuals with Mental Illness	93.138				
FY 11 PAIMI Formula Grant		044	2X98SM001897	271,626	-
DHHS PAIMI - 2009		044	3X98SM001897-09S1	128	-
PAIMI Formula Grant		044	3X98SM001897-10W1	239,407	-
Total for Program				511,160	-
Projects for Assistance in Transition from Homelessness	93.150				
PATH - Formula Grant		410	2X06SM060015-09	657,346	611,930
PATH - Formula Grant		410	2X06SM060015-10	517,444	407,953
PATH 2008		410	SMX060015R	(905)	-
Total for Program				1,173,885	1,019,883
Childhood Lead Poisoning Prevention Projects	93.197				
Childhood Lead Prevention Grant		400	5H64EH000135	992,931	-
Childhood Lead Program FY07		400	5H64EH000135	26,449	-
Total for Program				1,019,380	-
Consolidated Health Centers	93.224				
Primary Health Care Association		400	U68HP11487	145,215	-
Traumatic Brain Injury State Demonstration Grant Program	93.234				
Traumatic Brain Injury Implementation		497	H21MC06756	281,203	-
State Rural Hospital Flexibility Program	93.241				
Rural Hospital Flexibility Program		400	H54RH00042	519,079	-
Rural Hospital Flexibility Program		400	H54RH00042-12-10	192,620	-
Total for Program				711,699	-

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)					
Substance Abuse and Mental Health Services	93.243				
Indiana Offender Reentry Program		410	1H79TI021948-03	569,072	459,548
Indiana Offender Reentry Program		615	1H79TI021948-03	7,648	-
Indiana Data Infrastructure Grant		410	1HR1SM060353-01	84,392	-
SM58070A IN DIG III Project		410	5HR1SM058070-02	100,123	-
H9SM58129A		410	H9SM58129A	91,794	60,354
NASMHPD - TTI		410	SC-1026-IN-01	169,654	-
IN Strategic Prevention Frame		410	U9SP11212A	1,687,478	1,012,741
Total for Program				2,710,161	1,532,643
Universal Newborn Hearing Screening	93.251				
Universal Newborn Hearing Screening		400	H61MC00059	258,154	-
State Grants for Protection and Advocacy Services	93.267				
Protection Advocacy for Trauma		044	X82MC11200	57,287	-
Protection Advocacy for Trauma		044	X82MC11200	15,024	-
Traumatic Brain Injury Protect		044	X82MC16925	12,435	-
Total for Program				84,745	-
Substance Abuse and Mental Health Services - Access to Recovery	93.275				
IN ACCESS To Recovery - ATR07		410	07TI19486A	4,070,678	4,022,617
IN ACCESS To Recovery - ATR07		720	07TI19486A	46,663	-
Indiana Access to Recovery 3		410	1H79TI023153	440,150	-
Total for Program				4,557,492	4,022,617
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283				
Adult Viral Hepatitis Prevention		400	1U51PS000911	70,257	-
Policy Initiatives for Cancer		400	1U55DP003020-01	22,621	-
Indiana Early Hearing Detection		400	1UR3DD000425	163,709	-
Tobacco Use Prevention & Control		400	3U58DP522814-05WI	(1,037)	-
Epidemiology and Laboratory Capacity		400	5U50CI523777	628,947	-
Epidemiology & Laboratory Capacity		400	5U50CI523777-03	39,904	-
COMPREHENSIVE CANCER CARE (CCC)		400	5U58DP000838	250,660	-
BREAST & CERVICAL CANCER		400	5U58DP000838	1,747,655	-
Nutrition, Physical Activity		400	5U58DP001481	353,721	-
Epidem & Lab Capacity Infection		400	U50/CCU523777-02-2	19,922	-
Tobacco Use Prevention & Control		400	U58/CCU522814-03	(10)	-
Tobacco Use Prevention		400	U58/CCU522814-04-1	(8)	-
Federally Enhance Cancer Registration		400	U58DP000838	585,319	-
Surveillance Program Announcement		400	U58SO000028	347	-
Bioterrorism Preparedness & Response		400	U90/CCU517024-06	(151)	-
2007 Bio and PanFlu Operating		400	U90/CCU517024-07	(2,214)	-
Bio Preparedness and Response		400	U90TP517024	11,760,917	-
Total for Program				15,640,557	-
State Partnership Grant Program to Improve Minority Health	93.296				
State Partnership Grant Program		400	STTMP101057-02-00	23,680	-
Small Rural Hospital Improvement Grant Program	93.301				
Small Rural Hospital Improvement		400	H3HRH00003	293,638	-
Small Rural Hospital Improvement		400	H3HRH00003-06-00	(9)	-
Total for Program				293,628	-
ARRA - State Primary Care Offices	93.414				
ARRA - State Primary Care		400	U6AHP16683	53,685	-
Pregnancy Assistance Fund Program	93.500				
Support for Pregnant Parents		400	FY12	62,601	-
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505				
Affordable Care Act (ACA)		400	1 X02MC19401-01-00	66,631	-
Strengthening Public Health Infrastructure for Improved Health Outcomes	93.507				
CD10-1011 Strengthening Public		400	1U58CD001308-01	54,125	-
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511				
2010 Grants to States for Health Insurance Review		210	IPRPR100044-01-00	327,662	-
Affordable Care Act - Medicare Improvements for Patients and Providers	93.518				
ACA MIPPA		210	10AAINMAAA	73,125	-
ACA MIPPA		210	10AAINMADR	157,653	-
Total for Program				230,778	-
Centers for Disease Control and Prevention Affordable Care Act (ACA) Communities Putting Prevention to Work	93.520				
BRFSS, The Diabetes Prevention		058	U58DP001966	999,798	-
BRFSS, The Diabetes Prevention		400	U58DP001966	847,181	847,181
Total for Program				1,846,980	847,181
Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements	93.521				
Building & Strengthening Epidemiology, Laboratory and Health Information Systems		400		198,153	-

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)					
State Planning and Establishment Grants for the Affordable Care Act (ACA)	93.525				
Indiana Insurance Market, Inc,		405	1 HBEIE110065-01-00	187,737	-
Health Ins. Exchange Planning		210	HBEIE100021-01-00	644	-
Health Ins. Exchange Planning		503	HBEIE100021-01-00	725,126	-
Total for Program				913,506	-
Promoting Safe and Stable Families	93.556				
G-0901INFPSS - Title IV-B Subpart		502	G-0901INFPSS	5,610,223	-
Title IV-B Subpart 2 Promoting		502	G-0911INFPCV	210,831	-
Title IV-B Subpart 2 Promoting		502	G-1001INFPSS	4,686,244	-
Total for Program				10,507,298	-
Child Support Enforcement	93.563				
Healthy Marriages/Healthy Relations		502	0804INHMHR	83,852	-
Title IV-D Child Support Enforcement -- ARRA		502	0904IN4004	8,538,973	7,450,197
Title IV-D Child Support Enforcement		022	1004IN400	1,120,851	-
Title IV-D Child Support Enforcement		502	1004IN400	17,282,329	-
Child Support Enforcement		022	1104IN4004	1,891,973	-
Child Support Enforcement		502	1104IN4004	25,480,780	-
ARRA Stimulus		502	1104IN4004	2,009,680	1,865,690
Total for Program				56,408,437	9,315,887
Refugee and Entrant Assistance - State Admin	93.566				
REFSS 08 REFUGEE SOC SVCS		500	08AAIN5110	543	-
REFMED 09 Refugee Cash Assistance		500	09AAIN5100	33,527	-
REFSS 00 REFUGEE SOC SVCS		500	09AAIN5110	577,621	573,497
2010 Refugee Cash and Medical		400	10AAIN5100	74,100	74,100
2010 Refugee Cash and Medical		500	10AAIN5100	537,764	-
Refugee Social Services 2010		500	10AAIN5110	518,101	518,030
Total for Program				1,741,656	1,165,627
Refugee and Entrant Assistance - Discretionary Grants	93.576				
Refugee Preventive Health Discretionary Grants		400	90RX0162/03	137,251	-
Refugee School Impact 2009		700	90ZE0087/05	33,834	33,834
Refugee School Impact 2010		700	90ZE0142/01	63,968	63,968
Total for Program				235,052	97,802
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584				
Refugee Targeted Assist. Program		500	0901INRRTA	195,778	195,778
Refugee Targeted Assist. Program		500	1001INRRTA	121,891	121,891
Total for Program				317,669	317,669
State Court Improvement Program	93.586				
State Court Improv. Date Sharing		022	0801INSCID	123,632	-
Basic State Court Improvement		022	0801INSCIP	131,126	-
State Court Improve-Training		022	0801INSCIT	79,482	-
State Court Improv. Data Sharing		022	0901INSCID	81,185	-
State Court Improvement Program		022	0901INSCIP	197,182	-
Basic State Court Improve-Training		022	0901INSCIT	103,857	-
State Court Improvement - Basic		022	1001INSCIP	91,054	91,054
State Court Improvement - Training		022	1001INSCIT	35,684	35,684
Total for Program				843,203	126,738
Community Based Child Abuse Prevention Grant	93.590				
Family Resource & Support Grant		502	0901INFRPG	26,985	-
Community Based Child Abuse Project		502	1001INFRPG	1,147,468	-
Total for Program				1,174,453	-
Grants to States for Access and Visitation Program	93.597				
		502	1001INSAVP	100,037	-
Adoption Incentive Program Payments	93.603				
AIPP 08 SNAP II		502	0801INAIPP	55,808	-
Voting Access for Individuals with Disabilities - Grants to States	93.617				
Voting Access for Individuals with Disabilities		063	G-0603INVOTE	25,599	25,599
Election Assistance for Individuals with Disabilities		063	G-0703INVOTE	43,942	43,942
Help American Vote Act		063	G-0903INVOTE	19,966	19,966
Voting access for individuals		063	G-1103INVOTE	9,573	9,573
Total for Program				99,079	99,079
Voting Access for Individuals with Disabilities - Grants for Protection and Advocacy Systems	93.618				
DHHS PAVA		044	2009G993290	45,132	-
DHHS PAVA - Protection and Advocacy		044	G-0803INVOTP	35,363	-
Total for Program				80,496	-

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STATE OF INDIANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
July 1, 2010 to June 30, 2011
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)					
Developmental Disabilities Basic Support and Advocacy Grants	93.630				
Dept Health Human Serv - 2005		035	2005 G994902	154,311	-
Dept Health Human Serv - 2006		035	2006 G994902	(154,311)	-
2008 Dept. of Health and Human		035	2008G994902	274,840	-
Protection and Advocacy Grant		044	2X98SM001897-11	243,018	-
2009 Dept. of Health and Human Serv		035	G-1001INBS15	598,231	-
Developmental Disabilities		035	G-1001INBS15	265,286	-
DHHS PADD - 2010		044	G-1001INPA15	461,788	-
Developmental Disabilities		035	G-1101INBS15	339,369	-
Total for Program				2,182,533	-
Children's Justice Grants to States	93.643				
I-356000158-J7 2008G99CJ07 - C		502	G-0802INCJA1	33,702	-
Children Justice Act Grant		502	G-0902INCJA1	164,886	-
Total for Program				198,588	-
Child Welfare Services - State Grants	93.645				
Child Welfare Services Program		502		1,166,682	-
Child Welfare Services Program		502	G-0901INCWSS	5,102,658	-
Total for Program				6,269,340	-
Foster Care - Title IV - E	93.658				
ARRA - Foster Care Title IV-E		502	0901IN1402	3,216,771	-
Foster Care Program FY 2010		502	1001IN1401	10,007,741	-
Foster Care - States Programs		502	1101IN1401	59,956,237	-
DCS - Foster Care - Payment Reimb		502	1101IN1402	598,567	-
FFY 2011 for the Title IV-E Fo		502	SM058070	31,107,318	-
Total for Program				104,886,634	-
Adoption Assistance	93.659				
ARRA - Adoption Assistance				6,763,656	
Adoption Assistance Program FY09		502	0901IN1403	6,851,680	-
AA09 Adoption Assistance		502	0901IN1407	(65,630)	-
Adoption Assistance Program		502	1001IN1407	8,235,549	-
Adoption Assistance Program		502	1101IN1407	43,961,931	-
Total for Program				65,747,186	-
Social Services Block Grant	93.667				
SSBG BLOCK GRANT		032	1102INSOSR	177,282	177,282
SSBG BLOCK GRANT		410	1102INSOSR	2,421,937	1,744,354
SSBG BLOCK GRANT		497	1102INSOSR	6,946,716	-
SSBG BLOCK GRANT		498	1102INSOSR	3,973,193	-
SSBG BLOCK GRANT		500	1102INSOSR	54,226	-
Social Svc Block Grant (SSBG)		032	2009G992342	(2,042)	(2,042)
Social Svc Block Grant (SSBG)		502	2009G992342	10,813,091	-
Social Svc Block Grant (SSBG)		032	G-1002INSOSR	(2,817)	(2,817)
Social Svc Block Grant (SSBG)		400	G-1002INSOSR	431,524	-
Social Svc Block Grant (SSBG)		410	G-1002INSOSR	1,104	-
Social Svc Block Grant (SSBG)		497	G-1002INSOSR	390,509	-
Social Svc Block Grant (SSBG)		498	G-1002INSOSR	1,068,609	-
Social Svc Block Grant (SSBG)		500	G-1002INSOSR	92,858	-
Social Svc Block Grant (SSBG)		502	G-1002INSOSR	3,127,754	-
Social Svc Block Grant (SSBG)		615	G-1002INSOSR	866,336	-
Total for Program				30,360,280	1,916,777
Child Abuse and Neglect State Grants	93.669				
CAPTA 08		502	0801INCA01	50,453	-
Child Abuse Prevention		502	G-0901INCA01	551,826	-
Total for Program				602,279	-
Shelter's Grants to States and Indian Tribes	93.671				
Family Violence Prevention & Shelter		032	G-0901INFVPS	132,378	109,039
Family Violence Prevention & Shelter		032	G-1001INFVPS	1,643,143	1,605,744
Total for Program				1,775,521	1,714,783
Chafee Foster Care Independence Program	93.674				
Independent Living Program 09		502	G-0901IN1420	(75,407)	-
Independent Living Program		502	G-1101IN1420	1,496,492	-
Total for Program				1,421,085	-
ARRA - Preventing Healthcare-Associated Infections	93.717				
ARRA - ELC ARRA-HAI Prevention		400	3U50CI523777-05S1	294,245	-
ARRA - Prevention and Wellness-State, Territories and Pacific Islands	93.723				
ARRA - ARRA-BRFSS, Diabetes		400	3U58DP001966-01S2	268,313	-
ARRA - ARRA-BRFSS, Diabetes		058	3U58DP001966-01S3	970,940	-
Total for Program				1,239,253	-

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)					
ARRA - Prevention and Wellness-Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724				
ARRA - Community Putting Prevention to Work		400	1U58DP002410	1,885,191	-
ARRA - BRFSS, The Diabetes Prevention		400	3U58DP001966-02W1	114,348	-
Total for Program				1,999,539	-
ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725				
ARRA - Indiana Living a Health		498	90RA0011	162,994	-
Childrens Health Insurance Program	93.767				
CHIP 08		503	0805IN5021	1,209,358	-
Children's Health Insurance Program		503	1005IN5021	84,468,646	-
Children's Health Insurance Program		503	7590515 CHIPRA	19,886,726	-
Total for Program				105,564,730	-
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768				
Work first: Building Indiana		497	1QACMS030530	1,211,080	-
Work first: Building Indiana		497	IQACMS030232/02	(8,251)	-
Total for Program				1,202,829	-
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779				
STATE HEALTH INS ASSIST PROGRAM		210	11-P-20202-5/17	162,537	-
Medicare Improvements		210	1X0CMS330766-01-00	159,312	-
LIS/MSP Outreach to Low Income		210	1Y0CMS030348	102,555	-
State Health Insurance Assistance		210	INOCMS020202-18	680,315	-
LIS/MSP Outreach to Low income		210	IX0CMS030393	136,054	-
Total for Program				1,240,773	-
Alternatives to Psychiatric Residential Treatment Facilities for Children	93.789				
PRTF-Psych Res Treatment Facilities		410	1SOCMS300134/01	8,784,359	-
Alternate Non-Emergency Service Providers or Networks	93.790				
Indiana Partnership for Alternate non-emergency Service Providers		503	1VOCMS030247	395,118	-
Money Follows the Person Rebalancing Demonstration	93.791				
Money Follows The Person Demo		498	1LICMS300150/01	3,395,128	-
Medicaid Transformation Grants	93.793				
Medicaid Transformation		503	1U0C30220A	63,203	-
MEDICAID TRANSFORMATION		503	7570516	(810)	-
Total for Program				62,393	-
National Bioterrorism Hospital Preparedness Program	93.889				
HRSA Bioterrorism Hospital		400		120	-
Bioterrorism Hospital Prepared		400	U3REP080015-01-00	17,761	-
Pandemic Influenza Healthcare		400	U3REP090136-01	108,995	-
National Bioterrorism Hospital		400	U3REP090262-01	7,801,359	241,151
Total for Program				7,928,235	241,151
Grants to States for Operation of Offices of Rural Health	93.913				
State Office of Rural Health		400	H95RH00136-20-00	240,518	-
HIV Care Formula Grants	93.917				
Ryan White Title II Formula Grant		400	X07HA00033	(39)	-
Ryan White Part B HIV Care Grant		400	X07HA00033-20-01	10,353,166	-
Ryan White Part HIC Care Grant		400	X07HA00033-21-00	1,925,041	-
Ryan White Part B Supplemental		400	X08HA19748-01-00	118,426	-
Total for Program				12,396,595	-
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938				
IN. Program to Improve Health		400	5U87DP001178	52,593	-
IN. Program to Improve Health		700	5U87DP001178	238,186	13,743
Total for Program				290,779	13,743
HIV Prevention Activities-Health Department Based	93.940				
AIDS Prevention Program		400	3U62PS523488	2,784,495	-
Human Immunodeficiency Virus/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944				
HIV Surveillance Program		400	1U62PS001049-01	881,899	-
Morbidity and Risk Behavior		400	1U62PS001599	419,457	-
PS05-085, Surv of HIV/AIDS		400	5 U01 PS000116-02	5,738	-
Surveillance of AIDS Related		400	5U01PS000116	11,178	-
Total for Program				1,318,272	-
Block Grants for Community Mental Health Services	93.958				
Block Grant for Community Mental Health		410	3B09SM010019-09S2	725,001	-
Block Grant for Community Mental Health		410	3B09SM010019-10S3	5,135,809	2,661,270
FY 11 Block Grants for Community Mental Health		410	3B09SM010019-11S4	218,686	-
Total for Program				6,079,496	2,661,270

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STATE OF INDIANA
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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)					
Block Grants for Prevention and Treatment of Substance Abuse	93.959				
Prev & Treat of Substance Abuse		410	08B1INSAPT	26,763	-
Substance Abuse Prev & Treatment		410	2B08TI010019	28,745,780	23,467,454
Substance Abuse Prev & Treatment		410	3B08TI010019-11S1	2,683,645	2,634,391
Substance Abuse Prev & Treatment		410	B08TI010019-09SI	(194,202)	-
Total for Program				31,261,986	26,101,845
National All Schedules Prescription Electronic Reporting Grant	93.975				
National All Schedules Prescription Electronic Reporting Grant		250	1X98TI010105-01	68,535	-
National All Schedules Prescription Electronic Reporting Grant		250	2X99TI010105-02	43,143	-
Total for Program				111,677	-
Preventive Health Services-Sexually Transmitted Diseases Control Grants	93.977				
Preventive Health Svc		400	1H25PS001360-01	1,803,456	-
Preventive Health and Health Services Block Grant	93.991				
Preventive Health Services Block		032	3B01DP009019	131,222	131,222
Preventive Health Services Block		400	3B01DP009019	1,729,876	-
Total for Program				1,861,098	131,222
Maternal and Child Health Services Block Grant to the States	93.994				
Maternal and Child Health Services		400	B04MC21390-01-06	10,417,347	68,000
Maternal and Child Health Services		615	B04MC21390-01-06	27,026	-
Maternal and Child Health Services		615		23,413	-
Total for Program				10,467,787	68,000
Total U.S. Department of Health and Human Services				5,785,699,914	85,486,996
CORPORATION FOR NATIONAL & COMMUNITY SERVICE					
State Commissions	94.003				
Corporate National Community S		720	07CAHIN001	(2,640)	-
Corporate National Community S		720	10CAHIN001	454,771	-
Total for Program				452,131	-
Learn and Serve America - School and Community Based Programs	94.004				
Learn & Serve America School		700	09KSNIN001	278,738	200,878
Learn Service Indiana Comm 2006		700	U06KSNIN001	20,793	2,375
Total for Program				299,531	203,253
AmeriCorps	94.006				
ARRA - National Service Program		720	09RFHIN001	69,520	69,520
CNC AMER FORMULA - 2007-2011		720	06AFHIN001	1,829,080	1,829,080
AmeriCorps Competitive Program		720	09ACHIN001	834,651	834,651
2010 AmeriCorps Formula Fixed		720	10FXHIN001	12,563	12,563
Total for Program				2,745,813	2,745,813
Program Development and Innovation Grants	94.007				
CNC Disability - 2007		720	07CDHIN001	20,387	-
CNCS - 2010 DIS		720	10CDHIN001	22,302	-
Total for Program				42,689	-
Training and Technical Assistance	94.009				
2007 PDAT Budget		720	06PTHIN001	553	-
National Service Program - ADM		720	09PTHIN001	87,711	-
Total for Program				88,264	-
Volunteers in Service to America					
AmeriCorps VISTA project	94.013	720	07VSNIN001	10,073	-
Total Corporation for National and Community Service				3,638,501	2,949,066
SOCIAL SECURITY ADMINISTRATION					
Disability Insurance/SSI Cluster	96.001				
0804INDI00 CMIA SSA DD Soc Sec		497	0804INDI00	279,547	-
CMIA SSA DD Soc Sec Adm/IN DDS		497	0904INDI00	(449,693)	-
CMIA SSA DD Soc Sec Adm/IN DDS		497	1004IND100	17,788,623	-
CMIA SSA DD Soc Sec Adm/IN DDS		497	1104INDI00	33,991,831	-
				51,610,308	-
Total for Program/Cluster					
Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	96.009				
SOC SEC PABSS - 2009		044	5 PAB05020240-07-00	104,699	-
Total for Social Security Administration				51,715,008	-

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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF HOMELAND SECURITY					
Homeland Security Cluster					
Homeland Security Grant Program	97.067				
HOMELAND SECURITY GRANT		385	2005-GE-T5-0049	(2,340)	-
HOMELAND SECURITY GRANT		100	2006-GE-T6-0019	3,668	-
HOMELAND SECURITY GRANT		385	2006-GE-T6-0019	(112,257)	-
HOMELAND SECURITY GRANT		061	2007-GE-T7-0026	293,305	-
HOMELAND SECURITY GRANT		100	2007-GE-T7-0026	4,585	-
HOMELAND SECURITY GRANT		300	2007-GE-T7-0026	120,622	-
HOMELAND SECURITY GRANT		351	2007-GE-T7-0026	57,200	-
HOMELAND SECURITY GRANT		385	2007-GE-T7-0026	9,309,518	7,860,209
FY 2008 Homeland Security Grant		100	2008-GE-T8-0032	597,726	-
FY 2008 Homeland Security Grant		110	2008-GE-T8-0032	144,586	-
FY 2008 Homeland Security Grant		351	2008-GE-T8-0032	94,282	-
FY 2008 Homeland Security Grant		385	2008-GE-T8-0032	3,141,222	2,449,428
FY09 Homeland Security Grant		100	2009-SS-T9-0032	793,736	-
FY09 Homeland Security Grant		300	2009-SS-T9-0032	50,000	-
FY09 Homeland Security Grant		351	2009-SS-T9-0032	10,969	-
FY09 Homeland Security Grant		385	2009-SS-T9-0032	5,465,596	5,026,080
FY10 Homeland Security Grant		100	2010-SS-TO-0038	9,167	-
FY10 Homeland Security Grant		385	2010-SS-TO-0038	478,553	227,078
Total for Program/Cluster				20,460,137	15,562,795
Boating Safety Financial Assistance	97.012				
USDA/US Coast Guard FY11		300	11.01.18	576,072	-
FY2009 Boating Safety Grant		300		914,919	-
Total for Program				1,490,991	-
Pre-Disaster Mitigation-Competitive	97.017				
Pre-Disaster Mitigation		385	EMC-2005-PC-0004	12,724	12,724
FY07 Pre-Disaster Mitigation		385	EMC-2008-PC-0002	169,389	169,386
Total for Program				182,113	182,110
Community Assistance Program State Support Services Element	97.023				
Community Assistance Program		300	EMC-2010-CA-7004	34,603	-
Flood Mitigation Assistance	97.029				
FY 09 Mitigation Assistance		385	EMC-2010-FM-E001	7,557	7,557
Disaster Unemployment Assistance	97.034				
UI Disaster Relief and Benefit		510	UI157970755	112	-
Other Needs Assessment	97.035				
Individual Assistance Program		385	IA 1487	(546)	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036				
Public Assistance Disaster 174		385	1740DRINP00000001	146,707	153,976
Public Assistance - DR1766		300	1766DRINP00000001	55,373	-
Public Assistance - DR1766		385	1766DRINP00000001	2,194,995	1,924,942
Public Assistance - PA-1795		225	17951795DRINP00000001	35,457	-
Public Assistance - PA-1795		385	17951795DRINP00000001	712,637	634,619
Restoration of Disaster Caused		385	1828DRINP00000001	16,461	503
EMAC - Federal Grant for Hurricane		385	EMAC	(136,588)	-
Total for Program				3,025,041	2,714,040
Hazard Mitigation Grant	97.039				
Hazard Mitigation		385	1542DRINP00000005	698	698
Hazard Mitigation - 1573		385	1573DRINP00000005	10,575	10,575
HMGP - Vanderburgh Co. Wind		385	1612DRINP00000005	414	-
Hazard Mitigation		385	1662DRINP00000005	187,044	187,044
Hazard Mitigation		385	1732DRINP00000005	211,386	188,314
Hazard Mitigation - DR1732 - S		385	1732DRINP00000005	212,345	-
Hazard Mitigation - DR1740		385	1740DRINP00000005	569,745	569,745
HAZARD MITIGATION - HM1766		385	1766DRINP00000005	6,472,028	6,472,028
Hazard Mitigation grants		385	1795DRINP00000005	347,852	244,783
Total for Program				8,012,087	7,673,187
National Dam Safety Program	97.041				
FY 09 National Dam Safety Prog		300	2009-RC-55-0032	9,465	-
FY 09 National Dam Safety Prog		385	2009-RC-55-0032	16,450	-
FY 10 National Dam Safety Prog		300	2010-RC-50-0009	13,000	-
Total for Program				38,915	-
Emergency Management Performance Grant	97.042				
FFY 2006 Emergency Management		385	2006-EM-E6-0044	(15,600)	-
FY2007 Emergency Management		385	2007-EM-E7-0028	7,895	-
FY07 Emergency Management		385	2007-EM-E7-0091	204,725	-
FY 2008 Emergency Mgmt		100	2008-EM-E8-0050	(650)	-
FY 2008 Emergency Mgmt		110	2008-EM-E8-0050	9,502	-
FY 2008 Emergency Mgmt		230	2008-EM-E8-0050	45,106	-
FY 2008 Emergency Mgmt		385	2008-EM-E8-0050	732,087	9

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

STATE OF INDIANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
July 1, 2010 to June 30, 2011
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Business Unit - Note 4	Grant Number	Federal Awards Expended	Passed Through To Subrecipients
U.S. DEPARTMENT OF HOMELAND SECURITY (continued)					
Emergency Management Performance Grant (continued)					
Interoperable Communications		286	2008-IO-T8-0025	46,099	-
Interoperable Communications		385	2008-IO-T8-0025	511,281	-
Indiana FY 2009 EMPG Project S		100	2009-EP-E9-0012	1,849	-
Indiana FY 2009 EMPG Project S		385	2009-EP-E9-0012	2,700,586	1,359,888
Indiana FY 2010 EMPG EMPG Program		385	2010-EP-00-0005	1,667,361	168,281
Total for Program				5,910,241	1,528,178
State Fire Training Systems Grants	97.043				
FY09 State Fire Training Grant		385	2009-RB-63-0139	27,908	27,108
FY2010 State Fire Training System		385	2010-RB-63-0039	21,746	21,746
State Fire Training Systems		385	EMW-2008-GR-0610	(1,382)	-
Total for Program				48,272	48,854
Assistance to Firefighters Grant	97.044				
Assistance to Firefighters		385	EMW-2009-FP-00680	299,628	-
Cooperating Technical Partners	97.045				
Cooperating Technical Partners		300	EMC-2004-GR-0210	(15,937)	-
3001000105		300	EMC-2005-GR7022	89,191	-
Cooperating Technical Partners		300	EMC-2006-CA-7016	262,668	-
FEDERAL97.045COOPERATING TEC		300	EMC-2007-CA-7027	520,537	-
Cooperating Technical Partners		300	EMC-2008-CA-7017	657,211	-
Cooperating Technical Partners		385	EMC-2008-CA-7017	80,241	80,241
Cooperating Technical Partners		300	EMC-2009-CA-7008	145,401	-
Total for Program				1,739,312	80,241
Pre-Disaster Mitigation	97.047				
LPDMC- 2008-69-5760RB-9052-410		385	EMC-2008-PD-0002 (FY08)	198,492	198,492
FY 2009 Pre-Disaster Mitigation		385	EMC-2009-PC-0005	61,952	-
Total for Program				260,444	198,492
Interoperable Emergency Communications	97.055				
FY09 Interoperable Emergency Comm		385	2009-IP-T9-0013	411,220	154,500
Map Modernization Management Support	97.070				
Map Modernization Management		300	EMC-2006-CA-7010	(57,681)	-
Map Modernization Management		300	EMC-2008-CA-7011	3,308	-
Total for Program				(54,373)	-
Buffer Zone Protection Program (BZPP)	97.078				
FY 06 Buffer Zone Protection		385	2006-BZ-T6-0030	118,342	106,114
FY 2007-IPP Buffer Zone Protection		385	2007-BZ-T7-0003	370,477	370,477
Total for Program				488,818	476,591
Driver's License Security Grant Program	97.089				
FY 2008 Real ID Demonstration		235	2008-ID-T8-0052	603,856	-
Homeland Security Biowatch Program	97.091				
Biowatch Homeland Security 2006		495	2006-ST-091-000019	189,650	-
Total U.S. Department of Homeland Security				43,148,079	28,626,545
Grand Total Federal Financial Assistance				$ 12,857,005,075	$ 1,399,008,508

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

STATE OF INDIANA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Scope of Schedule

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

Note 2. Basis of Presentation

a. The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the State of Indiana and is presented in accordance with requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of Federal Awards expended is based on when the activity related to the award occurs. 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 ENCOMPASS financial accounting system and certified by individual agency financial staff; the financial statements were also prepared from this system. Expenditures are separated within the federal programs by the Business Unit (BU) creating the expenditure to the State and by individual grants. See Note 4 for a listing of agencies and BUs.

c. With regard to DOT advance projects, federal expenditures are not included until the U.S. Department of Transportation has confirmed their percentage of participation.

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 is subject to 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 calendar year end date of December 31.

Component Unit	Federal Funds Expended
Purdue University	$ 712,629,471
Indiana University	1,087,530,307
Indiana State University	93,151,444
Ball State University	158,609,873
Vincennes University	74,285,228
University of Southern Indiana	60,281,146
Ivy Tech State College	662,750,559
Indiana Finance Authority	89,143,219
Indiana Housing and Community Development Authority	470,939,306
Total	$ 3,409,320,553

Note 4. State Agencies

The following State agencies and related business units (BUs) are included on the Schedule of Expenditures of Federal Awards.

Agency	BU	Agency Name
AC	705	Arts Commission
ADG	110	Adjutant General
AG	046	Attorney General, Office of the
AOS	050	Auditor of State
ATC	230	Alcohol & Tobacco Commission
BA	057	Budget Agency
BMV	235	Bureau of Motor Vehicles
BOAH	351	Board of Animal Health
BS	550	School for the Blind
CHE	719	Commission for Higher Education
CJI	032	Criminal Justice Institute
CPE	703	Commission on Proprietary Education
CRC	258	Civil Rights Commission
DCS	502	Department of Child Services
DEM	495	Department of Environmental Management
DHS	385	Department of Homeland Security
DNR	300	Department of Natural Resources
DOA	061	Department of Administration
DOC	615-614-616 to 687	Department of Correction
DOE	700-718	Department of Education
DOI	210	Indiana Department of Insurance
DOL	225	Department of Labor
DOR	090	Department of Revenue
DS	560	School for the Deaf
DOT	800	Department of Transportation
DVA	160	Department of Veterans' Affairs
DWD	510	Department of Workforce Development
EC	063	Election Commission
EDC	260	Economic Development Corporation
FBCS	720	Office of Faith Based & Community Service
FSSA	405-410-440-497-498-498-500-503	Family and Social Services Administration
GPC	035	Governor's Planning Council for People With Disabilities
IPSC	286	Integrated Public Safety Commission
JC	026	Judicial Center
LETB	103	Law Enforcement Training Board
LT.GOV	036-038	Lieutenant Governor – Dept. of Agriculture
IOT	067	Office of Technology
PAC	039	Prosecuting Attorney's Council
PASC	044	Protection and Advocacy Services Commission
PDC	610	Public Defender Council
PEN	515	Prison Enterprises Network
PLA	250	Professional Licensing Agency
PSB	245	Professional Standards Board

Agency	BU	Agency Name
SC	022	Supreme Court
SDOH	400-058	State Department of Health
SL	730	State Library
SP	100	State Police
SSAC	715	State Student Assistance Commission
URC	200	Utility Regulatory Commission
VH	570	Veterans' Home

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. Supplemental Nutrition Assistance Program – SNAP (Food Stamps)

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof the Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual state level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for 16.55% of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2011.

Note 7. 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
National School Lunch Program	10.555	$ 39,391,475
Summer Food Service Program for Children	10.559	41,474
TEFAP – The Emergency Food Assistance Program	10.568	5,068,864
Donation of Federal Surplus Personal Property	39.003	3,623,837
Immunization Grants	93.268	4,815,578

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?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	Yes
Significant deficiencies identified?	Yes

Type of auditor's report issued on compliance for major programs: Unqualified for all major programs except for Transportation Investment Generating Economic Recovery (TIGER) Program, Temporary Assistance to Needy Families (TANF) Cluster, Medicaid Cluster, Childrens' Health Insurance Program (CHIP), and the Justice Assistance Grant (JAG) Program Cluster, which were qualified.

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

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

Auditee qualified as low-risk auditee?	No

Identification of major programs:

CFDA No.	Program Title
10.558	Child and Adult Care Food Program
CNC	Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)
CDBG	State-Administered CDBG Cluster (14.228)
JAG	JAG Program Cluster (16.738, 16.803)
17.225	Unemployment Insurance
WIA	Workforce Investment Act Cluster (17.258, 17.259, 17.260)
HPCC	Highway Planning and Construction Cluster (20.205, 20.219)
20.932	Transportation Investment Generating Economic Recovery (TIGER)
81.041	State Energy Program
81.128	Energy Efficiency & Conservation Block Grant
Title 1	Title 1 Cluster (84.010, 84.389)
SEC	Special Education Cluster (84.027, 84.173, 84.391, 84.392)
84.367	Improving Teacher Quality

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

CFDA No.	Program Title
84.410	Education Jobs Fund
VRC	Vocational Rehabilitation Cluster (84.126, 84.390)
FSC	State Fiscal Stabilization Cluster (84.394, 84.397)
TNF	TANF Cluster (Temporary Assistance to Needy Families -93.558)
93.563	Child Support Enforcement
CCC	CCDF Cluster (93.713, 93.575, 93.596)
93.658	Foster Care – Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant - SSBG
93.767	Children's Health Insurance Program (CHIP)
MC	Medicaid Cluster (93.720, 93.775, 93.777, 93.778)
93.959	Prevention & Treatment of Substance Abuse Block Grant (SAPT)
96.001	Disability Insurance
97.067	Homeland Security Grant

Section II - Financial Statement Findings

The audit of the State of Indiana's financial statements disclosed significant deficiencies and material weaknesses that are required to be reported. Management's response to these findings follows the section entitled PRIOR AUDIT FINDINGS – RESOLVED.

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. Procedures have been established which require State agencies to ensure that all purchases of land, equipment, buildings and related improvements, and retirement and sale of assets of $500 or more are properly recorded within the State's capital asset records. Additionally, agencies are required to physically tag assets and conduct an annual physical inventory of assets, comparing the results of such inventory to the asset listing. In our prior audits, testing revealed that agencies had not consistently complied with the above requirements. This lack of compliance resulted in a lack of internal control over the State's capital assets as well as misstatements of capital assets in the financial statements. In prior years, assets have frequently been reported as additions in subsequent fiscal periods after the acquisition of the assets, thus resulting in prior period adjustments in the State's financial statements. In response to this lack of compliance by the agencies, significant concentration was given by the State during the design and implementation of the new accounting system to determine measures and implement procedures that would properly and consistently record new personal and real property asset purchases within the Asset Management (AM) module of ENCOMPASS. These procedures have significantly improved the proper recording of new purchases; however, assets that previously were not properly reported have continued to require research and steps taken to correct the misstatements. These corrections required a prior period adjustment of $64 million in the current audit period to correct beginning net assets for assets acquired but not reported in prior periods, for corrections to acquisition cost reported by State agencies, and for the elimination of duplicate assets. Our current audit testing found that agencies still do not consistently comply with the established requirements for the physical tagging of assets and the conducting of annual inventories of assets. Additionally, it is noted that historical land purchases are not correctly itemized and reported within the AM module. Specifically, one land asset was recorded within AM at a cost greater than $97 million. This asset is actually several hundred parcels of real property owned by the State. The $97 million attributed to this asset has been reported in this amount since 1989, even though a number of parcels have been sold since that time. These parcels could not be classified as disposed when sold since the parcels are not adequately itemized within the AM module. Additionally, we were unable to determine that personal property assets being surplused were properly reclassified as such within ENCOMPASS. This was due to agencies not properly placing the tag number of surplused assets on the required State Surplus form.

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, Organizational Overview Chapter)

All accounting forms, records and systems used by governmental units in the State of Indiana are required to be prescribed or approved by the SBOA. This includes all statements and reports necessary for the internal administration of the office to which they pertain. It also includes electronic, automated or computerized systems. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview Chapter)

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:	Significant Deficiency

As reported in prior audits, 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 in prior years required each agency that receives federal financial assistance to prepare a schedule that reflected fiscal year grant activity. This schedule included beginning cash balance, federal receipts, program expenditures, ending cash balance, and funds passed through to subrecipients, for each grant award. The State implemented a new accounting system during the prior fiscal year and business processes were designed that were to allow for a statewide grant schedule to be produced from the grant records maintained in the projects module. However, it was determined that agencies had not consistently followed the business processes designed for grant accounting in the projects module and, thus, a reliable grant schedule could not be produced out of ENCOMPASS. Therefore, for fiscal year 2010, agencies were directed to again individually compile grant schedules and submit them for compilation into a statewide schedule. During our audit of those schedules, we had again found various errors in the agency-prepared grant schedules. During the current fiscal year, concentration was given by the State to the project costing module in relation to proper grant reporting. Throughout the year, meetings were held to determine measures to assure that all State agencies receiving federal funds were recording receipts and expenditures in a consistent manner in order that a reliable schedule of federal awards and the related amounts for grants receivable and deferred revenue could be generated. At year end, reports for each separate business unit were run and sent to the applicable CFO or Controller to verify the amounts, recommend any changes needed, attest to the accuracy, and return. During our testing of the returned schedules, various issues were required to be investigated and resolved with agency grant personnel. Although the process for obtaining federal awards expended is improved, federal cash balances are still unable to be pulled from the ENCOMPASS financial system and as such a control weakness still exists as it relates to the preparation of accruals for grants receivable and deferred revenue.

Adequate grant schedule reporting is necessary 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, Organizational Overview Chapter)

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:	Significant Deficiency

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 $12.8 million of construction projects were completed but were still accounted for in construction in progress. Additionally, our testing of IDOA projects disclosed $12.1 million in maintenance projects that were improperly classified as capital projects in 2010. 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. Subsequent to our testing, IDOA implemented new procedures to help properly determine if a construction project is a capital project.

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, Organizational Overview Chapter)

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 2008 audit, adequate procedures were not in place to properly report the Medicaid Assistance Fund transactions made by the Medicaid fiscal agent for proper external financial reporting. The State accounting records post only the net disbursement issued to fund the Medicaid checking account. In fiscal years 2009 through 2011, adjusting entries were submitted by FSSA for external financial reporting to properly recognize accounts receivable, accounts payable, and quality assessment fees. During our current audit, we found that prepayments issued by the fiscal agent for managed care contracts of $80.2 million were omitted from the adjusting entries.

Additionally, during the current audit we found that in fiscal year 2011 FSSA transferred $391.8 million in federal grant revenue from the Medicaid Fund to the ARRA Fund. The transaction was described as a 2009 adjustment, yet lacked sufficient basis. The ARRA Fund also had understated revenue and expenses of $31 million when prior year overstated amounts were reversed.

Adjustments were made to correct the financial reporting for the above errors. In January 2012, the transfer error was corrected by returning funds from ARRA to the Medicaid Fund.

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. Risk assessment should be applied to the understanding of the environment and transaction source changes in order to ensure complete and accurate financial statements. The State should design procedures to ensure material errors are detected and corrected in a timely manner. This may include regular review of project level trial balances as generated from ENCOMPASS.

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, Organizational Overview)

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, Organizational Overview)

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 responsible 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. Additionally, in September 2009, IDWD began recording the receipt of unemployment tax from Indiana employers and the distribution of the funds to the U.S. Department of the Treasury as a net amount. 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 U.S. Department of the Treasury and expenditures for the unemployment benefits, the State must make large adjustments in order to fairly present 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. During our audit of the financial statements, we recommended material adjustments to fairly state the activity of the Unemployment Insurance Fund.

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.

System controls are in effect on the ENCOMPASS financial accounting system, which is the official book of record for the State; however, each agency is responsible for controls in any subsidiary systems used or other records maintained. At all times, the agency's manual and subsidiary ledgers should reconcile with ENCOMPASS. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview Chapter)

The State accounting system includes features of standardized source documents, uniform transaction identification and classification codes, uniform report formats, an account structure with summarization of activity for business units and funds, and centralized control for revenue deposits and warrant issuance. This structure is designed to identify, analyze, classify, record, and report the State of Indiana financial transactions and to maintain accountability of the related assets and liabilities. This account structure provides for the preparation of the Indiana Comprehensive Annual Financial Report (CAFR) in conformity with generally accepted accounting principles, as prescribed by Governmental Accounting Standards Board (GASB) pronouncements. The GASB 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, Organizational Overview Chapter)

FINDING 2011 - CAFR-1, INTERNAL CONTROLS OVER CORPORATE TAX

Auditee Contact Person:	Darrel Anderson
Title of Contact Person:	Chief Financial Officer
Phone Number:	317-232-2177
Internal Control:	Material Weakness

The Indiana Department of Revenue (IDOR) administers and collects tax revenues for the State. Beginning in 2007, IDOR provided taxpayers the option to pay their estimated corporate income tax through an electronic payment method known as eCheck. In November 2011, an error was discovered in IDOR's post-remittance transfer process in which estimated corporate income tax payments made since the inception of the electronic filing were not transferred out of IDOR's Collection Fund and credited to the State's General Fund. The error occurred from January 2007 through November 2011, totaling $320,193,219.24. Of this amount, $148,850,227.31 occurred prior to the current audit period, $139,194,582.51 occurred during State fiscal year (SFY) 2011, and $32,148,409.42 occurred subsequent to the audit period in SFY 2012. These errors resulted in a prior period adjustment in the SFY 2011 financial statements of $148,850,227.31 to increase the beginning net assets of the General Fund and reduce the net assets of the Collection Fund, as well as adjusting entries to properly reflect corporate income tax revenues during SFY's 2011 and 2012.

The post-remittance transfer error was a result of a programming error in IDOR's Voucher Commit Report that is used to transfer revenues out of the Collection Fund. The lack of internal controls in place over the Collection Fund by not having proper reconciliation procedures in place allowed the accumulation of corporate tax revenues in the Fund to go undetected.

During our audit of IDOR's adjusting entries to correct the General Fund understatement of $320,193,219.24, we discovered IDOR had duplicated $993,174.17 of the estimated corporate income tax eCheck November 2011 activity, thereby causing the Collection Fund to be understated and the General Fund overstated by that amount after the adjusting entries were posted to the State's accounting system in November 2011. An adjusting entry was made to correct for the duplication error in December 2011. A balance of $46,404,516.52 remained in the Collection Fund after the November 2011 adjusting entries for corporate income tax revenues were made. This balance increased to $47,397,690.60 after the December adjusting entry was posted. As of January 2012, IDOR was unable to account for all of the payments that make up the Collection Fund's balance of $47,397,690.60.

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

System controls are in effect on the ENCOMPASS financial accounting system, which is the official book of record for the State; however, each agency is responsible for controls in any subsidiary systems used or other records maintained. At all times, the agency's manual and subsidiary ledgers should reconcile with ENCOMPASS. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview Chapter)

Controls over the receipting, 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, Organizational Overview Chapter)

FINDING 2011 - CAFR-2, ARRA FUND 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 American Recovery and Reinvestment Act (ARRA) Fund was created in fiscal year 2009. Budgetary cash advances were made to each individual ARRA fund on the State's accounting system. These were recorded as transfer transactions from its closing fund. By June 30, 2011, a total of $4.6 billion had been advanced from the closing fund over the course of three fiscal years. The advances were to be repaid by revenue reversions. At June 30, 2011, the reversions were recorded for fiscal 2009 through 2011 which totaled $3.1 billion. This left $1.5 billion of negative cash in the closing center fund.

A detailed record of ARRA budgetary advances, reversions and balances was compiled at our request during the audit. We considered this necessary to identify the cause of a cash overdraft of $514 million in the ARRA Fund in the draft financial statements presented for audit. This had increased from the 2010 reported cash overdraft of $273 million. The financial overdraft was caused by an error in recognizing grant expense for the budgetary advance transfers issued to several ARRA funds maintained for discretely presented component units.

A prior period adjustment to increase the ARRA beginning fund balance by $305.4 million, and financial statement adjustments to correct the balance of $212 million for fiscal 2011 transactions were made, for a total fund balance increase of $517.4 million.

The budgetary advance balances also identified an error in recording transactions on the general ledger causing one ARRA Fund to be overstated by $110 million and another ARRA Fund to be understated by an equal amount. The monitoring of the budgetary general ledger transactions for ARRA was not evidenced.

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview Chapter)

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, Organizational Overview Chapter)

FINDING 2011 - CAFR-3, INTERNAL SERVICE FUND REPORTING

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 of Indiana does not have an adequate process in place for the compilation and review of certain internal service fund activity for inclusion in the State's financial statements. Statements compiled and presented for audit for the State Employee Health Insurance Fund, State Police Health Insurance Fund and Administrative Services Aviation Fund were determined to include various errors, for which we recommended adjustments to fairly state the activity of the internal service funds. Revenues and expenses of the State Employee Health Insurance Fund, the State Employee Disability Fund and the State Police Health Insurance Fund are posted as increases or decreases to liability accounts in the State's accounting system. In order to prepare financial statements for external financial reporting, the agencies either keep manual subsidiary ledgers or rely on ENCOMPASS journal entry types to track revenues and expenses. Neither method was adequate for accurate classification of these entries as revenues and expenses for financial statement preparation. During our audit of the State Employee Health Insurance Fund, we found Miscellaneous Revenue overstated by $6.4 million, Premium Revenue overstated by $1.8 million, expenses overstated by $6.4 million and transfers in and out each overstated by $6.2 million. During our audit of the State Police Health Insurance Fund, we found revenue overstated and expenses understated by $1.4 million. Additionally, errors in accrual entries were found during our audit. Health Claims Payable was understated by $10.2 million in the State Employee Health Insurance Fund and by $1.2 million in the State Police Health Insurance Fund and Accounts Payable for the Aviation Fund was overstated by $26 thousand.

The accounting system should support a general ledger trial balance for the fund necessary for the financial administration, interim and financial statement reporting of the fund. "Each fund must be accounted for in a separate self-balancing set of accounts for its assets, liabilities, equity, revenues, expenditures, or expenses (as appropriate), and transfers." (NCGA Statement 1, paragraph 21)

Adequate procedures should be in place to ensure accruals and other adjustments needed to fairly state internal service fund activity and balances for external financial reporting are made 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, Organizational Overview Chapter)

Section III - Federal Award Findings and Questioned Costs

The findings are numbered with the State year, then the initials of the State agency responsible and, beginning in the 2011 report, followed by the business unit number (as defined in Note 4 of the Notes to the Schedule of Expenditures of Federal Awards) and a sequential number. Due to the prior relationship between FSSA and the Department of Child Services (DCS), certain prior year Family and Social Services findings (FSSA) include DCS before the sequential number. Unless otherwise noted, prior report references are to the State of Indiana Single Audit Report for the period of July 1, 2009 to June 30, 2010.

PRIOR FINDINGS -- UNRESOLVED

Prior audit unresolved findings regarding procedures, compliance, or internal controls that continue to be findings in accordance with the criteria of OMB Circular A-133 during this audit period are disclosed in the Summary Schedule of Prior Audit Findings - Unresolved. These findings include:

2010-DCS-2	Cash Management Documentation of Procedures
2010-DCS-4	Subrecipient Monitoring
2010-ISBA-1	Special Tests and Provisions
2010-FSSA-5	Error in Reprocessed Eligibility Costs
2010-FSSA-6	Accounting for Special Hospital Payments
2010-FSSA-8	Drug Rebate Balance Held
2010-FSSA-9	Medicaid Project Accounting Errors
2010-FSSA-10	ARRA Expense Overstatements
2010-FSSA-11	Monitoring of Claim Processing
2009-DCS-1	Subrecipient Monitoring
2009-IDOE-3	Cash Management Advances
2009-IDOE-6	Earmarking
2009-FSSA-2	CHIP Package C Reporting
2009-FSSA-4	ARRA Grant Accounting
2009-FSSA-6	Quality Assessment Fee Refunds-Intermediate Care and Nursing Facilities
2009-FSSA-7	Medicaid Accounting Records
2008-FSSA-3	SCHIP Duplicate Expense
2008-FSSA-5	Grant Accounting Internal Control Environment
2008-FSSA-7	Surveillance and Utilization Review Audit Files
2008-FSSA-10	OMPP AIM Access, Training, and Controls
2007-FSSA-2	Inaccurate Grant Accounting Records
2007-FSSA-6	Faculty Physician Access to Care Adjustments
2006-FSSA-2	C&Ts of Acute Care and Long Term Care Facilities
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
2005-FSSA-16	Tracking of Certification & Transmittal (C&T)
2005-FSSA-19	Ongoing Out-of-State License Verification
2005-FSSA-20	Timely Follow-Up of License Termination
2005-FSSA-23	AIMS Contractor Access Assignments and Controls Not Monitored
2005-FSSA-30	Medicaid Bank Reconciliations
2004-FSSA-5	Supervision of Local Offices of Family and Children (OFCs)
2004-FSSA-6	Death Verifications
2004-FSSA-8	Provider Enrollment (HCBS Wavers, First Steps)
2003-FSSA-16	Ongoing Verification of Provider Medical Licenses
2000-FSSA-1*	Lack of and Improper Supporting Documentation
2000-FSSA-2*	Overpayment of Adoption Assistance Subsidies

*DCS

PRIOR FINDINGS -- RESOLVED

Prior audit findings regarding procedures, compliance, or internal controls that were considered resolved and thus did not continue to be findings in accordance with the criteria of OMB Circular A-133 during this audit period are disclosed in the Summary Schedule of Prior Audit Findings - Resolved. These findings include:

2010-DCS-1	Subrecipient Monitoring
2010-DCS-3	Special Tests and Provisions, R3
2010-DCS-5	SSBG – Questioned Costs
2010-DCS-6	Overdrawn Federal Funds
2010-DCS-7	SSBG Period of Availability
2010-FSSA-3	TANF – Subrecipient Monitoring
2010-FSSA-4	ADP Review Not Performed
2010-FSSA-7	Federal Expenses for CHIP Overstated
2010-FSSA-12	Cash Management
2010-FSSA-13	Schedule of Federal Financial Assistance – Reporting Errors
2010-IDHS-1	Duplicate Payments Issued
2010-IDOE-1	Cash Management Template
2010-ISBA-2	Reporting Error
2010-LTGOV-1	Special Tests and Provisions
2009-FSSA-3	Monitoring of Procedure Code Restrictions
2009-FSSA-8	Medicaid Administration Grant Reporting and Award
2009-IDOE-1	Cash Management
2009-IDOE-4	Cash Management Template
2009-IDOE-5	Procurement, Suspension, and Debarment
2009-IDOE-8	Subrecipient Monitoring CCR Verification
2009-IDOE-9	Special Tests and Provisions, Requirement 3
2009-IDOE-10	Schedule of Federal Financial Assistance - Reporting Errors
2009-IDOE-11	Activities Allowed or Unallowed
2009-IDWD-2	Lack of Procedures for CCR Verification
2009-INDOT-1	Schedule of Federal Financial Assistance - Reporting Errors
2008-FSSA-1	Medicaid Administration Grant-Period of Availability
2008-FSSA-4	Grant Errors In Medicaid Administration and SCHIP

2008-FSSA-9	Pharmacy Facility Permits
2007-FSSA-1	Medicaid Grant Reporting Errors
2006-FSSA-5	State Owned Intermediate Care Facility
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
2003-FSSA-1	Foster Care Payments
2000-FSSA-3	Foster Care Provider Licensure
2000-FSSA-5	Child Support Enforcement Program Federal Reporting
99-FSSA-7	ISETS Information Technology (IT) Controls
96-FSSA-33	Fund Balances - Child Support Enforcement Fund Centers

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

Responses to the findings are included after the SCHEDULE OF FINDINGS AND QUESTIONED COSTS – RESOLVED.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- CURRENT

FINDING 2011 - CJI(032)-1, UNALLOWABLE COSTS

Federal Agency:	U.S. Department of Justice
Federal Program:	Edward Byrne Memorial Justice Assistance Grant
CFDA Number:	16.738, 16.803
Auditee Contact Person:	Mary Allen
Title of Contact Person	Deputy Director
Phone Number:	317-232-1229
Internal Control:	Significant Deficiency -- Allowable Costs
Questioned Cost:	Allowable Costs

The Criminal Justice Institute (CJI) charged costs from another grant to the Byrne JAG cluster program. This is considered a significant deficiency in internal controls.

The CJI created one $120,000.00 purchase order to be applied equally to two separate grants, one of which was the Byrne JAG cluster. For the period of July 1, 2010, to June 30, 2011, costs of $92,661.06 were recorded in the State's financial system under the applicable Byrne JAG cluster grant award year and $27,104.42 drawn down from Byrne JAG federal funds. As the costs were to be allocated equally, only $13,552.21 in allowable costs should have been drawn from the Byrne JAG cluster. This results in questioned costs of $13,552.21.

Although CJI outsourced its finance division functions to the State Budget Agency's internal service fund effective March 26, 2010, CJI is responsible for monitoring the contractor's work to ensure its federal funds are handled in accordance with all Federal and State laws and related guidelines.

2 CFR 225 Appendix A, C.1. states in part:

"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 2 CFR part 225.

c. Be authorized or not prohibited under State or local laws or regulations.

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.

e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit. . . ."

We recommended that CJI implement internal control procedures to ensure that allowable costs are properly recorded in the appropriate grant project.

FINDING 2011 - CJI(032)-2, SUBRECIPIENT MONITORING

Federal Agency:	U.S. Department of Justice
Federal Program:	Edward Byrne Memorial Justice Assistance Grant
CFDA Number:	16.738, 16.803
Auditee Contact Person:	Mary Allen
Title of Contact Person:	Deputy Director
Phone Number:	317-232-1229
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Material Weakness

The Criminal Justice Institute (CJI) did not adequately monitor its subrecipients for compliance with program requirements or review subrecipient A-133 reports. This is considered a material weakness in internal controls.

The CJI award notification letters sent to subrecipients indicated that site visits would be performed in the second quarter. No documentation was provided to support that subrecipient site visits were performed or that subrecipient A-133 audit reports were obtained and reviewed for possible program-related findings and follow up as needed.

Circular A-133, Subpart D, §___.400(d) states, in part:

"A pass-through entity shall perform the following for the Federal awards it makes: . . .

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action. . . ."

We recommended that the CJI follow their internal control procedures to ensure that subrecipients are adequately monitored and that subrecipient A-133 audit reports are reviewed for related program findings and follow up.

FINDING 2011 - CJI(032)-3, SPECIAL TESTS AND PROVISIONS

Federal Agency:	U.S. Department of Justice
Federal Program:	Edward Byrne Memorial Justice Assistance Grant
CFDA Number:	16.738, 16.803
Auditee Contact Person:	Mary Allen
Title of Contact Person:	Deputy Director
Phone Number:	317-232-1229
Compliance Requirement:	Special Tests and Provisions
Internal Control:	Significant Deficiency

The Criminal Justice Institute (CJI) did not separately identify the Federal award number and CFDA number at the time of disbursement of funds to their subrecipients. This is considered a significant deficiency in internal controls.

Although CJI outsourced its finance division functions to the State Budget Agency's internal service fund effective March 26, 2010, CJI is still responsible for monitoring the contractor's work for maintenance of accurate grant records and compliance with applicable grant requirements. This would include informing American Recovery and Reinvestment Act (ARRA) subrecipients of the federal award and CFDA numbers at the time of each disbursement.

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 the CJI implement internal control procedures to ensure the Federal award and CFDA numbers are identified to each ARRA subrecipient at the time of disbursement of funds. Such communication should be done at the time of each disbursement through the State's ENCOMPASS Accounts Payable ACH Payment Method box in accordance with the State Budget Agency's June 23, 2010 memo.

FINDING 2011 - CJI(032)-4, SUSPENSION AND DEBARMENT

Federal Agency	U.S. Department of Justice
Federal Program:	Edward Byrne Memorial Justice Assistance Grant
CFDA Number:	16.738, 16.803
Auditee Contact Person:	Mary Allen
Title of Contact Person:	Deputy Director
Phone Number:	317-232-1229
Compliance Requirement:	Procurement, Suspension and Debarment
Internal Control:	Significant Deficiency

The Criminal Justice Institute (CJI) did not verify whether subrecipients had been suspended or debarred. This is considered a significant deficiency in internal controls.

The CJI did not provide evidence that subrecipients were screened on the federal Excluded Parties List System (EPLS), assurance letters signed by the subrecipients did not contain a suspension and debarment language inclusive of all subrecipients, and subrecipient grant agreements did not contain a suspension and debarment clause.

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

(a) Checking the EPLS; or

(b) Collecting a certification from that person; or

(c) Adding a clause or condition to the covered transaction with that person."

We recommended that the CJI implement internal control procedures to verify that subrecipients are not suspended or debarred using one of the required methods.

FINDING 2011 - DCS(502)-1, SF-425 QUARTERLY REPORTS

Federal Agency:	Department of Health and Human Services
Federal Programs:	Title IV-D Child Support Enforcement; Title IV-E Adoption Assistance
CFDA Numbers:	93.563, 93.659
Auditee Contact Person:	Donna Sobecki
Title of Contact Person:	Assistant Deputy Director of Cash Management, DCS
Phone Number:	317-234-5686
Internal Control:	Significant Deficiency -- Reporting

DCS did not properly prepare the SF-425 quarterly reports for the Child Support and Adoption Assistance programs Adequate controls were not followed to verify that expenses in the accounting records were recorded properly on the SF-425 reports prior to being reported to the federal government. This is a significant control deficiency.

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 DCS implement adequate controls to verify that the amounts recorded on the SF-425 quarterly reports are accurate prior to being reported to the federal government.

Note: The FSSA portion of Finding 2005-FSSA (DCS)-4, SF-425 (formerly PSC 272) Quarterly Reports was considered resolved as of June 30, 2010, and the DCS portion of the Finding remains unresolved as of June 30, 2011. The 2005 Finding will not be repeated for SFY 2011 as the condition discusses FSSA's process prior to the creation of DCS and DCS does not follow the process as discussed in the condition paragraph. Finding 2011-DCS-1, SF-425 Quarterly Reports replaces the 2005 Finding for DCS.

FINDING 2011 - DCS(502)-2, SWCAP- ACCOUNTING ERRORS

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Adoption Assistance, Child Support
CFDA Number:	93.659, 93.563
Auditee Contact Person:	Robin Degner
Title of Contact Person:	Controller, DCS
Phone Number:	317-234-5079
Internal Control:	Significant Deficiency -- Allowable Cost/Cost Principles

The Department of Child Services (DCS) is responsible for correctly accounting for their portion of the Statewide Cost Allocation Plan (SWCAP) each fiscal year. The agency did not correctly post or transfer their SWCAP cost for State Fiscal Years 2010 and 2011. SWCAP recoveries totaling $1,835,178.55 for SFY11 and $2,655,094.29 for SFY10 were not posted and recorded correctly but were retained in DCS funds rather than being transferred to Budget Agency funds. Consequently, SWCAP revenues recovered for the SFY 2010 and FY2011 were understated. Further, DCS did not detect these errors at the end of the fiscal year until we brought it to their attention. This is a significant control deficiency.

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."

"For this process to repay the general fund for SWCAP expenses, debit (+) funds to be charged using account 759900 and credit (-) Fund 10520, Account 749900, Program 10000, Department 051000. When federal revenue is drawn to reimburse these costs, credit Account 446000." (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Federal Financial Assistance)

We recommended that DCS establish adequate internal control procedures to ensure that SWCAP bills are correctly accounted for and that errors are detected within a reasonable time.

FINDING 2011 - DCS(502)-3, ISETS Information Technology (IT) Security Controls

Federal Agency:	Department of Health and Human Services
Federal Program:	Child Support Enforcement
CFDA Number:	93.563
Auditee Contact Person:	Cynthia Longest
Title of Contact Person:	Deputy Director, Child Support Bureau, Department of Child Services
Phone Number:	317-234-4482
Internal Control:	Material Weakness -- Special Tests and Provisions

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 that 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.

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.

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.

Note: This is an update to Finding 1999-FSSA-7, the only section out of five that remains unresolved. The Corrective Action Plan submitted by DCS and Update for June 30, 2011, for the 1999 finding is in the Resolved Findings section of this document.

FINDING 2011 - DOE(700)-1, CASH MANAGEMENT ADVANCES

Federal Agency:	U.S. Department of Education
Federal Program:	Improving Teacher Quality State Grants
CFDA Number:	84.367
Auditee Contact Person:	Kent Hatcher
Title of Contact person:	Chief Financial Officer, DOE
Phone Number:	317-234-6792
Compliance Requirement:	Cash Management
Internal Control:	Significant Deficiency

The Department of Education (DOE) allowed up to two weeks of anticipated expenses for the Improving Teacher Quality State Grant to be included in bi-weekly reimbursement requests submitted by the subgrantees. Reimbursing anticipated expenses is not consistent with the reimbursable funding basis and results from a significant deficiency in internal control.

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 205.11(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."

31 CFR 205.12(b)(5) states: "Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal Assistance program purposes."

We recommended that DOE implement processes and procedures to ensure compliance with applicable cash management requirements.

FINDING 2011 - DOE(700)-2, MONITORING SUBRECIPIENT A-133 REPORTS

Federal Agency:	U.S. Department of Education
Federal Program:	Special Education Cluster (IDEA), Title 1, Part A Cluster, Improving Teacher Quality State Grants
CFDA Number:	84.027, 84.173, 84.391, 84.392, 84.010, 84.389, 84.367
Auditee Contact Person:	Kent Hatcher
Title of Contact Person:	Chief Financial Officer
Phone Number:	317-234-6792
Internal Control:	Significant Deficiency -- Subrecipient Monitoring

The Department of Education (DOE) did not adequately monitor the subrecipient A-133 reports for the Special Education (IDEA) Cluster, Title 1, Part A Cluster, and Improving Teacher Quality State Grants. Testing of the fiscal division's monitoring procedures revealed ineffective controls. Although DOE electronically receives A-133 reports of local educational agencies from the State Board of Accounts, DOE staff were unable to accurately identify subrecipient reports containing findings or show documentation that proper follow up was performed. This is considered a significant deficiency in internal controls.

OMB Circular A-133 (SS___.400(d) states, in part: "Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes: (4) Ensure that subrecipients expending $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in Federal Awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year. (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action."

We recommended that DOE implement effective monitoring procedures for compliance with monitoring of all subrecipient A-133 reports and follow up on subrecipient report findings.

FINDING 2011 - DOT(800)-1, REPORTING

Federal Agency:	U.S. Department of Transportation
Federal Program:	Transportation Investment Generating Economic Recovery(TIGER)20.932
Audited Contact Person:	Dan Brassard
Title of Contact Person:	CFO, DOT
Phone Number:	317-232-1472
Compliance Requirement:	Reporting
Internal Control:	Significant Deficiency

The Indiana Department of Transportation (INDOT) did not prepare and submit to the US Department of Transportation the required SF-425 Federal Financial Reports for the quarter and year ended June 30, 2011 for the Transportation Investment Generating Economic Recovery (TIGER) grant. The quarterly report was originally due on July 20, 2011, but was waived by the Federal Highway Administration (FHWA) until August 5, 2011. The year-end report was due on August 15, 2011.

Due dates for these reports were communicated to INDOT on July 21, 2011, from FHWA along with instructions and guidance for completing the reports timely.

We recommended that INDOT prepare and submit all required reports to FHWA timely as required.

FINDING 2011 - DWD(510)-1, WIA CASH MANAGEMENT INTERNAL CONTROLS

Federal Agency:	U.S. Department of Labor
Federal Program:	Workforce Investment Act Cluster
CFDA Number:	17.258, 17.259, 17.260
Audited Contact Person:	Randy Gillespie
Title of Contact Person:	Chief Financial Officer, DWD
Phone Number:	317-232-7675
Compliance Requirement:	Cash Management
Internal Control:	Significant Deficiency

The Department of Workforce Development (DWD) drew down federal funds in advance for the WIA funds. This occurred because DWD Management is not following established internal control procedures to ensure that federal funds are not drawn down in advance as required by federal regulation. This significant control deficiency occurred due to lack of effective communication between management and staff over federal draws, resulting in DWD holding the federal funds for excessive days.

20CFR 437.20 (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 . . ."

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."

We recommended that DWD follow agency written procedures over Cash Management to ensure that WIA federal funds are not drawn down in advance.

FINDING 2011 - DWD-2, UI ELIGIBILITY - WORK SEARCH REQUIREMENT

Federal Agency:	U.S. Department of Labor
Federal Program:	Unemployment Insurance
CFDA Number:	17.225
Audited Contact Person:	Randy Gillespie
Title of Contact Person:	Chief Financial Officer, DWD
Phone Number:	317-232-7675
Compliance Requirement:	Eligibility
Internal Control:	Significant Deficiency

The structure of Federal-State UI Partnership assigns to the State the responsibility to determine claimant eligibility and disqualification provisions. The eligibility policy of the Indiana Department of Workforce Development in effect during State fiscal year 2011 required claimants, unless a work search waiver has been approved, to submit at least one application and search for two additional positions each week. The three work searches were to be documented in the online claim system, Uplink. In October 2011, the requirement to submit an application was removed; however, the work search requirements remained.

Follow up to determine compliance with DWD eligibility and disqualification policy is inadequate. Testing processes in place during FY11 and currently do not adequately review and enforce the work search standard, thus increasing the risk of improper benefit payments. Additional details regarding DWD's Uplink system and testing processes have been communicated to DWD in a separate management letter dated March 7, 2012.

20CFR604 5(3)(h) states: "Work search. The requirement that an individual be available for work does not require an active work search on the part of the individual. States may, however, require an individual to be actively seeking work to be considered available for work, or States may impose a separate requirement that the individual must actively seek work."

The March 2011 A-133 Federal Compliance Supplement states in part: "State responsibilities include: . . . (4) determining claimant eligibility and disqualification provisions; . . ."

Indiana Statute, IC 22-4-14-3(b)(3) states in part: "An unemployed individual shall be eligible to receive benefits with respect to any week only if the individual: is found by the department to be making an effort to secure full-time work." IC 22-4-14-2(a)(2) states in part: "An unemployed individual is eligible to receive benefits with respect to any week only if the individual has subsequently reported with the frequency and in the manner, either in person or in writing, that the department by rule adopts."

DWD Policy 2008-44, Revised March 2, 2010, states in part: "A claimant must make an effort to secure full-time work during each week the claimant files a weekly claim for UI benefits. A claimant's weekly search for work must include the submission of at least one application and a search for two additional positions during every week in which the claimant files a weekly claim for UI benefits. Claimants may submit applications for jobs in person, by mail, facsimile, or email , or online through an internet website, as requested by the employer. The two additional searches may be done online, by telephone, or in person." The policy further states: "A claimant must report the claimant's effort to secure full-time work to DWD on a weekly basis. A claimant reports his or her effort to secure full-time work by completing the information requested on the claimant's weekly, online claim form, available through DWD's Uplink claimant self-serve system."

DWD Policy 2011-04, dated October 7, 2011, states in part: "A claimant's weekly search for work must include a search for three positions during every week in which the claimant files a weekly claim for UI benefits. The searches may be done online, by telephone, or in person." The policy further states: "A claimant must report the claimant's effort to secure full-time work to DWD on a weekly basis. A claimant reports his or her effort to secure full-time work by completing the information requested on the claimant's weekly, online claim form, available through DWD's Uplink claimant self-service system."

We recommended that DWD's eligibility testing processes be increased to reduce the risk of improper payments.

FINDING 2011 - DWD(510)-3, CASH MANAGEMENT INTERNAL CONTROLS

Federal Agency:	U.S. Department of Labor
Federal Program:	Unemployment Insurance
CFDA Number:	17.225
Audited Contact Person:	Randy Gillespie
Title of Contact Person:	Chief Financial Officer, DWD
Phone Number:	317-232-7675
Compliance Requirement:	Cash Management
Internal Control:	Significant Deficiency

The Department of Workforce Development (DWD) does not have adequate internal control procedures to ensure that federal funds are not drawn down in advance, partially due to ineffective communication between management and staff. During State fiscal year 2011, DWD held federal funds for excessive days beyond the allowable time as dictated by the federal regulations, a significant control deficiency.

Significant errors existed in the interest calculations reported on DWD's Cash Management Improvement Act Annual Report. DWD is required to calculate interest liabilities using the average daily cash balance of Federal funds held by the State. The spreadsheets used to determine daily cash balances for the Federal Benefit, State Benefit and UI Administration draws had errors in draw dates, amounts, and cell formulas resulting in unreliable interest calculations. The interest calculation for the UI Federal Benefit draws was understated by $2,202 in the report submitted in fiscal year 2011, and due to undetected formula errors compounding over two years, understated by $21,355 in the report submitted in fiscal year 2012.

In addition, the current CMIA agreement has not been updated to reflect current funding techniques for UI Administration draws.

The Cash Management Improvement Act Agreement between the State of Indiana and the Secretary of the Treasury, United States Department of the Treasury for the period July 1, 2010 to June 30, 2011, Section 8.3.1, states in part: "The State's liability for interest on funds withdrawn from the FECA (Federal Employees Compensation Account) and the EUCA (Extended Unemployment Compensation Account), and any other benefit accounts of Federal funds in the UTF from which the State draws funds, shall be the average daily cash balance of Federal funds multiplied by the annualized rate equal to the average equivalent yields of 13-week Treasury bills auctioned during the States fiscal year."

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)(1) states: " Zero balance accounting means that a Federal Program Agency transfers the actual amount of Federal funds to a State that are paid out by the State each day. "

31 CFR 205.7(c) states in part: ". . . a State must amend a Treasury-State agreement as needed to change or clarify its language when the terms of the existing agreement are either no longer correct or no longer applicable. A State must notify us in writing within 30 days of the time the State becomes aware of a change, describing the Federal assistance program change."

31 CFR 205.19(d) states in part: ". . . a Treasury-State agreement must include the method a State uses to calculate and document interest liabilities."

We recommended that DWD develop and follow effective written procedures over Cash Management to ensure that UI funds are not drawn down in advance and to ensure interest liabilities are accurately reported. We further recommended that DWD update the CMIA agreement to reflect current funding techniques.

FINDING 2011 - FSSA(497)-1, VOCATIONAL REHABILITATION, ACTIVITIES ALLOWED OR UNALLOWED

Federal Agency:	U.S. Department of Education
Federal Program:	Vocational Rehabilitation (VR)
CFDA Numbers:	84.126, 84.390
Auditee Contact Person:	Nancy Zemaitis
Title of Contact Person:	Director, FSSA Bureau of Rehabilitation Services
Phone Number:	317-234-4475
Internal Control:	Significant Deficiency -- Activities Allowed or Unallowed

The Indiana Family and Social Services Administration Division of Disability and Rehabilitative Services revised its policies and procedures over the approvals of claims and Individual Plans for Employment (IPE), effective March 2011 and April 2011, respectively. The revised policies and procedures provide that only the VR Counselor's signature is required for IPEs and claims of less than $10,000. Exceptions to this are in cases where the counselor is new or at the discretion of the supervisor, the supervisor must also sign these documents. Prior to the implementation of these policies and procedures, the Area Supervisor's signature was also required for both document types. We also noted that the authorizations of costs require only the VR Counselor's signature unless the Counselor is new or if specific edit limits are exceeded.

Based on the State's accounting records, for the audit period, 88% of the total dollars of VR claims fell below the $10,000 threshold. While the revised policies and procedures do provide that an Area Supervisor's signature is required for 1 out of every 10 IPEs and 1 out of 50 claims and certain edit limits are included, a high percentage of program expenditures are apparently authorized and approved by only one person.

Even though analytical procedures at the counselor level by area supervisors and region managers are performed, these after payment procedures are reactive rather than proactive and are not an acceptable substitute for segregation of duties prior to payment. This is a significant control deficiency.

This lack of segregation of duties could lead to unauthorized expenses and misappropriation of Federal and State funds.

34 CFR §18.20 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 grantees and cost-type contractors, must be sufficient to . . . (2) 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-DDRS establish and implement procedures to ensure that duties are adequately segregated between the authorizations and reviews of costs and that VR funds trace 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.

FINDING 2011 - FSSA(500)-2, SPECIAL TESTS AND PROVISIONS

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Child Care Development Fund (CCDF) Cluster
CFDA Number:	93.575, 93.596, and 93.713
Auditee Contact Person:	Krishna Heyward
Title of Contact Person:	Controller, FSSA
Phone Number:	317-233-1925
Compliance Requirement:	Special Tests and Provisions, Requirement 3
Internal Control:	Significant Deficiency

The Indiana Family Social Service Administration (FSSA) did not separately identify to each subrecipient or document at the time of the subaward and disbursement of funds, the Federal award, name, CFDA number, and the amount of ARRA funds in the grant agreements with the subrecipients. This is a significant control deficiency.

FSSA did not provide documentation for audit that indicated the federal award and CFDA numbers were included in the contracted grant agreements when the subgrants were awarded or at the time of disbursement of funds. On June 23, 2010, State guidance was issued on how to inform American Recovery and Reinvested Act (ARRA) subrecipients of the federal award and CFDA numbers at the time of each disbursement.

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."

OMB Circular A-133 Subpart D .400 (d)(1) states in part: "Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes: Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency . . ."

We recommended that FSSA separately identify to each subrecipient and document at the time of the subaward and disbursement of funds, the Federal award number, CFDA title and number, award year, and the amount of ARRA funds. Such communication should be done at the time of award with the grant agreement or award notification letter and at the time of disbursement through the State's ENCOMMPASS Accounts Payable ACH payment Method box in accordance with the State Budget Agency's June 23, 2010, memo.

FINDING 2011 - FSSA(410)-3, SSBG CLAIMS PROCESSING

Federal Agency:	Department of Health and Human Services
Federal Program:	Social Services Block Grant (SSBG)
CFDA Number:	93.667
Auditee Contact Person:	Donna Rutherford
Title of Contact person:	Controller, FSSA Division of Mental Health and Addiction
Phone Number:	317-232-7862
Internal Control:	Significant Deficiency -- Allowable Costs/Cost Principles

FSSA management did not have adequate controls in place to ensure that claims were posted to the proper grant accounting records. Specifically, non SSBG activities or costs were posted to the SSBG accounting records and SSBG costs were posted to other programs' records. Three claims in our audit sample totaling $55,621 designated for another federal program were charged to the SSBG accounting records in the State's accounting system and the State subsequently drew down federal funds from the SSBG program for these expenses.

To determine the magnitude of this situation, we inquired of FSSA management who estimated that of the total $3,476,702 that was awarded to the FSSA Division of Mental Health and Addiction, $2,088,301 of SSBG expenses was charged to the SSBG program. The remaining $1,388,401 of SSBG expenses was charged to another federal program. We further inquired of FSSA management to learn the total amount of non SSBG expenses that were charged to the SSBG program; FSSA management was unable to present that amount for audit. This is a significant deficiency which can result in improper draws from federal programs.

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

We recommended that FSSA management implement controls to ensure that claims are posted to the proper grant accounting records and the federal draws occur for the proper federal programs.

FINDING 2011 - FSSA(503)-4, MEDICAID PAYMENT ISSUANCE CONTROLS

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:	Agency Controller, FSSA
Phone Number:	317-233-3045
Internal Control:	Significant Deficiency -- Allowable Costs/Cost Principles

The Medicaid fiscal agent contractor, Hewlett Packard (HP), issues payments on a weekly basis to providers for claims processed through the Advanced Information Managements (AIM) system. Indiana records the Medicaid program expenses each day based upon the amount necessary to fund the total payments clearing the bank account. FSSA lacks written procedures to evidence that it has performed monitoring controls over the payment issuance process. The monitoring of payments is insufficient and payments issued are not reconciled to the State expense transactions. The AIM financial balancing reports, which summarize the claim transactions and compares them to the total payments issued, do not appear to be monitored by FSSA, other than the reports' inclusion in the quarterly balancing to federal reporting.

In conjunction with the payment issuances each week, AIM generates a "Suspicious Checks Report." It lists each payment exceeding 20% of the average for each provider type. A preventative control was in place with an OMPP financial analyst reviewing and preparing trend analysis summaries in advance of the payment issuance. Particularly large payments or new providers were researched to be deemed valid prior to payment issuance. This significant preventative control was discontinued in January 2011 when the position became vacant. By February 2012, the trend analysis was completed retroactively through June 30, 2011, and thus may have functioned as a detection control.

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."

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."

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

We recommended that FSSA design written procedures to evidence monitoring of the Medicaid fiscal agent payment issuance controls and correspondence to the State Medicaid program expense. The timely review of the Suspicious Checks Report should be resumed as a significant prevention control.

FINDING 2011 - FSSA(503)-5, MANAGED CARE CONTRACTS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medicaid Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jina Hughes
Title of Contact Person:	Program Integrity Manager, OMPP
Phone Number:	317-234-2129
Internal Control:	Significant Deficiency -- Allowable Costs/Cost Principles

OMPP issued State contracts to three managed care organizations to provide Medicaid services to eligible recipients in exchange for specified monthly coverage rates. In response to previous audit findings, controls had been designed through the OMPP Care Programs Policies and Procedures Manual to ensure accurate contract rates. However, these controls were not updated when OMPP began the practice of contract rate withholdings for performance pay measures. The controls remained effective to ensure accurate payments at the withhold rates set, but no longer functioned to ensure accurate rates were entered into the contract documents. The following errors were noted as to the contracts with the managed care organizations effective January 1, 2011, for Hoosier Healthwise.

1. All three MCO contracts contained an error in the covered population -- The MA – U Population is listed in Contract Exhibit 3, Program Descriptions and Covered Benefits, at section 2.1 for Hoosier Healthwise list of excluded from participation in Hoosier Healthwise managed care. Yet rates were calculated and paid for these. The contracts also do not define the MA-U rate category, which are paid at higher rates.

2. All statewide rate categories (MA-U) (except maternity) were overstated in two contracts (Anthem and Managed Health Services). These contract rates exceeded the actuary certification submitted to and approved by CMS.

3. Anthem East Central Region Preschool rate was entered at $700 more than the actuary listing. This was subsequently corrected in a letter signed by Pat Casanova and Anthem.

4. Separate contracts were in effect through December 31, 2010, with two managed care contract consideration maximums for the three year term, whereby payments were not to exceed $562 million for Anthem and $562.3 million for MdWise. Controls had not been designed to track the contract payments to ensure the maximum consideration was not exceeded.

"The CMS Regional Office must review and approve all MCO, PIHP, and PAHP contracts" [42 CFR 438.6 (a)] "All payments under risk contracts and all risk-sharing mechanisms in contracts must be actuarially sound." [42 CFR 438.6 (C)(2)(i)].

"Each agency, department, quasi, institution or office has the following accounting responsibilities:

- Operate within the confines of the established budget.
- Maintain an adequate internal control environment.
- Maintain adequate internal control procedures.
- Properly utilize the state accounting system as prescribed by the ENCOMPASS team.
- Maintain an effective and accurate accounting system for necessary subsidiary and supplementary records.
- Maintain, and make available for audit, documentation supporting the validity and accountability of monies received or disbursed.
- 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)

We recommended that FSSA correct the managed care contracts and design internal control procedures to ensure contract terms are accurate. Controls should be implemented to ensure the contract maximum considerations are not exceeded.

FINDING 2011 - FSSA(503)-6, MEDICAID ADMINISTRATION GRANT

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: Agency Controller, FSSA
Phone Number: 317-233-3045
Internal Control: Significant Deficiency -- Allowable Costs/Cost Principles; Reporting

FSSA receives an annual federal grant award for the Medicaid program administrative costs. When closing out the grant, the federal government reduces the grant award to the federal expenditures amount as reported by FSSA on the CMS-64. FSSA had not been reconciling the administrative costs reported to the grant accounting records it maintains. Several prior audit findings reported consistent under-reporting of the administrative costs. The cumulative effect when compared to the State's accounting records is a shortage of federal funds.

The federal awards status as of February 2012 for closed grant periods is shown in the following table:

Grant Period	Grant Award as of February 2012	Total Federal Expense -- Schedule of Federal Financial Assistance	Grant Award Over (Under) the Federal Expenses
10-01-06 to 09-30-07	$ 115,127,076	$ 122,591,000	$ (7,463,924)
10-01-07 to 09-30-08	166,922,433	175,389,777	(8,467,344)
10-01-08 to 09-30-09	170,873,738	232,330,607	(61,456,869)
10-01-09 to 09-30-10	188,017,908	140,132,408	47,885,500
Total Net Federal Administrative Grant Disbursements Exceeding Awards			$ (29,502,637)

The full balance of the 2010 administration grant does not appear to be available to cover the 2009 deficit, as FSSA advance-reported $15,242,152 in school clinic administrative costs for the federal fiscal year ended 2010, but has not paid these, as this is an item awaiting federal approval.

FSSA did not prepare reconciliations for the administrative grant period ended September 30, 2010, but subsequently began reconciling the 2011 grant to the State's accounting records.

Summary of prior report findings specifying administrative grant under-reported:

Prior Finding	Administrative Expense Understatement
2007-FSSA-1	$ (4,849,991)
2008-FSSA-4	(10,625,868)
2009-FSSA-8	(14,674,698)
Total Under-Reported	$ (30,150,557)

The finding 2008-FSSA-4 also specified an error of unclaimed expense of $3,265,517 which further understated federal Medicaid administrative expense. Due to this finding, in the quarter ended September 30, 2010, FSSA did report increasing administration cost adjustments of $12,572,422.

FSSA typically matches its grant drawdowns to the State's accounting; therefore, the federal government's records also were overdrawn. On May 11, 2011, CMS notified FSSA that they discovered the negative balance of $41,898,234 in the Payment Management System (PMS) for Indiana for its administration grant for the grant year ended September 30, 2009. The federal government suggested that this may be caused by the State having made draws from the MT subaccount that pertained to program year 2010 expenditures, as the first draw in the 2010 administration grant account was not until December 23, 2009, and stated: "The state would need to determine exactly how much they drew in the MT subaccount that should have been in the XIXADM-10 (based on expenditures that they claimed in FY 2010. Then Indiana would simply transfer those draws to XIX-ADM10." The available balance in the 2010 grant was $45,071,011 at that time.

In response, FSSA returned the federal revenue on the federal PMS by recording a negative grant drawdown of $41,898,234 to the MT (2009) administration grant, as well as returning $2,742,306 to the 2010 administration grant. In the State accounting system, the negative federal drawdown of $41,898,234 was recorded to the Medicaid Assistance grant project 503MDAST100FF09, instead of the 2009 administration grant.

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."

"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. They should review the 2009 grant costs that may have been properly associated to the 2010 grant period. Upon identifying any federal reporting corrections, requests to reinstate grant awards to their prior levels should be made. Adjustments should be recorded to the State accounting records to correct the error made in recording the federal revenue adjustment.

Note: Unresolved sections of prior findings 2007-FSSA-1, 2008-FSSA-1, 2008-FSSA-4 and 2009-FSSA-8 are included as part of this current finding; thus, those prior findings are noted as resolved.

FINDING 2011 – FSSA(500,503)-7, MISSING CASE FILES

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program, Childrens' Health Insurance Program, Temporary Assistance to Needy Families
CFDA Number:	93.778, 93.767, 93.558
Auditee Contact Person:	David Nelson
Title of Contact Person:	Agency Controller, FSSA
Phone Number:	317-233-3045
Compliance Requirement:	Eligibility
Internal Control:	Material Weakness

The Family and Social Services Administration (FSSA) was unable to provide 23% (14 of 60) of TANF case files, 16% (19 of 122) of the Medicaid case files, and 18% (7 of 40) of the CHIP case files we requested in order to verify certain eligibility information in the Indiana Client Eligibility System (ICES). All files requested should have included documentation supporting residency, citizenship, family relationships, income and resources of recipients of benefits or medical services during State fiscal year 2011.

Numerous files had been moved from offices in the various counties into one of several centralized storage facilities, but were not inventoried and catalogued prior to storage, thus making it very difficult for FSSA employees to locate specific files. At least 1500 file cabinets containing uncatalogued case files are in one storage facility.

One Medicaid and one CHIP case not provided were processed in counties that were to have had the case documents retained as scanned into the Family Assistance and Care through Technology Services (FACTS) System; however, documents in the FACTS system were either nonexistent or incomplete. Other errors were discovered in TANF records that are noted in prior unresolved findings 2006-FSSA-11, 2006-FSSA-12, and 2006-FSSA-14.

42 CFR 435.907, which applies to Medicaid and CHIP states in part: "(a) The agency must require a written application from the applicant, an authorized representative, or, if the applicant is incompetent or incapacitated, someone acting responsibly for the applicant. (b) . . . the application must be on a form prescribed by the agency and signed under penalty of perjury." 42 CFR 435.913 states in (a): "The agency must include in each applicants case record facts to support the agency's decision on his application."

45 CFR 205.60, which applies to TANF, states in (a): "The state agency will maintain or supervise the maintenance of records necessary for the proper and efficient operation of the plan, including records regarding applications, determinations of eligibility, the provisions of financial assistance, and the use of any information obtained under section 205.55, with respect to individuals denied, recipients whose benefits have been terminated, recipients whose benefits have been modified, and the dollar value of those denials, terminations and modifications. Under this requirement, the agency will keep individual records which contain pertinent facts about each applicant and recipient. The records will include information concerning the date of application and the date and basis of its disposition; facts essential to the determination of initial and continuing eligibility; and the basis for discontinuing assistance."

US OMB Circular A133, Subpart C, §.300) states in part: "The Auditee shall: . . . "b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs."

We recommended that control procedures be implemented to protect the retention and accessibility of case files.

FINDING 2011 - SBA(057)-1, SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal Agency:	U.S. Department of Education
Federal Program:	State Fiscal Stabilization Fund Cluster
CFDA Number:	84.394, 84.397
Auditee Contact Person:	Jay L. Collins
Title of Contact Person:	Deputy Director, Indiana State Budget Agency
Phone Number:	317-232-5604
Compliance Requirement:	Reporting
Internal Control:	Material Weakness

The Schedule of Expenditures of Federal Awards (SEFA) certified by the State Budget Agency (SBA) did not include a $25M program due to a material weakness in internal controls.

The SEFA certified by SBA did not include $25,000,000 in program CFDA# 84.394 disbursements to institutions of higher education for reimbursements of repair and rehabilitation construction project costs. These costs were also not reported as passed through to subrecipients on the SEFA, but were included on the State's financial accounting system, ENCOMPASS, as expenditures of business units created for the universities, which are component units of the State rather than agencies of the primary government. The $25M should have been included in a SBA project as expenditures of the State passed on to outside subrecipients.

Although the SBA requested that the Department of Education request funding draws from the U.S. DOE for this program, the SBA clearly controlled the grant, approving all expenditures and monitoring the subrecipients.

34 CFR 80.20 (a)(1) 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: Permit preparation of reports required by this part and the statutes authorizing the grant. . . . " and (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 SBA implement internal controls related to inclusion of all expenditures in ENCOMPASS and preparation of the SEFA including a thorough review by management prior to submission to help ensure accurate disclosure of all federal financial activity.

FINDING 2011 - SBA(057)-2, SUBRECIPIENT MONITORING

Federal Agency:	U.S. Department of Education
Federal Program:	State Fiscal Stabilization Fund Cluster
CFDA Number:	84.394, 84.397
Auditee Contact Person:	Jay L. Collins
Title of Contact Person:	Deputy Director, Indiana State Budget Agency
Phone Number:	317-232-5604
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Significant Deficiency

The State Budget Agency (SBA) did not adequately monitor their subrecipients, a significant deficiency in internal controls.

The SBA did not provide documentation for audit that indicated program requirements were communicated to the subrecipients at the time of award. In addition, subrecipient A-133 audit reports were not obtained and reviewed for possible program-related findings and follow up as needed.

Circular A-133, Subpart D,§___.400(d), states, in part:

"A pass-through entity shall perform the following for the Federal awards it makes . . .

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action. . . ."

We recommended that the SBA implement internal controls to ensure the required program information is communicated to subrecipients at the time of award and that subrecipient A-133 audit reports are monitored for program findings and related follow up.

FINDING 2010 - DCS-2, CASH MANAGEMENT DOCUMENTATION OF PROCEDURES

Federal Agency:	U.S. Department of Health and Human Services
Federal Program	Foster Care - Title IV-E, Adoption Assistance Title IV-E, Child Support
CFDA Number:	93.658, 93.659, 93.563
Auditee Contact Person	Donna Sobecki
Title of Contact Person:	Assistant Deputy Director for Cash Management, DCS
Phone Number:	317-234-5686
Internal Control:	Significant Deficiency -- Cash Management

Finding:

During our audit of the Indiana Department of Child Services (DCS), we found that no Check Clearance Pattern (CCP) Template was created to support the Cash Management Improvement Act (CMIA) Agreement for DCS major programs. This occurred because DCS management was unaware that they were required to establish and implement a CCP. This is a significant control deficiency.

As a result, we were unable to audit Foster Care, Adoption Assistance, and Child Support Cash Management draws by verifying their CCPs and thus, could not determine the timeliness of federal draws.

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 clearance patterns meet the following standards: (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 "

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 DCS establish a CCP to represent the flow of federal funds under the Federal assistance programs to which it is applied, and also develop written procedures to ensure that federal draws follow their respective CCP. We further recommended that adequate supporting documentation of CCP is maintained for audit.

Status of Finding as of June 30, 2011:

DCS continues to consider this finding as remaining open. We will be using the ENCOMPASS system and query tools in its application for generating data for these reports which falls outside the June 30, 2011 Audit period. No change from last Fiscal Year's Report.

FINDING 2010 - DCS-4, SUBRECIPIENT MONITORING

Federal Agency:	U.S. Department of Health and Human Services - ACF
Federal Program:	Child Support Enforcement Program (IV-D)
CFDA Number:	93.563
Auditee Contact Person:	Cynthia Longest
Title of Contact Person:	Deputy Director, Child Support Bureau, Department of Child Services (DCS)
Phone Number:	317-233-4482
Internal Control:	Significant Deficiency -- Subrecipient Monitoring

Finding:

During our audit of the DCS Child Support Program, we noted that DCS did not adequately review the applicable A-133 audits of subrecipients. Therefore, DCS was unable to verify that the applicable subrecipients took timely and appropriate corrective action concerning any findings from those audits. This is a significant deficiency.

31 USC 7502(f)(2)(C) states: "Each Federal agency which provides Federal awards to a recipient shall review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; . . ."

We recommended that DCS review applicable audits of subrecipients to determine whether prompt and appropriate corrective action has been taken with respect to audit findings.

Status of Finding as of June 30, 2011:

DCS continues to consider this finding open. The DCS CSB Field Auditors have pulled all county A-133 findings since 2007 from the State Board of Accounts website. They will continue to monitor the website for any new county A-133 audit findings. An audits spreadsheet has been created listing the county, year, summary of SBOA finding, and summary of the county's response.

The county A-133 audit findings will be discussed at the Monitoring Core Team meetings to determine who would conduct the follow up with the county. (Please see response to 2009-DCS-1 for more information about the new Monitoring Core Team.) CSB Field Auditors will track the date the county is contacted, to whom we spoke, and a summary of the county's response to the corrective action plan that they provided in their response to the SBOA. The county's responses will be discussed at the Monitoring Core Team meeting if it appears that the county has not taken timely and appropriate corrective action.

FINDING 2010 – ISBA-1, SPECIAL TESTS AND PROVISIONS

Federal Agency:	U.S. Department of Education
Federal Program:	State Fiscal Stabilization Fund Cluster
CFDA Number:	84.394, 84.397
Auditee Contact Person:	Jay L. Collins
Title of Contact Person:	Deputy Director, Indiana State Budget Agency
Phone Number:	317-232-5604
Compliance Requirement:	Special Tests and Provisions, R3
Internal Control:	Significant Deficiency

Finding:

During our audit of the State Fiscal Stabilization Fund cluster, the Indiana State Budget Agency (ISBA) did not separately identify the Federal award number and CFDA number at the time of the award or at the time of disbursement of funds to their Government Services program subrecipients. This is a significant deficiency in the internal control design and operation.

The ISBA did not provide documentation for audit that indicated the federal award and CFDA numbers were included in the contracted grant agreements when the subgrants were awarded or at the time of disbursement of funds. Prior to June 23, 2010, there was no State guidance issued on how to inform American Recovery and Reinvestment Act (ARRA) subrecipients of the federal award and CFDA numbers at the time of each disbursement. The State Fiscal Stabilization cluster is 100% ARRA funds.

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 the ISBA identify the Federal award and CFDA numbers to each Government Services program subrecipient at the time of each award and at the time of disbursement of funds. Such communication should be done at the time of award with the grant agreement or award notification letter and at the time of disbursement through the State's ENCOMPASS Accounts Payable ACH Payment Method box in accordance with the State Budget Agency's June 23, 2010, memo.

Status of Finding as June 30, 2011:

In response to the 2010 Audit Finding – ISBA-1, the Budget Agency implemented a policy for notifying subrecipients of their respective CFDA numbers at both the initial award date and at the time of disbursements. Upon subsequent review of disbursements, our office has determined that a majority of payments contained the required information within the ACH payment message box while a portion were still missing the required information. This deviation from the established policy appears to have been caused by employee turnover and a lack of training of the established policy for those transitioning into the accounts payable role.

Our office will take additional action to ensure that in the event of employee turnover, the required procedures are being followed. Once again, we have notified the individuals responsible for disbursements and their direct supervisor of the established policy. To ensure compliance and uniform application in the future, our office has established a review process in which we will routinely assess.

FINDING 2010 – FSSA-5, ERROR IN REPROCESSED ELIGIBILITY COSTS

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:	David Nelson
Title of Contact Person:	Agency Controller, FSSA
Phone Number:	317-233-3045
Internal Control:	Significant Deficiency -- Eligibility; Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Questioned Cost:	Allowable Costs/Cost Principles

During our audit of FSSA, we found that the Office of Medicaid Policy and Planning (OMPP) was required by the Centers for Medicare and Medicaid Services (CMS) to report detailed costs per Medicaid waiver and demonstrate the required cost effectiveness since inception, to retain federal approval. In so doing, OMPP discovered an enrollment classification error had occurred for children with incomes up to 150% of poverty, who are classified as CHIP I. Children with insurance coverage had been enrolled as CHIP I members, when plans had been designed for their coverage in the Medicaid care select waiver.

According to section 4.1.7 of the approved plan for CHIP, Access to or coverage under other health coverage: "Children cannot have other creditable health care coverage. A three-month waiting period from the date the child was last covered will be imposed."

In order to correct the error, the Medicaid fiscal agent reran reports back to 2007, in a clone system environment. Comparative analysis was also made to the expected results as projected by the actuary. The CMS 64 federal reports were adjusted by the total expense change calculated in this process of $33,073,594 for the federal fiscal years ended September 30, 2008 and 2009, which increased the Medicaid program and decreased the CHIP.

The information provided for audit omitted any searches for insured CHIP C members, whose incomes are up to 250% of poverty level, who may then be ineligible.

In June 2010, the accounting entry was recorded which corresponded to the retroactive reclassifications as had been reported. We found that the entry incorrectly duplicated the costs for the quarters ended June and September 2009, by $9.3 million, and overstated the ARRA costs directly recorded by $585 thousand. In addition, we found that the ARRA costs were further overstated when the 2009 ARRA grant costs were subsequently calculated in full from the total 2009 Medicaid expenses posted, which included this adjusting entry at the total cost of $42.4 million. The federal share of the errors is summarized in the table below:

Description	Grant Number	Federal Costs Over (Under) Charged:
Medicaid Assistance charged 2 quarters twice	5 09 05 IN 5028	$ 5,983,707
ARRA cost included as 2009 grant calculation	0905INARRA	4,217,338
Excess ARRA posted directly	1005INARRA	585,039
Total Overstated Medicaid Costs		$ 10,786,084
Children's Health Insurance Program credited for 2 quarters' cost twice	5 09 05IN 5021	$ (7,090,869)
Total Net Federal Costs Over Charged		$ 3,695,215

We consider the total identified excess federal expense recorded of $10,786,084 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)

The Children's Health Insurance Program was authorized under section 21 of the Social Security Act. Sec. 2101. [42 U.S.C. 1397aa] "(a) Purpose.—The purpose of this title is to provide funds to States to enable them to initiate and expand the provision of child health assistance to uninsured, low-income children in an effective and efficient manner that is coordinated with other sources of health benefits coverage for children." (emphasis added)

"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 435.903

We recommended that FSSA implement control procedures to regularly identify insured CHIP members who may thus be ineligible for coverage. We also recommended that preventative and detective internal controls for preparing and approving transactions be formally designed and implemented. The questioned costs identified above may have to be returned to the federal government.

Status of Finding as of June 2011:

We agree with this finding as follows:

#1 Medicaid assistance charged 2 quarters twice. Federal costs overcharged $5,983,707.

#3 ARRA costs directly recorded were calculated incorrectly. Federal costs overcharged $585,039.

#4 Children's Health Insurance Program credited for 2 quarters twice. Federal costs under charged $7,090,869.

This correction was made in the General Ledger on 6/16/2011 on JE # 0002650758.

On 6/25/2011 the following entries were made in the FETS system to adjust Federal Draws:

503MASFMPF09F10	$ (5,983,706.77)	reduction of expenses
503CHIP7615_F10	7,090,869.45	increase of expenses
503MASARRAQ1F10	1,571,178.94	increase of expenses
503MASARRAQ3F10	(2,156,218.49)	reduction of expenses

We disagree with this finding as follows:

#2 ARRA costs included in 2009 Grant calculation (FMAP split project). Federal costs over charged $4,217,338.

We agree that total computable should be split between FMAP project and ARRA project.

However, the impact of including the total computable in the FMAP was not 4.2 million overcharged federal costs. The journal applied 64.26% against federal ($27,236,798.28) FMAP and a separate calculation (see audit point #3) for ARRA. The $4,217,338.05 was not included in federal charges.

Internal Controls:

This particular instance was a case of human error on two parts. A spreadsheet was prepared to move costs from one program to another with sections showing the monetary impact on each program. A formula was created that included all of the amounts showing, duplicating two costs. Current internal controls are for the Accounting Supervisor to review the work of the Accountant before submitting.

Current internal controls are for the Accounting Supervisor to review the work of the Accountant before submitting the journal to the Controller. The Controller then reviews the entry and its backup and either Approves or Recycles the entry. These controls were in place at the time the Journal entry was created. In this case, neither the Supervisor or the Controller detected the formula error on the spreadsheet and the entry was processed with the duplicated costs.

OMPP will review the controls in place with the fiscal agent to ensure children are appropriately claimed as to the federal grants and match rate. This finding is considered open.

FINDING 2010 – FSSA-6, ACCOUNTING FOR SPECIAL HOSPITAL PAYMENTS

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:	Agency Controller, FSSA
Phone Number:	317-233-3045
Internal Control:	Significant Deficiency -- Allowable Costs/Cost Principles
Questioned Cost:	Allowable Costs/Cost Principles

The Medicaid program regulations provide for additional calculated payments to qualifying hospitals, such as disproportionate share or for upper limit charges as per Medicare payment principles, as outlined generally in 42 CFR 447.272. The State Plan provides for estimated payments to be issued for these types of payments, with later settlements based on final claims filed for the period. Calculations are made by the Medicaid rate setting contractor, and when approved by Office of Medicaid Policy and Planning (OMPP), the fiscal agent issues manual checks. The State generally receives the State share of these payments. Also, in place of settlements at a net amount owed, the State receives full repayment of the estimated check issued and then reissues back the State share originally received. Meetings are held to exchange the checks. On September 22, 2009, a volume of such exchange transactions occurred, with a State deposit of $83.9 million from the hospitals' checks received. We found that these were all deposited with an accounting entry to classify them as 100% State receipts. However, two payments received were refunds of prior estimated payments received. As such, credit was owed to the federal Medicaid and American Recovery and Reinvestment Act (ARRA) grant. In addition, the State's manual checks to refund the original State share received were included as grant expenses issued. The total effect was to overcharge the federal grant program as follows:

Description	Total Amount	Medicaid F09 Federal Share Overcharged	Medicaid ARRA 09 Federal Grant Overcharged
1. Hospital refunds received of estimated payment previously charged to grants. Deposited as 100% State.	$ 42,902,891	$ 27,569,398	$ 4,148,741
2. Payments Issued as refunds of State share originally received that were recorded as grant payments issued.	11,184,752	7,187,322	1,069,960
Total federal grant overcharged		$ 34,756,719	$ 5,218,701

We could not readily ascertain if settlements processed at other times during the year resulted in refunds that may have been misclassified as well. However, all transactions were not tested.

It also did not appear that an adequate segregation of duties was present regarding the deposits, as the same receipting supervisor had custody of the payments as well as the responsibility for approving transactions.

We consider the total identified excess federal expense recorded of $39,975,420 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 are corrected and that FSSA further review the fiscal 2010 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.

Status as of June 2011:

FSSA agrees with the finding. The correction was made in the General Ledger on 6/16/2011 on JE # 0002650770.

On 6/25/2011, the following entries were made in the FETS system to adjust Federal Draws:

503MASFMPF09F10	$	(26,793,779.56)	reduction of expenses
503MASFMPF09F10		(775,618.20)	reduction of expenses
503MASARRAQ1F10		(4,148,741.15)	reduction of expenses

Internal controls:

FSSA has processes in place where the list of checks to be received is sent to Accounting Operations from OMPP and/or the contractor calculating the supplemental/DSH payments, refunds and IGTs. The list of checks is provided to both the accountant receiving the checks and the Account Receivable Manager to verify that all checks expected to be received have been deposited. This finding remains open sole to document the internal control and accounting procedures for similar types of payments.

FINDING 2010 – FSSA-8, DRUG REBATE BALANCE HELD

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jina Hughes
Title of Contact Person:	Program Integrity Manager, FSSA-OMPP
Phone Number:	317-234-2129
Internal Control:	Significant Deficiency -- Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Questioned Cost:	Activities Allowed or Unallowed, Allowable Costs/Cost Principles

FSSA-OMPP has a contractor to collect drug rebates for the Medicaid program. The contractor maintains a bank account for the Indiana drug rebates. The drug rebates are periodically transferred to the fiscal agent bank account held on behalf of Indiana Medicaid and thereby reduces the grant expenses to cover the Medicaid payments clearing. The drug rebate contractor is to provide deposit log records to the fiscal agent who then is to verify that the transfers received are complete. Details concerning these results are maintained in each bank account reconciliation file. A material weakness in internal control as to the structure and oversight of the bank account process remains as stated in the prior finding 2005-FSSA-30 Medicaid Bank Reconciliations. We again found that the monthly concerns identified were not carried forward and had not been resolved.

The analysis performed by the fiscal agent was incomplete as it did not ensure that the drug rebate bank balance was fully transferred to Indiana. We analyzed the drug rebate contractor's June 2010 bank statement and the fiscal agent's reconciliation report, which listed deposit log transactions. Of the balance held at the statement date of June 25, 2010 of $13,055,078, we could not identify $1,765,043 with recent deposits or outstanding deposit log transactions listed. Reconciliation records disclosed that the fiscal agent had never received deposit logs for certain periods in 2008 and 2009 and could not verify the completeness of transfers made in those periods.

The excess bank balance held of $1,765,043 is in an account established for Indiana and is owed to the Medicaid program for drug rebates. This is considered questioned cost as the federal share of expenses claimed was not reduced. The federal share of the excess balance held is $1,163,693 to the 2010 Medicaid grant and $172,268 to 2010 Medicaid ARRA, for a total questioned cost of $1,335,961.

"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))

"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))

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))

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."

We recommended that FSSA monitor the drug rebate bank account balance and perform an analysis to identify the current amounts held that cannot readily be associated to transactions in transit. Such balance should be remitted to FSSA. FSSA should further consider the need to reconstruct the prior years' bank account activity and obtain the missing records as the amount held may not be complete.

Status of Finding as of June 2011:

All drug rebate monies invoiced by the State's rebate contractor are sent to a deposited into a bank account for Indiana drug rebate collections. Funds collected in this bank account are transferred to the Medicaid checking account each week. FSSA Internal Audit is assisting in the development of a reconciliation to show funds received match those reported on the CMS-64. This finding remains open.

FINDING 2010 – FSSA-9, MEDICAID PROJECT ACCOUNTING ERRORS

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:	Agency Controller, FSSA
Phone Number:	317-233-3045
Internal Control:	Significant Deficiency -- Allowable Costs/Cost Principles
Questioned Cost:	Allowable Costs/Cost Principles

FSSA maintains the Federal Expense Tracking System (FETS) for periodic entries of the federal share, as calculated from the total costs in the associated project ledgers. We identified certain logic errors or omissions in the calculations made in June 2010 to determine the final costs recorded to the Medicaid grants as follows:

- The ARRA '09 grant project revenues and expenses were overstated in error by $31,241,065 in June 2010. The FSSA ARRA project reconciliations had identified the error and had not claimed the excess expense, but the entry remained in the system. When the Medicaid '09 grant total costs were compiled, the excess expense was included and used to calculate the total federal share. This caused the Medicaid '09 federal grant expense to be overstated by $20,075,509.

- The calculation of the 2010 Medicaid grant expense incorrectly added "deposits" to arrive at the total project expense. However, the deposits are miscellaneous revenue, which had already been applied as expense reductions in the FETS. The deposits added to expenses were $11,527,200, the federal share of which was $7,599,883.

- The federal share of miscellaneous revenue that was not credited for the 2010 Medicaid grant was $1,435,415.

- The State share of the Healthy Indiana Plan portion of Medicaid costs had been transferred to a State fund throughout the fiscal year. When this was reversed in June, all of the expenses were posted to the Medicaid 2009 grant. The initial transactions involved both Medicaid 2009 and 2010 grant years for $13,032,944.16 and $34,406,435.35, respectively. The effect to federal share was to overstate the 2009 Medicaid $22,109,575 and ARRA $2,157,895 and understate the 2010 Medicaid ($23,944,471) and ARRA ($2,336,980).

We also found that FSSA incorrectly classified $11,173,535 paid for the State portion of the September 2009 Medicare buy-in (State portion of part B and part D coverage) which then overcharged the Medicaid '09 grant $7,180,114.

The total excess federal expense from the above detailed errors was $34,276,940 which is considered questioned cost that may be required to be repaid to the federal government. The questioned costs are summarized in the following table:

Description	Grant Year	Total Federal Over (Under) charged: Medicaid	Total Federal Over (Under) charged: ARRA	TOTAL
Excess expense calculated	2009	$ 20,075,509	$	$ 20,075,509
Cost Transfer Reversal Error		22,109,575	2,157,895	24,267,470
State Medicare Costs Charged		7,180,114		7,180,114
Subtotal 2009 Grant			2,157,895	$ 51,523,093
Subtotal 2009 Grant		49,365,198	2,157,895	$ 51,523,093
Adding Deposits to expense	2010	7,599,883		7,599,883
Misc Revenue Omitted		1,435,415		1,435,415
Cost Transfer Reversal Error		(23,944,471)	(2,336,980)	(26,281,451)
Subtotal 2010 Grant		(14,909,173)	(2,336,980)	$ (17,246,153)
TOTAL Federal Expense Overcharged				$ 34,276,940

The errors were neither prevented nor detected by an internal control. The written procedures were not complete to include final calculations, correspondence to other project reconciliation results, and credits for miscellaneous revenues.

"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))

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 design internal controls to ensure completeness and accuracy of transactions and to add specific review procedures to detect errors in a timely manner and ensure adjustments are fully recorded to all affected projects. Adjusting entries should be recorded to assure the questioned costs identified above are returned to the federal government.

Status as of June 2011:

FSSA agrees with the following findings in total.

The HIP correction and the Buy In part B and Part D corrections were made in the General Ledger on 6/16/2011, on JE# 0002650775.

On J6/25/2011, the following entries were made in the FETS system to adjust Federal Draws:

503MASFMPF09F10	$	(20,075,508.84)	ARRA 09
503MASTRFMAPF10		(7,599,883.00)	Deposits added to Expenditures Medicaid 2010
503MASTRFMAPF10		(1,435,415.00)	Miscellaneous Revenue not coded to Medicaid 2010
503MASARRAQ3F10		6,628,553.10	HIP
503MASFMPF09F10		(7,180,113.59)	Medicaid Buy In

The State share of the Healthy Indiana plan portion of Medicaid costs had been transferred to a State fund throughout the fiscal year. When this was reversed in June, all of the expenses were booked to the Medicaid 2009 grant. The initial transactions involved both Medicaid 2009 and 2010 grant years for $13,032,944.16 and $34,406,435.35, respectively. The effect to federal share was to overstate the 2009 Medicaid $22,109,575 and ARRA $2,157,895 and understate the 2010 Medicaid ($23,944,471) and ARRA ($2,336,980).

We agree with this finding as follows:

#1 Medicaid 2009 project was overstated and Medicaid 2010 project was understated.

We disagree with this finding as follows:

#2 The ARRA amounts were neither under or overstated. The 2009 ARRA amounts resided in the Medicaid 2009 project all year until moved in June 2010 to a separate project. The 2010 ARRA amounts resided in a separate project each quarter and were not affected by the miscoding.

#3 In addition to maintaining that ARRA was not over or understated, the calculation of the ARRA amounts by the Auditor were based on the FMAP instead of the computable (22,109,575 * .0976 = 2,157,895) and (23,844,471 * .0976 = 2,336,980) which is incorrect.

Internal Controls:

Implemented near the end of calendar 2009 and the staff trained on the reconciliation process. As a new process and procedures, the staff needed time and experience to fully understand and master them and was reaching that goal near the end of SFY10. These procedures and instructions have continued to be updated regularly since their inception as potential internal control issues are brought to light and as new tools for review are developed. The basic process remains the same - to match General Ledger expenditures to those entered as expenses to be charged to the Federal Grant and to likewise match the corresponding revenues as well as to review all transactions for legitimacy, accuracy of coding and appropriateness for the Grant being charged. In addition to the formal documented reconciliations prepared by Accounting Operations, the Controller's Groups and Federal Funding analysis for each business unit do separate and independent reviews for the same issues.

FSSA continues to research the following items with respect to this finding:

- The Medicaid 2009 grant was overstated within the PeopleSoft General Ledger by $34,406,435.35. There was no effect on the draws. The Medicaid 2010 grant was understated within the PeopleSoft General Ledger by $34,406,435.35. There was no effect on the draws.

- As of June 30, 2011, an expense credit of $6.6 million had not been fully recorded to reduce draw downs for the 2010 grant project 503MASTFMAPF10. This was recorded on JE 2650775 6/16/11.

This finding remains open pending the resolution of these items.

FINDING 2010 – FSSA-10, ARRA EXPENSE OVERSTATEMENTS

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:	Agency Controller, FSSA
Phone Number:	317-233-3045
Internal Control:	Significant Deficiency -- Allowable Costs/Cost Principles
Questioned Cost:	Allowable Costs/Cost Principles

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, with subsequent extensions. The ARRA specifies the eligible expenditures and conditions under which the State may claim the increased FMAP. As stated in FINDING 2009 - FSSA-4, ARRA GRANT ACCOUNTING, 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. This includes 2008-FSSA-5 GRANT ACCOUNTING INTERNAL CONTROL ENVIRONMENT.

In response to the identified increased risk from material weaknesses in internal controls, we performed additional audit procedures, which identified the following ARRA expense overstatements:

Description	Fed. Expense Overstated ARRA 2009	Fed. Expense Overstated ARRA 2010
August 2009 expense credits were not recorded to credit the ARRA project.	$ 401,145	$
September 22, 2009 daily wire to fund Medicaid of $479,908 was also recorded fully to the ARRA '09 grant. The ARRA portion was $47,751.	432,157	
October 30, 2009 Medicaid expense credit totaling $2,796,892 for cost transfers to other programs was not recorded as a credit share to ARRA.		272,977
ARRA expense for the November 6, 2009 bank account transfer was duplicated, when included in an adjusting entry and also recorded directly.		163,111
October 15, 2009 Medicaid expense credit for CHIP package C costs transferred for August and September, did not have the ARRA credit recorded.	557,810	
CHIP package A costs transferred from Medicaid for the period June through December 2009 totaling $52,482,171 were not credited to ARRA.	2,980,572	2,198,603
TOTAL	$ 4,371,684	$ 2,634,691

The total ARRA expense overstatements identified of $7,006,375 is considered questioned costs which may be required to be refunded to the federal government. These errors also overstated the expenses reported for the ARRA grants in the Schedule of Federal Financial Assistance.

"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.

Status of Finding as of June 2011:

We agree with the following findings in total.

		ARRA 2009	ARRA 2010
1	August 2009 expense credits not recorded to credit the ARRA project.	$ (401,144.65)	$
2	September 2009 daily wire to Fund Medicaid overstated the ARRA portion.	(432,156.94)	
3	October 2009 Medicaid expense credit not recorded as credit to ARRA.		(272,977.00)

No General Ledger entries were required.

On 6/25/2011 entries were made to the FETS system to adjust the Federal Draw by the amounts above.

4 ARRA expense for November 6, 2009 duplicated in General Ledger. $163,111.17

An adjustment was made to the General Ledger on 6/16/2011 by JE # 0002650782.

No Adjustment to the FETS System was required.

5 October 15, 2009 Medicaid expense credit for CHIP package C costs transferred for August and September, did not have the ARRA credit recorded.

We disagree with this finding as follows:

FFY09	503MDAST6426F09	503CHIP7615_F08	Other Projects	Net
	$(5,606,130.39)	$4,739,053.12	$867,077.27	-

1 The amount noted for FFY09 ARRA is arrived at by multiplying the total credit to Med Assistance by .0995 instead of the CHIP amount.

	$557,809.97	$471,535.79		

2 These amounts are the total computable amount, which includes Federal, ARRA and State shares. They were booked to 503MDAST6426F09. Until June of 2010, 503MDAST6426F09 contained the Federal FMAP, ARRA, and the State share in the same project. By crediting the total computable, Federal, ARRA and State amounts were transferred to CHIP.

6 CHIP Package A costs transferred from Medicaid for the period June through December 2009 totaling $52,482,171 were not credited to ARRA.

ARRA 09 (2,980,572)

We disagree with this finding as follows:

These amounts are the total computable amount, which includes Federal, ARRA and State shares. They were booked to 503MDAST6426F09. Until June of 2010, 503MDAST6426F09 contained the Federal FMAP, ARRA, and the State share in the same project. By crediting the total computable, Federal, ARRA, and State amounts were transferred to CHIP.

FFY09	Package A amount
Jun-09	$ 7,958,326.07
Jul-09	7,132,516.95
Aug-09	7,400,768.05
Sep-09	7,463,870.14
Total	$ 29,955,481.21

7 ARRA 10 (2,198,603)

We agree with this finding as follows:

These amounts are the total computable amount, which includes Federal, ARRA, and State shares. They were booked to 503MASTRFMAPF10 which includes the Federal and State share. While the total amount is correct, the credit to ARRA was left in the 503MASTRFMAPF10 project instead of in the ARRA Project so the give back to the Feds was all FMAP instead of ARRA and FMAP.

FFY10	Package A amount
Oct-09	$ 7,318,744.78
Nov-09	7,457,615.84
Dec-09	7,750,308.85
	22,526,669.47
Total	$52,482,150.68

An adjustment was made to the General Ledger on 6/16/2011 by JE # 0002650782.

On 6/25/2011 entries were made to the FETS system to adjust the Federal Draw by the amounts below:

503MASTRFMAPF10	$ 1,449,538.92	increase in expense
503MASARRAQ1F10	(2,198,602.94)	reduction of expense

Internal Controls:

In SYF10 there were many debates within the Agency with SBA and AOS of the proper accounting for ARRA funds and the proper segregation of that accounting. This resulted in transactions originally being booked one way and then moved as new methods were implemented. Errors occurred during these changes in coding and processes. Staff was trained in each method as it was implemented but it was near the end of the Fiscal Year before stability was achieved in ARRA Accounting Initial procedures to analyze in a timely manner all entries in the grant accounting records were implemented near the end of calendar 2009 and the staff trained on the reconciliation process. As a new process and procedures, the staff needed time and experience to fully understand and master them and was reaching that goal near the end of SFY10. These procedures and instructions have continued to be updated regularly since their inception as potential internal control issues are brought to light and as new tools for review are developed. The basic process remains the same - to match General Ledger expenditures to those entered as expenses to be charged to the Federal Grant and to likewise match the corresponding revenues as well as to review all transactions for legitimacy accuracy of coding and appropriateness for the Grant being charged. In addition to the formal documented reconciliations prepared by Accounting Operations, the Controller's Groups and Federal Funding analysis for each business unit do separate and independent reviews for the same issues.

This finding remains open as FSSA reviews the completed corrections to determine if any further adjustments are needed. The outstanding items remaining to be resolved are CHIP expense transfer credits that may not have been recorded to ARRA. The questioned costs were $557,810 and $2,980,572. The correction of the $163,111 was omitted from the expense adjusted through FETS. There remains a question as to whether a FETS adjustment is needed.

FINDING 2010 - FSSA-11, MONITORING OF CLAIM PROCESSING

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jina Hughes
Title of Contact Person:	Program Integrity Manager, FSSA-OMPP
Phone Number:	317-234-2129
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Material Weakness

During our audit of the FSSA Medicaid Program, we found that monitoring controls designed to ensure the accuracy of the payments issued for the Medicaid claims processed, do not appear to have been placed in operation. The controls appear to have been required per the fiscal agent contract scope of work which states: "Select a statistically valid random sample of different claim types in various statuses on a monthly basis, and perform a quality control check on the claims to ensure accurate processing, including editing, auditing, and pricing." (Section 5.6.4.47) Evidence of such tests by the fiscal agent, or by others could not be provided for audit.

The fiscal agent provides a monthly status report to OMPP with detail as to the item count and timeliness of processed claims. However, while some testing of the manual data entry was indicated, there was no comprehensive quality control for accuracy of payments issued. OMPP also hired a consulting firm to test and verify key performance indicators for the fiscal agent report and operation. This also did not include the quality control over claim processing accuracy.

The lack of a system of quality control for the accuracy of claim processing is considered a material weakness. A material weakness in the design of internal controls for the Medicaid program was also reported in FINDING 2008 - FSSA-5, GRANT ACCOUNTING INTERNAL CONTROL ENVIRONMENT.

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 identify and design an internal control structure to provide reasonable assurance related to material transaction classes such as claim processing contract requirements for accuracy tests. Such tests should be evidenced and provided for audit.

Status of Finding as of June 2011:

OMPP Project Management Office will work with the OV&V Vendor to identify and design an internal control structure to provide reasonable assurance related to material transaction classes such as claim processing contract requirements for accuracy tests. These tests will be available audited by OV&V periodically and the results made available for review. OMPP expects to have the written procedure developed by October 2011 and the OV&V Vendor will validate the first results in November 2011.

This finding remains open.

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:	Cynthia Longest
Title of Contact Person:	Deputy Director, Child Support Bureau
Phone Number:	317-233-4482
Internal Control:	Significant Deficiency -- Subrecipient Monitoring

Finding:

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 funds expended at least annually. Under its current system, DCS does not have adequate assurance as to the actual incentive funds expended for each county and consequently can¬not 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 expended at least annually.

Status of Finding as of June 30, 2011:

DCS continues to consider this finding as remaining open. Regarding item 1 above, DCS is requesting an additional two field auditors for the purposes of monitoring its IV-D subrecipients. If this request is successful, we will have a total of four auditors. Regarding the training referenced in item 2, DVDs of the February training session were made available to county Auditors. DCS is currently discussing with the Association of Indiana Counties a mechanism for ongoing training. Regarding item 3, cutover balance documentation has been received for 64 counties. The remaining counties requested an extension; their balance documents are due no later than August 31, 2011. Additionally, each county Auditor was required to confirm in writing that they had established the required six separate accounts/funds for the Clerk, Prosecutor, Title IV-D incentive and ARRA monies. DCS has received confirmations from all auditors but one. The legislation referenced in item 6 above passed the 2011 General Assembly and was effective on July 1, 2011. The new language may be found in IC 31-25-4-23 and IC 31-25-3-23.5. The Monitoring Manual referenced in item 7 is complete. A "Monitoring Core Team" consisting of staff from the DCS Child Support Bureau and DCS Accounting Operations began meeting in May and now meets at least monthly to review monitoring issues, determine whether any county entity needs additional training, whether the CSB Claims Guide needs to be updated, and/or whether any additional action is necessary. Requirements sessions for an automated tool that will allow county Clerks, Prosecutors, Title IV-D Courts and Auditors to submit claim and incentive forms electronically have been completed, and design/implementation of the tool is underway. Some discussion in these sessions regarding the "Quarterly Incentive Balance Form" (referenced in item 4 above), led DCS to change this form. Because of these changes, the first submission date for this quarterly form has been pushed back to October 2011.

FINDING 2009 – IDOE-3, CASH MANAGEMENT ADVANCES

Federal Agency:	U.S. Department of Education
Federal Program:	Special Education Cluster (IDEA), Title 1, 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
Internal Control:	Significant Deficiency -- Cash Management

Finding:

During our audit of Special Education Cluster (IDEA) and Title 1, 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.

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(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."

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."

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.

Status of Finding as of June 2011:

To minimize the time elapsing between the transfer of federal funds to the LEA's and the payout of funds, the Indiana Department of Education (IDOE) 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 were informed of this change in May 2010. In response to subrecipient concerns regarding cash flow, the IDOE informed subrecipients that they may submit a reimbursement form for actual and anticipated expenses (1st to the 15th of each month and the 16th to the 30th of each month) up to twice per month. By the time the LEA received the reimbursement the anticipated expenses will be actual expenses. The SBoA was provided copies of the two correspondences to the subrecipients. Since implementing this process, subrecipients have reported no cash on hand and interest earned. The new process became effective July 1, 2010.

On July 29, 2011, the IDOE sent a memo to subrecipients informing them that beginning immediately all reimbursement forms must only be for actual expenses and cannot include anticipated expenses. A copy of the memo was provided to the SBoA.

IDOE considers this Finding unresolved for fiscal year 2011.

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
Internal Control:	Significant Deficiency -- Earmarking

Finding:

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.

Status of Finding as of June 2011:

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 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.

The information reviewed for this finding was prior to the changes precipitated by the OSEP onsite visit and made in the program area's application and reporting processes. The program area has made changes based on the 2010 OSEP visit that will resolve this finding moving forward.

The IDOE considers this finding unresolved for FY 2011.

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:	Agency Controller, FSSA
Phone Number:	317-233-3045
Internal Control:	Significant Deficiency -- Reporting

Finding:

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 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.

Status of Finding as of June 2011:

FSSA has developed processes to adjust for retroactive eligibility changes. A reconciliation is underway to adjust prior differences. This finding remains open.

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:	Agency Controller, FSSA
Phone Number:	317-233-3045
Internal Control:	Material Weakness -- Allowable Costs/Cost Principles
Questioned Cost:	Allowable Costs/Cost Principles

Finding:

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.

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: <u>2008 FSSA 2 MEDICAID PROGRAM GRANT ACCOUNTING RECORDS</u> and <u>2008-FSSA-5 GRANT ACCOUNTING INTERNAL CONTROL ENVIRONMENT</u>.

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.

Status of Finding as of June 2011:

Accounting procedures have been documented to include all transactions affecting ARRA funds. As all claim expenditures and capitation expenditures are processed through the Medicaid fiscal agent the daily wire transfer to the fiscal agent bank account is split at the current ARRA rate and the regular Medicaid and non-federal share rates. The ARRA portion is recorded to the ARRA fund and project(s). Fiscal agent expenditures are monitored at least monthly to ensure the appropriate percentage has been applied. The ARRA project expenditures and federal draw revenue from the ARRA grant(s) are compared and reconciled as part of the weekly Cash Management ARRA Revenue report and the monthly Accounting Operations Project Reconciliation.

The finding is that ARRA expenditures were understated in the State's accounting system; however, ARRA expenditures are reported based on fiscal agent reports. There is no evidence that these expenditures were inaccurately reported on the CMS-64.

Adjustments will be made to the accounting system to reconcile to the CMS 64 reports.

This finding is considered open.

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:	Agency Controller, FSSA
Phone Number:	317-233-3045
Internal Control:	Significant Deficiency -- Allowable Costs/Cost Principles
Questioned Cost:	Allowable Costs/Cost Principles

Finding:

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.

"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.

Status of Finding as of June 2011:

Finding 2009-FSSA-6 remains open - solely pending the return of the federal share.

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:	Agency Controller, FSSA
Phone Number:	317-233-3045
Internal Control:	Significant Deficiency -- Allowable Costs/Cost Principles; Reporting
Questioned Cost:	Allowable Costs/Cost Principles

Finding:

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:

CALCULATION OF FEDERAL EXPENSE CREDIT DUE

Date	Description	Total Amount	Federal Expense Credit Share
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		21,694
Total Unrecorded Federal Expense Credit:			$ 1,037,494

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.

Status of Finding as of June 2011:

FSSA has reviewed accounting records. Documentation is being compiled.

This finding remains 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:	Agency Controller, FSSA
Phone Number:	317-233-3045
Compliance Requirement:	Allowable Costs/Cost Principles; Reporting
Internal Control:	Material Weakness
Questioned Cost:	Allowable Costs/Cost Principles

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.

"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 as of June 2011:

FSSA has developed processes to adjust for retroactive eligibility changes. A reconciliation is underway to adjust prior differences.

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:	Agency Controller, FSSA
Phone Number:	317-233-3045
Compliance Requirement:	Allowable Costs/Cost Principles; Reporting
Internal Control:	Material Weakness

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))

"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 June 2011:

FSSA has documented accounting processes to be followed for adjustments to the Medicaid Assistance projects so expenditures can be reconciled to the State accounting system. Internal controls are in place to ensure adequate oversight.

This finding remains open solely to enhance internal controls.

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:	Jina Hughes
Title of Contact Person:	Program Integrity Manager, OMPP
Phone Number:	317-234-2129
Compliance Requirement:	Special Tests and Provisions 1 – Utilization Control and Program Integrity
Internal Control:	Material Weakness

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.

- 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."

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 June 2011:

The OMPP entered into a contract with Thomson Reuters to provide a comprehensive Fraud and Abuse Detection System (FADS). The contract took effect on January 3, 2011. The FADS solution includes both software tools and consulting services to support identification, investigation, audit and recovery related to health care fraud cases. One of the tools that will be implemented as part of the FADS solution is a case management tool called i-Sight. The following are some of the features of the i-Sight tool that will allow the OMPP to implement a full control structure for the SUR functions:

- Case Tracking Reports. All cases will be entered into i-Sight and we will develop an Open Case Report that shows all cases currently in the system, along with their status.

- Recoupment Reports. There will be a separate screen in i-Sight that tracks recoupment from providers, including accounting for payments made and outstanding balances due. Reports will be run to show all cases that have an outstanding balance and how long the overpayment has been outstanding.

- Interest Tracking. The i-Sight tool will capture interest amounts that are calculated for each case. These calculations will be performed outside of i-Sight and a spreadsheet will be attached to the case that documents the calculations. The system also allows for notes to be added to the case whenever a change is made to the overpayment amount or interest amount for more consistent tracking of that information.

- Supervisory Review. Letters will have an automated routing process that will ensure OMPP review and sign off prior to letters being sent. These approvals will be tracked in the system through an automated process that includes the name of the approver and the date the letter was approved. Case closures will have a separate screen with required fields to show who reviewed the case and approved it for closure.

- Escalations and Notifications. The i-Sight tool allows for users to set escalations which will automatically notify a manager if certain conditions are met. For example, if a Final Determination letter was sent and no response was received from the provider within 60 days, an escalation can be sent to the SUR Manager so the case can be referred to the MFCU.

The i-Sight tool will be available for use as of September 2, 2011. In the meantime, the Thomson Reuters team is using a manual spreadsheet to store and track its cases. Once the system is in place, sample reports can be provided to document our compliance with the SBOA recommendations. In addition to the i-Sight implementation, we are also developing a business process manual that will guide users through the proper steps for case processing. User training is essential to ensure that each important step in the case has been completed.

The status of this finding remains open.

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:	Jina Hughes
Title of Contact Person:	Program Integrity Manager, OMPP
Phone Number:	317-234-2129
Internal Control:	Significant Deficiency -- Special Tests and Provisions – ADP Risk Analysis and System Security Review

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 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 June 2011:

The OMPP has appointed an ADP Security Coordinator to give oversight to the risk assessment process for the security of the entire AIM system as managed by contractors. In December 2009, this coordinator started attending the EDS (now HP) Security Workgroup meetings. Official notification will be sent to CMS to demonstrate compliance with the federal requirement. A HIPAA Privacy and Security Coordinator have also been designated to develop and monitor the State's own policies and procedures. This coordinator collaborates with the ADP Security Coordinator and also attends the HP Security Workgroup meetings.

The HIPAA Privacy and Security Coordinator perform and oversee the tasks related to requesting, granting and monitoring access to IndianaAIM. There are three parts to the access process: HIPAA Training, an Access Request Form and a Confidentiality Agreement. A WEB-based training course must be completed by all new employees and staff who work in the OMPP. The course has two modules: one for Privacy and one for Security. Each month there is a reconciliation completed to show that everyone working in OMPP has completed the required training in the OMPP HIPAA privacy and security policies and procedures.

The Access Request forms allow an access administrator or a manager to indicate the applications needed and to indicate the job function of the individual for whom access is being requested. A list of management personnel and access supervisors is utilized to show who within each department, agency or contracting entity has authority to submit requests for access. Access requests are cross checked with this list to authenticate the request. The access forms are scanned and saved on a secure drive. The OMPP currently retains all Access Request forms. The record of the initial access request may not exist for everyone who now has access, but the records will be sought from the contractor or a new request will be completed so that there is a record for each staff person.

The original signed Confidentiality Statements are also retained in a like manner. Every 12 months, when logging into the AIM system, the staff member is prompted to read and agree to the Confidentiality Statement before gaining access. This action is monitored with an audit report produced by the Contractor and saved on the shared drive for OMPP's review and checked against a current staff listing.

The list of management and supervisory personnel will be available by September 30, 2011 and notification regarding the appointment of an ADP Security Coordinator will be sent to CMS by August 1, 2011.

The status of this 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:	Agency Controller, FSSA
Phone Number:	317-233-3045
Internal Control:	Significant Deficiency -- Allowable Costs/Cost Principles, Reporting

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.

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 June 2011:

In fiscal 2009, FSSA reviewed and entered some corrections to 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. The Adjustments will be reviewed to determine if additional corrections are necessary.

FSSA follows the ENCOMPASS policy for recording grant expenditures to projects tied to a federal grant. All grant expenditures are recorded in the accounting system with any adjustments posted through a journal entry entered by an accountant and requiring approval of the Controller. Expenditures are reviewed by Accounting Operations, Federal Funding and the OMPP at least monthly. The monthly project reconciliation process by Accounting Operations ensures entries into FETS are reconciled to the accounting system.

This finding is considered open.

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:	Jina Hughes
Title of Contact Person:	Program Integrity Manager, OMPP
Phone Number:	317-234-2129
Internal Control:	Significant Deficiency -- Allowable Costs/Cost Principles
Questioned Cost:	Allowable Costs/Cost Principles

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.

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.

Status of Finding as of June 2011:

OMPP believes utilizing estimates for quarterly payments is reasonable based on the language in the State Plan, Attachment 4.19B page 1c. OMPP has drafted a provider payment agreement specific to the physician faculty access to care payments that identifies the payments as estimated payments and states that providers are required to repay any amount subsequently determined to be an overpayment. OMPP has also taken additional steps to limit the likelihood of overpayments by reviewing a preliminary calculation prior to the fourth quarter payment. This allows OMPP to reduce the final estimated quarterly payment if it appears that the total quarterly payments will be higher than the preliminary calculation amount.

The status of this finding remains open pending State Board of Accounts' review of the provider payment agreement.

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:	Jina Hughes
Title of Contact Person:	Program Integrity Manager, OMPP
Phone Number:	317-234-2129
Internal Control:	Significant Deficiency -- Special Tests and Provisions – Provider Health and Safety Standards

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).

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

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

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

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

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

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

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

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

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

Status of Finding as of June 2011:

OMPP is copied on all ISDH communication related to C&Ts. This information is used by OMPP to maintain a spreadsheet which records C&Ts being sent from ISDH to ensure that HP is receiving the C&Ts and that imaged C&Ts are consistently being added to the providers' enrollment files.

When remedies are imposed by CMS or ISDH against an enrolled provider that has been found by survey to be out of compliance, responsibility for monitoring is shared by two units within OMPP. Agency Coordination & Integration is responsible for monitoring provider enrollment compliance and Reimbursement is responsible for auditing claims submission and payment.

OMPP will work with HP and ISDH to identify the list of providers that are subject to ISDH survey and develop a monitoring process of survey timelines/deadlines to ensure enrolled providers remain compliant with the requirements of the Medicaid program.

OMPP and ISDH are meeting monthly to discuss agency processes and information sharing. This on-going meeting provides the opportunity to explain needs and address concerns as they are identified.

This finding remains open. OMPP anticipates resolution by December 31, 2011.

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
Internal Control:	Significant Deficiency -- Eligibility, Allowable Cost, Sp.Test 2, Income Eligibility & Verification System

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 July 2011:

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 were intended to ensure that eligibility policies are implemented consistently across the State. Under the contract, the IBM-led Coalition was responsible for ensuring that case actions are taken correctly. However, this model did not produce the results FSSA was looking for.

FSSA paused the Modernization roll-out in June 2008 with roughly one third of the TANF caseload 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. 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. FSSA evaluated the CAP results in October 2009 and Governor Daniel's terminated the IBM contract effective December 15, 2009.

In January 2010, FSSA started a pilot for a Hybrid model in the ten county Vanderburgh Region. In June 2010, the Hybrid model was implemented in the eleven county Vigo Region. The goal of the Modernization model was to centralize case actions to a large service center. The Hybrid model eliminates much of the centralization and refocuses responsibility on the local county office 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. Along with the Hybrid pilot, our contractors are retraining caseworker staff. DFR now reviews all training materials provided to contracted staff. Additionally, DFR has implemented biweekly policy quizzes of all casework staff (State and contracted) to review the effectiveness of all trainings provided. It is the State's goal to continue rolling out the Hybrid model to the modernized portions of the State and then implement the Hybrid in the remaining non-modernized counties. The Hybrid solution has been implemented in the Vanderburgh, Vigo, Clark, Allen, Grant, Lake and St. Joseph Regions. The remaining regions will be converted to Hybrid by early-spring 2012.

DFR's Quality Control Section pulls a monthly sample of positive and negative case actions in the Modernized and Hybrid areas of the State to review. The cases subject to review are error prone cases with earnings, income other than employment, or currently serving a sanction. The TANF QC project will be statewide when the Hybrid model roll out is completed in 2012.

DFR has contracted with First Data to assist in the contract oversight. As part of First Data's contract, they pull a random sample of one hundred TANF cases each month to review for completeness and correctness.

This finding remains unresolved.

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
Internal Control:	Significant Deficiency – Eligibility, Sp.Test 4 – Adult Custodial Parent of Child Under Six When Childcare Not Available

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)."

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 July 2011:

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. Starting in November 2009, FSSA began generating worker alerts based upon the PARIS match. 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 submits to PARIS the Social Security Number for all TANF recipients with each month. Additionally, in February 2010 DFR initiated a monthly review an ICES report that shows all individuals who have received more than 60 months of TANF benefits to ensure a quick recoupment of any TANF benefits incorrectly received.

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.

In regards to case records and documentation, 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. However, this model did not produce the results FSSA was looking for.

FSSA paused the Modernization roll-out in June 2008 with roughly one third of the TANF caseload 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. 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. FSSA evaluated the CAP results in October 2009 and Governor Daniel's terminated the IBM contract effective December 15, 2009.

In January 2010, FSSA started a pilot for a Hybrid model in the ten county Vanderburgh Region. In June 2010, the Hybrid model was implemented in the eleven county Vigo Region. The goal of the Modernization model was to centralize case actions to a large service center. The Hybrid model eliminates much of the centralization and refocuses responsibility on the local county office 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. Along with the Hybrid pilot, our contractors are retraining caseworker staff. DFR now reviews all training materials provided to contracted staff. Additionally, DFR has implemented biweekly policy quizzes of all casework staff (State and contracted) to review the effectiveness of all trainings provided. It is the State's goal to continue rolling out the Hybrid model to the modernized portions of the State and then implement the Hybrid in the remaining non-modernized counties. The Hybrid solution has been implemented in the Vanderburgh, Vigo, Clark, Allen, Grant, Lake and St. Joseph Regions. The remaining regions will be converted to Hybrid by early-spring 2012.

DFR's Quality Control Section pulls a monthly sample of positive and negative case actions in the Modernized and Hybrid areas of the State to review. The cases subject to review are error prone cases with earnings, income other than employment, or currently serving a sanction. The TANF QC project will be statewide when the Hybrid model roll out is completed in 2012.

DFR has contracted with First Data to assist in the contract oversight. As part of First Data's contract, they pull a random sample of one hundred TANF cases each month to review for completeness and correctness.

This finding specific to other documentation remains unresolved.

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
Internal Control:	Significant Deficiency – Eligibility, Sp.Test 1 – Child Support Non-Cooperation

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 recommend 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.

Status of Finding as of July 2011:

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. DFR has been in contact with the Indiana State Police to determine the possibility of establishing a data match or other means of accessing the State Police limited criminal background check system. However, due to the complexities of implementing the Hybrid solution statewide, efforts to use this data will be postponed until the summer or fall of 2012.

This issue remains unresolved.

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
Internal Control:	Significant Deficiency -- Eligibility, Allowable Cost, Sp.Test 2 – Income Eligibility & Verification System, Sp.Test 3 – Penalty for Refusal to Work

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."

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 July 2011:

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 were intended to ensure that eligibility policies are implemented consistently across the state. Under the contract, the IBM-led Coalition was responsible for ensuring that case actions are taken correctly. However, this model did not produce the results FSSA was looking for.

FSSA paused the Modernization roll-out in June 2008 with roughly one third of the TANF caseload 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. 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. FSSA evaluated the CAP results in October 2009 and Governor Daniel's terminated the IBM contract effective December 15, 2009.

In January 2010, FSSA started a pilot for a Hybrid model in the ten county Vanderburgh Region. In June 2010, the Hybrid model was implemented in the eleven county Vigo Region. The goal of the Modernization model was to centralize case actions to a large service center. The Hybrid model eliminates much of the centralization and refocuses responsibility on the local county office 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. Along with the Hybrid pilot, our contractors are retraining caseworker staff. DFR now reviews all training materials provided to contracted staff. Additionally, DFR has implemented biweekly policy quizzes of all casework staff (State and contracted) to review the effectiveness of all trainings provided. It is the State's goal to continue rolling out the Hybrid model to the modernized portions of the State and then implement the Hybrid in the remaining non-modernized counties. The Hybrid solution has been implemented in the Vanderburgh, Vigo, Clark, Allen, Grant, Lake and St. Joseph Regions. The remaining regions will be converted to Hybrid by early-spring 2012.

DFR's Quality Control Section pulls a monthly sample of positive and negative case actions in the Modernized and Hybrid areas of the State to review. The cases subject to review are error prone cases with earnings, income other than employment, or currently serving a sanction. The TANF QC project will be statewide when the Hybrid model roll out is completed in 2012.

DFR has contracted with First Data to assist in the contract oversight. As part of First Data's contract, they pull a random sample of one hundred TANF cases each month to review for completeness and correctness.

This finding remains unresolved.

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:	Jina Hughes
Title of Contact Person:	Program Integrity Manager, OMPP
Phone Number:	317-234-2129
Internal Control:	Significant Deficiency -- Special Tests and Provisions – Provider Health and Safety Standards

Finding:

In order to be eligible to receive Medicaid payments, long-term care facilities must meet prescribed health and safety standards. The Indiana State Department of Health (ISDH) is responsible for the issuance of Certification & Transmittal (C&T) documents. Among other purposes, C&Ts inform the Medicaid fiscal agent whether or not facilities have met prescribed health and safety standards. EDS may receive several C&Ts for each facility in the course of a year. Not all of the C&Ts received will be for the purpose of recertification. Other than Intermediate Care Facilities for the Mentally Retarded (ICF/MR), EDS does not have a system in place to ensure that only those facilities certified by the Indiana State Department of Health as having met prescribed health and safety standards receive Medicaid payments.

There is a lack of controls in place to ensure that all providers being paid have a current and satisfactory C&T. Upon receipt, C&T documents are logged in the Document Tracking System at EDS and filed in hardcopy facility files. No information is entered into AIMS for long-term care facilities other than ICF/MR. The papers inside provider files are loose-leaf, not in any specific order, and are not indexed. There is no process in place to ensure that all required C&Ts are received and to follow-up on those that are missing. The lack of controls increases the risk of paying providers who do not have a current and satisfactory C&T.

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

The Social Security Act §1919 (g)(2)(A)(iii)(I) states: "Each nursing facility shall be subject to a standard survey not later than 15 months after the date of the previous standard survey conducted . . ."

We recommended that FSSA ensure that a process is implemented to make certain that the most current C&T is in the provider files and to examine files for completeness. If a provider's file does not have a recent C&T, follow-up should be performed with ISDH. The communication process should be enhanced to ensure that C&Ts are received in a timely manner. A list of finished surveys from ISDH should be periodically obtained and compared to hardcopy provider files.

Status of Finding as of June 2011:

OMPP is copied on all ISDH communication related to C&Ts. This information is used by OMPP to maintain a spreadsheet which records C&Ts being sent from ISDH to ensure that HP is receiving the C&Ts and that imaged C&Ts are consistently being added to the providers' enrollment files.

When remedies are imposed by CMS or ISDH against an enrolled provider that has been found by survey to be out of compliance, responsibility for monitoring is shared by two units within OMPP. Agency Coordination & Integration is responsible for monitoring provider enrollment compliance and Reimbursement is responsible for auditing claims submission and payment.

OMPP will work with HP and ISDH to identify the list of providers that are subject to ISDH survey and develop a monitoring process of survey timelines/deadlines to ensure enrolled providers remain compliant with the requirements of the Medicaid program.

OMPP and ISDH are meeting monthly to discuss agency processes and information sharing. This on-going meeting provides the opportunity to explain needs and address concerns as they are identified.

This finding remains open. OMPP anticipates resolution by December 31, 2011.

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:	Jina Hughes
Title of Contact Person:	Program Integrity Manager, OMPP
Phone Number:	317-234-2129
Internal Control:	Significant Deficiency -- Special Tests and Provisions – Provider Eligibility

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 non-matches even if the provider's license was active. This would require substantial manual follow-up procedures.

Contractor requirement PRC-9 of the January 1, 2004, Scope of Work of the EDS contract states: "Maintain regular communication with the applicable State agencies to perform certification and licensure verification. Verify certification in other states for out-of-state providers."

42 CFR §440.50 states that the services of physicians and dentists must be "(2) By or under the personal supervision of an individual licensed under State law to practice medicine or osteopathy."

42 CFR §447.45 states: "(f) Prepayment and postpayment claims review. (1) For all claims, the agency must conduct prepayment claims review consisting of--(i) Verification that the recipient was included in the eligibility file and that the provider was authorized to furnish the service at the time the service was furnished . . ."

We recommended that FSSA review the medical license verification process for completeness across all provider types and provide for on-going licensure reviews of out-of-state providers.

Status of Finding as of June 2011:

Change Request 1286/Change Order 1929 was approved to address the issue of on-going monitoring of out of state licenses. HP reports they expect to be able to contract with Lexis Nexis to obtain license information from 49 states. This information will facilitate the creation of monthly reports, similar to the reports generated from IPLA data, which will identify license status and allow Provider Enrollment to take the appropriate steps for providers who no longer meet the requirements for participation in Indiana Medicaid. HP anticipates implementation as soon as an agreement has been signed with Lexis Nexis. OMPP will then include review of these reports in their current monitoring activities.

This finding remains open. OMPP anticipates resolution by December 31, 2011.

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:	Jina Hughes
Title of Contact Person:	Program Integrity Manager, OMPP
Phone Number:	317-234-2129
Internal Control:	Significant Deficiency -- Special Tests and Provisions – Provider Eligibility; Allowable Costs/Cost Principles

Finding:

AIMS does not provide a computer field to record the license termination date of providers. For providers with a license that is no longer valid, the end date of the license is not the end date used in AIMS. The end date used in AIMS is the date that the termination letter is sent out and may be several months after the date that the license became invalid.

As the system does not provide license termination dates, identification of services performed after a provider's license became invalid is not readily determinable. Manual processes are relied upon when making the determination as to whether the provider has performed services after the date that his or her license became invalid.

In our review of the license termination process, two providers were identified who received payments for services performed after the date which the provider's license became invalid. Action had not been initiated to recover the overpayments.

The first provider's eligibility was not terminated from AIMS until more than three months had passed after receiving an emergency suspension. The provider was identified in a newspaper article which stated that the provider was under a 90 day emergency suspension for committing possible fraud against Medicaid and private insurers. The emergency suspension has since been extended an additional 90 days. We are questioning claims which were paid for services performed after the date of the provider's emergency suspension in the amount of $2,356.14.

The second provider's eligibility was not terminated from AIMS until more than 16 months had passed after the date of the company's license expiration. The delays in terminating the eligibility of this provider in AIMS resulted in $298,604.37 paid for claims with dates of service subsequent to the license expiration.

42 CFR §440.50 states that the services of physicians and dentists must be "(2) By or under the personal supervision of an individual licensed under State law to practice medicine or osteopathy."

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

Under OMB Circular A-87, a cost must meet the following general criteria to be allowable under Federal awards: be necessary and reasonable for proper and efficient performance and administration of Federal awards and be authorized or not prohibited under State or local laws or regulations.

The total paid to these providers for services claimed beyond the date of license expiration or termination of $300,960.51 is considered a questioned cost. The federal share may be required to be repaid to the federal government with State funds.

We recommended that FSSA require that AIMS maintain the date on which a provider's license becomes invalid. FSSA should perform monitoring procedures to ensure that license changes are recorded in a timely manner. FSSA should also develop information and communication procedures to ensure timely AIMS eligibility terminations occur.

Status of Finding as of June 2011:

HP continues to follow current business process for end-dating enrollment on the date the license ends for all deactivations related to license issues.

Provider #1 has had her enrollment end date changed to match her license suspension date. Her claims history has been reviewed and payments recouped. Federal share that was subsequently drawn down was adjusted to account for the inappropriate payments made.

Provider #2 has had their enrollment end date changed to match their license expiration date. An adjustment was made to recoup payment for claims that paid after the license expired and an Accounts Receivable was established.

OMPP continues to monitor and document monthly review of license terminations.

This finding is open pending return of the federal share of provider #2 payments.

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:	Jina Hughes
Title of Contact Person:	Program Integrity Manager, OMPP
Phone Number:	317-234-2129
Internal Control:	Significant Deficiency -- Special Tests and Provisions – ADP Risk Analysis and System Security Review

Finding:

During the fiscal year ended June 30, 2005, FSSA's OMPP did not monitor the access assignments and associated controls maintained by the contractor for the AIMS. The contractor operates the Medicaid and SCHIP programs for OMPP using AIMS. Monitoring of access assignments is necessary to ensure adequate controls are in operation for the proper segregation of duties and security of records.

"State agencies are responsible for the security of all ADP projects under development, and operational systems involved in the administration of HHS programs. State agencies shall determine the appropriate ADP security requirements based on recognized industry standards or standards governing security of Federal ADP systems and information processing." (45 CFR 95.621 (f) (1))

We recommended that FSSA develop a monitoring plan which would include regular review of the access assignments maintained by the AIMS contractor to ensure proper segregation of duties, and that controls are in operation to ensure that access is changed or terminated corresponding to changes in job positions or terminations, as applicable.

Status of Finding as of June 2011:

The OMPP has appointed an ADP Security Coordinator to give oversight to the risk assessment process for the security of the entire AIM system as managed by contractors. In December 2009, this coordinator started attending the EDS (now HP) Security Workgroup meetings. Official notification will be sent to CMS to demonstrate compliance with the federal requirement. A HIPAA Privacy and Security Coordinator has also been designated to develop and monitor the State's own policies and procedures. This coordinator collaborates with the ADP Security Coordinator and also attends the HP Security Workgroup meetings.

Work is still being done to create an appropriate tool for OMPP to use to monitor the duties, job profiles and actions taken (changes and deletions) by the fiscal agent.

This finding remains open.

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:	Agency Controller, FSSA
Phone Number:	317-233-3045
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.

"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 June 2011:

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.

FSSA considers this finding still open.

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

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767, 93.778
Auditee Contact Person:	Jina Hughes
Title of Contact Person:	Program Integrity Manager, OMPP
Phone Number:	317-234-2129
Internal Control:	Significant Deficiency -- Activities Allowed or Unallowed, Eligibility

Finding:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Status of Finding as of June 2011:

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. In April a software tool (Staff Management and Resource Tool – SMART) was implemented in Hybrid counties to allow eligibility 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. The Hybrid solution has been implemented in the Vanderburgh, Vigo, Clark, Allen, Grant, Lake and St. Joseph Regions. The remaining regions will converted to Hybrid by early-spring 2012.

This finding is 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
Internal Control:	Significant Deficiency -- Allowability, Eligibility

Finding:

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

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

If a recipient is properly removed, the recipient's case should become inactive and, therefore, not be included in the next quarter's death verification request. We requested a query of the ICES data to determine if any death matches were returned for the same recipient from one quarter to the next. A query was generated to compare results for the 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 June 2011:

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. In April a software tool (Staff Management and Resource Tool – SMART) was implemented in Hybrid counties to allow eligibility 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. The Hybrid solution has been implemented in the Vanderburgh, Vigo, Clark, Allen, Grant, Lake and St. Joseph Regions. The remaining regions will converted to Hybrid by early-spring 2012.

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:	Jina Hughes
Title of Contact Person:	Program Integrity Manager, OMPP
Phone Number:	317-234-2129
Internal Control:	Significant Deficiency -- Special Tests and Provisions – Provider Eligibility

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 June 2011:

In 2010, OMPP asked that HP audit 5% of enrolled waiver providers to ensure that signed provider agreements could be found in the imaged enrollment files. HP reported they were unable to find a signed agreement for approximately 25% of the files that had been reviewed. HP recommended that the enrollment project be repeated. The project is in the third and final phase and nearing completion.

This finding remains open; however, OMPP anticipates resolution by September 30, 2011.

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:	Jina Hughes
Title of Contact Person:	Program Integrity Manager, OMPP
Phone Number:	317-234-2129
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 June 2011:

Six reports are generated monthly from data downloaded from IPLA: PRV 0410 Non Matched Pharmacy, PRV 0411 Non Matched – Non Pharmacy, PRV 0412 Non Matched – Additional License, PRV 0413 Matched Non Pharmacy, PRV 0414 Matched pharmacy, PRV 0415 Matched Additional License. HP is currently working PRV 0410, 0413, 0414. Two of the reports, 0412 and 0415, do not have any data to review because these AIM fields are not in use at this time. PRV 0411 Non Matched-Non Pharmacy is still not being worked due to the size of the report. The OMPP Incident Management team will work with HP toward resolution of the barriers to working this final report.

OMPP continues to monitor the reports and HP's processes when license reports are worked. This finding remains open. Resolution is anticipated by December 31, 2011.

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.

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% noncompliance. Also, paragraph 814 of the Manual requires this form to be renewed biennially and whenever there is a change in the amount of payment. However, in 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 June 30, 2011:

DCS continues to consider this finding as open for cases initiated prior to January 2009 and closed for those initiated after January 2009. No change from last Fiscal Year's Report.

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
Internal Control:	Significant Deficiency -- Activities Allowed or Unallowed

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 June 30, 2011:

DCS continues to consider this finding as open for cases initiated prior to January 2009 and closed for those initiated after January 2009. No change from last Fiscal Year's Report.

FINDING 2010 - DCS-1, SUBRECIPIENT MONITORING

Federal Agency:	U.S. Department of Health and Human Services - ACF
Federal Program:	Social Services Block Grant (SSBG)
CFDA Number:	93.667
Auditee Contact Person:	Lisa Rich
Title of Contact Person:	Deputy Director of Programs and Services, Department of Child Services (DCS)
Phone Number:	317-232-4497
Compliance Requirements:	Activities Allowed or Unallowed Subrecipient Monitoring
Internal Control:	Material Weakness

Finding:

During our audit of the DCS SSBG Program, we noted that DCS management did not monitor its subrecipients' use of SSBG funds. Although DCS management receives quarterly statements from the subrecipients which provide summary financial data of the SSBG funds, DCS management does not perform site visits to the subrecipients and does not perform limited scope audits. Therefore, DCS management is unable to understand the subrecipients' environment, systems, and controls and cannot ascertain that the SSBG funds were used for activities allowed. This is a material weakness.

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 monitor its subrecipients' use of federal awards through site visits, limited scope audits, or other means to understand the subrecipients' environment, systems, and controls to ensure that SSBG funds were used for allowable activities.

Status of Finding as of June 30, 2011:

As the State of Indiana now has and enforces consistent policies regarding the accounting for federal funds in the financial accounting system and we have no federal funds passed outside the State, we no longer feel we would be subject to audit for sub-recipient monitoring, as required by federal regulations, for funds passed to other State agencies. We do, however, retain the option of reviewing these expenditures as we are directly responsible to the federal government for this program. Federal Funding passed by DCS to entities outside of the State Government Agencies will continue to be subject to your audits as required by federal regulations.

FINDING 2010-DCS-3, SPECIAL TESTS AND PROVISIONS, R3

Federal Agency:	U.S. Department of Health and Human Services - ACF
Federal Program:	Child Support Enforcement Program (IV-D)
CFDA Number:	93.563
Auditee Contact Person:	Robin Degner
Title of Contact Person:	Controller, Department of Child Services (DCS)
Phone Number:	317-234-5079
Compliance Requirement:	Special Tests and Provisions, R3
Internal Control:	Significant Deficiency

Finding:

During our audit of the DCS Child Support Program, we noted that DCS did not separately identify to each subrecipient, at the time of disbursement of funds, the Federal award number and CFDA number throughout most of the audit period. We also noted that DCS did not communicate to subrecipients the requirement to provide appropriate identification of expenditures for Federal awards made under the Recovery Act separately on the Schedule of Federal Financial Assistance (SEFA), and as separate rows under Item 9 of Part III on in their SEFA and SF-SAC. This is a significant 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."

2 CFR 176.210(d) states: "Recipients agree to require their subrecipients to include on their SEFA information to specifically identify Recovery Act funding similar to the requirements for the recipient SEFA . . . This information is needed to allow the recipient to properly monitor subrecipient expenditure of ARRA funds as well as oversight by the Federal awarding agencies, Offices of Inspector General, and the Government Accountability Office."

We recommended that DCS separately identify to each subrecipient, and document at the time disbursement of funds, the Federal award number and CFDA number. We also recommended that DCS communicate to subrecipients the requirement to provide appropriate identification of expenditures for Federal awards made under the Recovery Act separately on the SEFA, and as separate rows under Item 9 of Part III on in their SEFA and SF-SAC.

Status of Finding as of June 30, 2011:

DCS recommends this finding for closure. During the period of the 2011 A-133 Audit, DCS did institute changes to the Remittance documents delivered to the County Officials receiving Title IV-D ARRA payments. A sample of the remittance documents and associated correspondence to County Officials has been (or will be) provided to State Board of Accounts Audit staff.

FINDING 2010 - DCS-5, SSBG – QUESTIONED COSTS

Federal Agency:	U.S. Department of Health and Human Services - ACF
Federal Program:	Social Services Block Grant (SSBG)
CFDA Number:	93.667
Auditee Contact Person:	Douglas Weinberg
Title of Contact Person:	Chief Financial Officer, Department of Child Services (DCS)
Phone Number:	317-234-4994
Compliance Requirement:	Allowable Costs
Internal Control:	Material Weakness

Finding:

The State of Indiana was awarded $18,139,459 in 2009 SSBG Supplemental Disaster Funds as a result of floods occurring in 2008. The State issued these funds to five healthcare facilities affected by the 2008 floods. Our testing of the payments to these healthcare facilities revealed that of the $18,139,459 that was awarded, $18,089,958 was either for unallowable costs or the supporting documentation presented to us during the audit was deficient as it lacked a combination of itemized vendor invoices and insurance documentation to illustrate that the funds were actually used for health services (including mental health services), and for repair, renovation, and construction of health care facilities (including mental health facilities), child care centers, and other social services facilities.

Of the $18,089,958, $15,374,186 was used for payroll expenses to keep staff employed and their benefits in place at one facility while it was closed for disaster clean up and repair. This is not an allowable cost. $2,226,888 was issued to three facilities for lost revenues due to business interruption. This is also not an allowable cost. We also noted that the State issued $488,884 to two facilities whose requests for SSBG funds lacked a combination of itemized vendor invoices and insurance documentation to illustrate that the $488,884 was used for allowable costs. Therefore, federal expenditures totaling $18,089,958 are considered questioned costs and may be required to be repaid to the federal government.

45 CFR 92.22 (a) states: "Grant funds may be used only for the allowable costs of the grantees, subgrantees and cost-type contractors, including allowable costs in the form of payments to fixed-price contractors."

Chapter 7 of Public Law 110-329 states: ". . . in addition to other uses permitted by title XX of the Social Security Act, funds appropriated under this heading may be used for health services (including mental health services), and for repair, renovation, and construction of health care facilities (including mental health facilities), child care centers, and other social services facilities."

Transmittal number 02-2009 dated January 6, 2009, issued by the Office of Community Services, Administration for Children and Families, U.S. Department of Health and Human Services states, "SSBG Supplemental Funds may also be used to address social and health services (including mental health services) for individuals, and for repair, renovation, or construction of health care facilities, mental health facilities, child care centers and other social services facilities affected by hurricanes, floods, and other natural disasters occurring during 2008 for which the President declared a major disaster, and from Hurricanes Katrina and Rita."

We recommended that DCS properly spend grant funds for allowable costs.

Status of Finding as of June 30, 2011:

DCS recommends this finding for closure. During the period of the 2011 A-133 Audit, DCS did recover documentation for payments made from Disaster Recovery funds that does evidence compliance and eligible expenses under the terms of the Award. A sample of the documents and associated correspondence to SSBG Disaster Recovery Fund recipients has been (or will be) provided to State Board of Accounts Audit staff.

FINDING 2010 - DCS-6, OVERDRAWN FEDERAL FUNDS

Federal Agency:	U.S. 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, DCS- Federal Financial Management
Phone Number:	317-234-6910
Compliance Requirement:	Reporting
Internal Control:	Significant Deficiency

Finding:

During our audit of Foster Care Title IV-E program of the Indiana Department of Child Services (DCS), we found that DCS drew more federal funds than what they paid for foster care services. The items tested revealed that a total sum of $17,045.83 was overdrawn. Upon further review, we found that DCS' system could not provide the detail of individual claim amounts supporting each federal draw. This occurred because DCS had not established a system that links the individual claim payments to total federal draws. This is a significant control deficiency and a questioned cost.

45 CFR 92.20(a) states that: "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."

We recommended that DCS establish a system that links individual claim payments to the respective federal draw.

Status of Finding as of June 30, 2011:

DCS continues to consider this finding closed. No change from last Fiscal Year's Report.

FINDING 2010-DCS-7, SSBG PERIOD OF AVAILABILITY

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Social Services Block Grant (SSBG)
CFDA Number:	93.667
Auditee Contact Person:	Robin Degner
Title of Contact Person:	Controller, Department of Child Services (DCS)
Phone Number:	317-234-5079
Compliance Requirement:	Period of Availability
Internal Control:	Significant Deficiency

Finding:

During our audit of the DCS SSBG Program, we found that over $1.9 million of SSBG expenditures were posted to the federal fiscal year 2010 block grant in the State's accounting records prior to October 1, 2009, the start date of the period of availability for the 2010 grant. This is a significant control deficiency.

42 USC 1397(a)(c) states: "Payments to a State from its allotment for any fiscal year must be expended by the State in such fiscal year or in the succeeding fiscal year."

We recommended that DCS expend SSBG funds in the proper fiscal year of its availability.

Status of Finding as of June 30, 2011:

DCS recommends this finding for closure. During the period of the 2011 A-133 Audit, DCS did recover documentation from Sub Recipient Agency in question that identified and resolved the inappropriate attempt to utilize funding prior to the availability of the Grant Award. A sample of the documents and associated correspondence with the specific Sub Recipient has been (or will be) provided to State Board of Accounts Audit staff.

FINDING 2010-FSSA-3, TANF - SUBRECIPIENT MONITORING

Federal Agency:	Department of Health and Human Services - ACF
Federal Program:	Temporary Assistance for Needy Families (TANF Cluster)
CFDA Number:	93.558
Auditee Contact Person:	Krishna Heyward
Title of Contact Person:	Controller, Division of Family Resources, Family and Social Services Agency (FSSA)
Phone Number:	317-233-1925
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Significant Deficiency

Finding:

During our audit of FSSA, we found that management does not monitor its TANF subrecipients. We also found that FSSA does not perform site visits to these subrecipients and does not perform limited scope audits of these subrecipients. Therefore, FSSA is unable to understand the subrecipients' environment, systems, and controls. This is a significant control 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 FSSA monitor TANF subrecipients' use of federal awards through site visits, limited scope audits, or other means to understand the subrecipients' environment, systems, and controls.

Status of Finding as of July 2011:

As the State of Indiana now has and enforces consistent policies regarding the accounting for federal funds in the financial accounting system and we have no federal funds passed to subrecipients outside the State, we no longer feel we would be responsible for subrecipient monitoring of funds passed to other State agencies. We do, however, retain the option of reviewing these expenditures as we are directly responsible to the federal government for this program.

This finding is resolved.

FINDING 2010 – FSSA-4, ADP REVIEW NOT PERFORMED

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Health Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767, 93.778
Auditee Contact Person:	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:	Material Weakness

Finding:

The FSSA Office of Medicaid Policy and Planning (OMPP) has not had an ADP system security review conducted for the Indiana Advanced Information Management System (AIMS) since 2007. At that time, a Comprehensive Claims and Security Compliance Review of Indiana AIM was conducted by an Independent CPA firm. The report was issued September 28, 2007, for field work performed though August 17, 2007, related to information system controls, and tests of claims paid during the period January 1, 2004 to December 31, 2006.

Indiana contracts with HP Enterprise Services LLC to operate the AIMS. The AIMS maintains recipient eligibility data, adjudicates and pays claims to providers, whose records are also maintained in the system. The AIMS operations are material to the Medicaid and SCHIP programs. The absence of documented ADP reviews is considered a material weakness of internal control.

"State agencies shall review the ADP system security of installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices." 45 CFR 95.621(f)(3) "The State agency shall maintain reports of their biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site review." 45 CFR 95.621(f) (6)

We recommended that FSSA have documented review reports for the ADP system, AIMS, in accordance with federal regulations. The review should provide the required coverage of the ADP controls, together with tests of the effectiveness, in order to ensure continuous, consistent integrity of the surrounding financial processes and reports. FSSA should also monitor that any recommendations are resolved in a timely manner.

Status of Finding as of June 2011:

The contractor, HP, is required under the IN XIX base contract to perform SAS 70 audits every two years. HP contracted with Clifton and Gunderson to perform a SAS 70 Audit during the fourth calendar quarter of 2010. HP has provided the final audit report to OMPP. Clifton and Gunderson reviewed 106 control standards objectives. HP provided a management response to OMPP for the seven control standards Clifton and Gunderson noted specific exceptions or comments as a result of their testing the control objective. HP tracks the status of the seven control standards that were noted as exceptions on the HP Privacy and Security Work Plan. As of July 27, 2011, two items remain in an open status and five are closed. OMPP ADP Security Coordinator and the OMPP HIPAA Privacy and Security Officer monitor this activity on behalf of OMPP and via their participation in the monthly OMPP and HP privacy and security meetings. The SAS 70 report has been provided to SBOA for their review and validation.

This finding is considered closed.

FINDING 2010 – FSSA-7, FEDERAL EXPENSES FOR CHIP OVERSTATED

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

The federal share of expenses claimed for the Children's Health Insurance Program (CHIP) was overstated by a total of $14,682,166. This equals 19% of the program expenses reported in the Schedule of Federal Financial Assistance for the fiscal year 2010. We found that the expenses reported in the Schedule as prepared by FSSA had not been balanced with the State accounting records. FSSA reviewed the matter when it was brought to their attention, and we also examined the detail transactions identified. The federal overstatement of expense was caused by the following errors:

Description	Excess Federal Share
Grant Project 503CHIPASISTF08, 5 08 05IN 5021	
July 2009 Overstated Expense by including a state transfer	$ 1,855,755
August 2009 Expenses overstated, no source identified	8,605,991
September 2009 Expense credits not recognized	304,572
June 2010 Expense credit posted in error	(1,393,524)
Grant Total	$ 9,372,794
Grant Project 503CHIPXXADMF08, 5 08 05IN 5021	
April to June 2010 Expense credits not recorded to FETS	$ 5,309,372
Total Federal Share of Expenses Overstated	$ 14,682,166

The State implemented a new accounting system in September 2009, which includes federal project ledgers. Prior to that time, the grant accounting records for FSSA were maintained in spreadsheets entitled Expend/ Allots. Throughout the State fiscal year, the FSSA maintained the Federal Expense Tracking System (FETS), which is utilized to draw federal funds and is the source of the Schedule of Federal Financial Assistance. Classifications were added to the FETS to correspond to the new State accounting system federal project ledgers. The CHIP reconciliations were not completed for the transactions recorded during the first quarter. Thereafter, the errors or variances identified on the project reconciliations were not addressed. Comprehensive oversight was lacking to monitor the total CHIP expenses, as well as when the Schedule of Federal Financial Assistance was prepared. We further noted that the new projects identified as administrative costs were not displayed as such in the report.

We consider the expenses overcharged to the federal government to be material to the program. The error was neither prevented nor detected by an internal control.

The overstated federal CHIP expenses of $14,682,166 are considered questioned costs which 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))

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 both for the reconciliations, and the preparation of the Schedule of Federal Financial Assistance, to include comprehensive supervisory review. FSSA should process the necessary accounting adjustments to correct the identified errors.

Status of Finding as of June 2011:

CHIP and Medicaid claim expenditures are reported on the CMS-64 from reports provided by the fiscal agent. Separate reports are used to record the expenditures in the State's accounting system. No changes to the CMS-64 are required.

FSSA agrees with this finding in general but our calculations produced minor differences in amounts. No correction was needed in the General Ledger.

On 6/25/2011 the following entries were made in the FETS system to adjust Federal Draws:

503CHIP7615_F10	$ (1,829,506.52)	reduction of expenses
503CHIP7615_F10	337,216.60	increase of expenses
503CHIP7615_F10	(9,099,599.86)	reduction of expenses
503CHIP7615_F10	1,393,524.45	increase of expenses
503CHIP7615_F10	(5,368,205.34)	reduction of expenses

The total of these adjustments were a reduction in claims of CHIP federal funds by $14,566,570.67.

Internal Controls:

The overstatement of expenses was caused by human error. The information the accountant needed to reconcile and review actual expenses to what had been charged to the Grant was in two formats, one from prior to conversion, on from after conversion. The format from prior to conversion was overlooked and consequentially the amount shown as charged to the Grant was understated and a duplicate charge was made. New reconciliations and procedures were implemented near the end of calendar 2009 and the staff trained throughout the remained of the fiscal year. The reconciliations were reviewed by a Supervisor but the error was not detected. Additional procedures have been developed for project reconciliations and two levels of supervisory review have been put in place. CHIP expenditures are now monitored with a compared between the CMS-64 and the General Ledger project expenditures and federal revenue for the CHIP project(s).

This finding is considered closed.

FINDING 2010 – FSSA-12, CASH MANAGEMENT

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Health Insurance Program (CHIP), Medicaid 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:	Cash Management
Internal Control:	Material Weakness

The Federal Expense Tracking System (FETS) maintains an ongoing balance of the federal grants as calculated from the records of the federal revenues and expenditures. FETS is also the source for the Schedule of Federal Financial Assistance. At June 30, 2010, the CHIP was holding a material cash balance of $7.1 million, which is 9% of the total federal disbursements for the year. The Medicaid program was also holding a cash balance of $74 million in the 2010 grant, and $1 million in the administrative grant with an overall cash balance position of $1.7 million.

The underlying grant accounting records for the Medicaid program were materially inaccurate throughout most of the fiscal year, as federal grant revenues were recorded as grant expense credits during the period September 2009 through February 2010. The adjustments to correct these errors totaled approximately $723 million and were finalized in June 2010. In addition the accounting entries to record the 2009 ARRA grant were not recorded until June 30, 2010.

Grant project reconciliations performed by FSSA, between FETS and the State accounting records were retroactively implemented. These show overdrawn federal share as well as using calculated amounts which are not specifically traceable to accounting entries. The reconciliations were incomplete and did not evidence comparisons to the federal records of grant drawdowns. We performed such comparisons and identified further errors that had remained undetected, such as federal revenues recorded to incorrect funds, and incorrect adjustments. These errors were corrected for the State's financial statements.

The grant accounting records for the Medicaid programs were not maintained in an accurate manner, and thus calculations necessary to support daily balances were affected. Such balances are necessary to demonstrate compliance with federal cash management requirements. The inaccurate records were not detected and corrected in a timely manner and as the adjustments were material to the program the internal control weakness is considered material as well.

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."

"A state and 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." 31 CFR 205.11 (a)

We recommended that FSSA perform timely and complete reconciliations of its grant project ledgers and regularly compare the federal receipts to the actual federal draw system. Adjusting entries should specifically identify the errors or omissions being corrected. Procedures necessary to minimize cash balances held in the programs should be implemented. Requests for federal funds should be reduced by any cash balances held.

Status of Finding as of June 2011:

The State implemented a new accounting system during SFY 2010. As mentioned in this finding reconciliations were retroactively implemented. Procedures for Medicaid and CHIP accounting have been developed along with monthly reconciliations. The monthly reconciliations include a comparison of federal expenditures to federal revenue by project which represent grants.

This finding is closed.

FINDING 2010 – FSSA-13, SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - REPORTING ERRORS

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Medical Assistance Program, Children's Health Insurance Program (CHIP), Temporary Assistance for Needy Families (TANF), Disability Insurance (DI)
CFDA Number:	93.778, 93.767, 93.558, 96.001
Auditee Contact Person:	David Nelson
Title of Contact person:	Director of Federal Funding, FSSA
Phone Number:	317-233-3045
Compliance Requirement:	Reporting
Internal Control:	Material Weakness

During our audit of FSSA, FSSA provided us a status of prior FINDING 2005 – FSSA-5, SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - REPORTING ERRORS which stated that "FSSA currently has written procedures for the preparation of the Schedule of Federal Financial Assistance (SFFA) report. FSSA considers this issue closed." The finding had recommended that FSSA implement procedures for preparing the SFFA but also to "institute a thorough review process of the schedule to ensure accurate, current and complete disclosure of the financial results." Even though FSSA prepared written procedures, our testing of various FSSA federal programs found errors in the SFFA totaling over $134 Million for the Medicaid, CHIP, TANF, and DI Programs. These errors were material to the CHIP, TANF, and DI programs. Even though we brought these errors to FSSA's attention and advised them that they should revise their status on FINDING 2005-FSSA-5 to unresolved due to the material control weakness still inherent in their processes in preparing an accurate, current, and complete SFFA, FSSA did not change their status. This continues to be a material 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."

OMB Circular A-133 Subpart C, section .315 states in part: "Audit findings follow-up. (a) General. The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings. . . . (b) Summary schedule of prior audit findings. The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal awards. . . . (2) When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken."

We recommended that FSSA correctly report their status on prior findings and implement a thorough review process of the SFFA to ensure accurate, current and complete disclosure of the financial results.

Status of Finding as of June 2011:

FSSA disagrees with this finding. The SFFA was prepared based on expenditures recorded in the accounting system at the time of submission. Other than the Medicaid and CHIP findings from this A-133 which were unknown at the time of the SFFA submission no adjustments are needed the grant schedule.

This finding is considered closed.

FINDING 2010 – IDHS-1, DUPLICATE PAYMENTS ISSUED

Federal Agency:	U.S. Department of Homeland Security
Federal Program:	Homeland Security Grant Program
CFDA Number:	97.067, 97.004
Auditee Contact Person:	Nancy Stevens
Title of Contact Person:	Controller, IDHS
Phone Number:	317-232-6199
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Significant Deficiency

Finding:

During our audit of the Indiana Department of Homeland Security (IDHS), we found nine duplicate payments issued for temporary services totaling $18,542.83. Of this $18,542.83 total, $11,545.41 had been refunded to the IDHS. $6,997.42 had yet to be refunded at the close of our field work. These duplicate payments were for invoices claimed by different temporary agencies for the same temporary workers. There was no review and approval process by a responsible IDHS official prior to payment of the invoices. This is a significant control deficiency. Expenditures for duplicate claims are not allowed and are considered to be questioned costs. The federal share of the questioned costs of the $18,542.83 may be required to be repaid to the federal government with State funds.

44 CFR §13.20 states that: "(a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its grantees and cost-type contractors, must be sufficient to - . . . (2) 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."

44 CFR §13.22 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.

We recommended that IDHS ensure that system procedures be implemented to ensure that duplicate claims are not paid.

Status of Finding as of June 2011:

Finding 2010 IDHS-1 referred to the duplicate payment of invoices for temporary employees as a result of the initial conversion of temporary services to Knowledge Services. The temp agency as well as Knowledge Services invoiced IDHS for the same time period. The duplication of $11,545.41 had already been addressed and refunded to IDHS prior to the audit by SBOA. An amount of $5,548.80 was refunded to IDHS during the Audit and the balance of $1,448.62 was refunded to IDHS in June 2011. Proof of the refunded amounts has been supplied to SBOA.

FINDING 2010 – IDOE-1, CASH MANAGEMENT TEMPLATE

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:	Cash Management,
Internal Control:	Significant Deficiency

Finding:

During our audit of the Indiana Department of Education (IDOE), we found that no Special Education Cluster (IDEA) clearance pattern template was created to support the Cash Management Improvement Act (CMIA) Agreement. As a result, we were unable to audit Special Education 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 Special Education 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.

Status of Finding as of June 2011:

Per the Auditor of State's office, IDOE uses PeopleSoft report titled "CMIA Clr Patt Rpt by Clr Date." The SBoA was provided e-mails from the Auditor of State's office that contained this report.

IDOE considers this Finding resolved for fiscal year 2011.

FINDING 2010 – ISBA-2, REPORTING ERROR

Federal Agency:	U.S. Department of Education
Federal Program:	State Fiscal Stabilization Fund Cluster
CFDA Number:	84.394, 84.397
Auditee Contact Person:	Jay L. Collins
Title of Contact Person:	Deputy Director, Indiana State Budget Agency
Phone Number:	317-232-5604
Compliance Requirement:	Reporting
Internal Control:	Material Weakness

Finding:

During our audit of the State Fiscal Stabilization Fund cluster, the Indiana State Budget Agency (ISBA) had a material error on the Schedule of Federal Financial Assistance (SFFA) in the amount of $119,525,956. The amount reported as Amount Passed Down to Subrecipients was not correct. This error is considered a material control weakness.

The error included disbursements for direct construction project costs paid by grant funds administered by the ISBA and payments of homestead credit distributions funded by this program. Funds passed through to subrecipients should include only those amounts for which subgrant agreements have been entered. The State Fiscal Stabilization cluster is 100% American Recovery and Reinvestment Act funds.

34 CFR 80.20 (a)(1) 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: Permit preparation of reports required by this part and the statutes authorizing the grant. . . ." and (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 ISBA adopt written procedures related to preparation of the SFFA including a thorough review by a qualified supervisor prior to submission to help ensure accurate disclosure of all federal financial activity.

Status of Finding as June 30, 2011:

In response to the 2010 Audit Finding – ISBA-2, the FY 2010 Schedule of Federal Financial Assistance report was corrected as instructed and resubmitted consistent with our office's March 2, 2011, correspondence to the State Examiner.

The Budget Agency considers ISBA-2 resolved.

FINDING 2010 - LT GOV - 1, SPECIAL TESTS AND PROVISIONS

Federal Agency:	U.S. Housing and Urban Development
Federal Program:	Community Development Block Grant (CDBG) Cluster
CFDA Number:	14.228 and 14.255
Auditee Contact Person:	Kyleen Welling
Title of Contact Person:	Chief Operating Officer and General Counsel Lt. Governor's Office of Community and Rural Affairs
Phone Number:	317-232-8831
Compliance Requirement:	Special Tests and Provisions, R3
Internal Control:	Significant Deficiency

Finding:

During our audit of the Lieutenant Governor's Office of Community and Rural Affairs (OCRA) CDBG Cluster, we found that, although they did separately identify the Federal award number and CFDA number to their subrecipients at the time of subaward, they did not separately identify the Federal award number and CFDA number at the time of disbursement of funds to the CDBG subrecipients who received American Recovery and Reinvestment Act (ARRA) funds. This is a significant control deficiency in the internal control design and operation.

Until June 23, 2010, there was no State guidance issued on how to inform ARRA subrecipients of the federal award and CFDA numbers. OCRA could not provide documentation for audit which indicated that subrecipients had been notified at the time of each disbursement. OCRA accounting staff became aware of the new guidance when we forwarded the State Budget Agency's memo to them during our current audit.

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 OCRA identify the Federal award and CFDA numbers to each CDBG ARRA recipient at the time of each disbursement of funds. Such communication should be done through the State's ENCOMPASS Accounts Payable ACH Payment Method box in accordance with the State Budget Agency's June 23, 2010, memo.

Status of Finding as of June 30, 2011:

The State Budget Agency's memo from June 23, 2010, was distributed to all accounting staff at the time of the State Board of Accounts audit. Staff was instructed to include Federal award number, CFDA number and amount of Recovery Act funds in the ENCOMPASS payment method message box. Staff was also instructed to include this information in the same message box for all federal fund payments according the State Accounting Manual 7.3.3. A sampling of accounts payable vouchers is being reviewed for the inclusion of this information by the accounts receivable approver as approvals are being completed, prior to submission to the Auditor of State for disbursement of funds.

While the ENCOMPASS system will not allow us to update this information in a completed voucher, all federal fund vouchers from the time of the State Board of Accounts audit include this information. We believe the action described in this response resolves this finding for the current fiscal year ending June 30, 2011.

This finding is considered to be resolved.

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

Finding:

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.

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.

Status of Finding as of June 2011:

The National Correct Coding Initiative editing has been implemented. The professional rules went live Jan. 27th, 2011 and the Outpatient rules went live April 1st, 2011. Mass adjustments are complete for professional claims back to October 1st, 1010 and the outpatient mass adjustments are still occurring. The column I and column II edits that were implemented to control the inappropriate reporting of Healthcare Services resulted in an additional a 1.3 million edits.

Our claims system has now implemented, through the NCCI rules, medically unlikely edits (MUEs) which are units of service limits (the amount of a service typically allowed on a single date of service). This is a CMS rule. Please note that the MUE file over 8,850 new units of service limitations for professional services, more than 1,500 service limits for DME providers, and 6,500 service limits for facility providers. This equates to almost 17,000 new service limit edits in the claims system in total – which is quite substantial.

In terms of provider specialty limitations there are a set anesthesia rules that do limit the types of services that can be reported by anesthesiologists, which is supported (the foundation) by the American Society of Anesthesiologists manual. This rule goes into effect in the next five weeks. The ability to implement other *provider specialty* to procedure edits is not generally supported in most coding environments (and many health plans have not adopted this type of auditing in my experience) and certainly not by the American Medical Association per the front matter in the CPT manual.

The age/procedure rule that CXT has within its rule logic captures mismatches that strictly align with the CPT coding manual language. The total number of dollars that would be captured by this rule is estimated at only $286/year. It is still scheduled currently for implementation somewhere around March/April 2012.

This finding is considered closed.

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

Finding:

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.

Status of Finding as of June 2011:

FSSA has discussed this issue with CMS and FSSA does not agree with the State Board of Accounts Finding. After the end of the FFY CMS works through a close out process in which they adjust the most recently ended grant award to expenditures reported on the CMS-64. At the same time CMS adjust the prior grant award for prior period expenditures reported on the CMS-64. CMS operated on a ―pool‖ authorization prior to FFY 2010. Cumulative authorizations exceed funds claims for Medicaid Grants through FFY10.

This finding is closed.

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:	Kent Hatcher
Title of Contact Person:	Chief Financial Officer
Phone Number:	317-234-6792
Compliance Requirement:	Cash Management
Internal Control:	Significant Deficiency

Finding:

During our audit of the Indiana Department of Education, 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.

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.

Status of Finding as of June 2011:

There has been no Indiana Department of Education (IDOE) program activity during FY 11. The only activity was the final close out activity. IDOE's portion of this program is closed.

FINDING 2009 – IDOE-4, CASH MANAGEMENT TEMPLATE

Federal Agency:	U.S. Department of Education
Federal Program:	Title 1, 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

During our audit of the Indiana Department of Education (IDOE), we found that no Title 1, 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 1, 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."

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 1, 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.

Status of Finding as of June 2011:

The IDOE used from PeopleSoft the report titled "CMIA Clr Patt Rpt by Clr Date" (Project Costing>Reports>CMIA Clr Patt Rpt by Clr Date). This report specifies the payment clearance pattern for payments to subrecipients.

The IDOE considers this finding resolved for FY 2011.

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

Federal Agency:	U.S. Department of Education
Federal Program:	Special Education Cluster (IDEA), Title 1, 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

Finding:

During our audit of Indiana Department of Education (IDOE), it was determined that IDOE was not properly monitoring Special Education Cluster (IDEA) and Title 1, Part A Cluster contracts to verify contractors 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.

Status of Finding as of June 2011:

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. The SBoA was provided with a copy of the procedure used by IDOE for this requirement. Based on new implementation noted above, this finding should be resolved moving forward.

The IDOE considers this finding resolved for FY 2011.

FINDING 2009 – IDOE-8, SUBRECIPIENT MONITORING CCR VERIFICATION

Federal Agency:	U.S. Department of Education
Federal Program:	Special Education Cluster (IDEA), Title 1, 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

Finding:

During our audit of the Special Education Cluster (IDEA) and Title 1, 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 1, 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.

Status of Finding as of June 2011:

IDOE was not aware that all subrecipients who receive ARRA funds are to be registered with the federal Central Contractor Registration (CCR) database. There is conflicting federal guidance on this matter. Per federalreporting.gov website (https://www.federalreporting.gov/federalreporting/faq.do#faq20150) FAQ, subrecipients reporting their own information will also need to be registered in CCR. Indiana reports for the subrecipients so there is no need for the subrecipients to register in CCR. Additionally, Memo dated September 24, 2010 from federal OMB (located at (http://www.whitehouse.gov/sites/default/files/omb/memoranda/2010/m10-34.pdf) page 47 states that for 1512 reporting subrecipient validation and business rule(s) is found in CCR or Dunn and Bradstreet (D&B) through the DUNS# look-up. The IDOE submits 1512 reports for the subrecipients.

On June 30, 2011, IDOE informed subrecipients who have received ARRA funds to register in CCR no later than July 15, 2011. Follow-up is being done for those subrecipients who have not registered by the deadline. IDOE will periodically check to confirm that subrecipients are registered with CCR and that the registration is valid and active. The SBoA was provided with a copy of the procedure used to verify subrecipients are registered with CCR. A copy of the tracking spreadsheet was also provided to the SBoA.

IDOE considers this Finding resolved moving forward.

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

Federal Agency:	U.S. Department of Education
Federal Program:	Special Education Cluster (IDEA), Title 1, 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

Finding:

During our audit of the Special Education Cluster (IDEA) and Title 1, 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.

Status of Finding as of June 2011:

Beginning June 2010, the IDOE includes all pertinent information (e.g., CFDA, title and number, award, name) in the comment box of the AP voucher. This information is then printed on the EFT the subrecipient receives when funds are deposited.

The IDOE considers this Finding resolved for fiscal year 2011.

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 1, 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

Finding:

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 1, 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.

Status of Finding as of June 2011:

The process for obtaining the figures for the Schedule of Federal Financial Assistance used prior to FY11 is no longer in use. For this and future years, these figures will be pulled from the ENCOMPASS financial accounting system and verified by the various agencies in State government. We understand that future findings will be based on the accuracy of our information in this system and our verification of that information.

The IDOE considers this finding resolved for FY 2011.

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

Finding:

During our audit of the Special Education Cluster (IDEA), we found that the Indiana Department of Education (IDOE) contracted for professional services to produce a system that was unreasonable and unnecessary to the program. We reviewed the supporting documentation and inspected the system delivered. IDOE determined that the contract was for services that were being provided to IDOE through another system and was discontinued by IDOE. Additionally, 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 $523,000.

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 appropriateness of the contractual agreement for the service to the program.

Status of Finding as of June 2011:

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. Based on new implementation noted above, this finding should be resolved moving forward.

IDOE considers this Finding resolved for fiscal year 2011.

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

Federal Agency:	U.S. Department of Labor
Federal Program:	Workforce Investment Act Cluster
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

Finding:

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.

Status of Finding as of June 30, 2011:

The State Board of Accounts did a retroactive audit of the 2009 Stimulus funds where this finding was issued; this audit was done simultaneous to the 2010 audit and was completed in February 2011. Therefore, we have not had time to address the issue any further than what is stated in our Corrective Action Plan in the 2009 audit.

DWD has created a tracking worksheet that list the local WIA sub-recipient, their DUNS #, CAGE #, date CCR expires and/or the status of their CCR registration. This information is checked against the CCR Search link and the worksheet is updated any time DWD sends out a new grant which will ensure that all sub-recipients are in compliance with this requirement.

Additionally, DWD has added a line on the budget pages of the new grants we are issuing which requires our grantee to insert their DUNS and CCR (CAGE) numbers.

Currently, all of the Regions/WIBS are registered in CCR. We therefore consider the finding to be resolved.

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, INDOT
Phone Number:	317-232-1472
Compliance Requirement:	Reporting
Internal Control:	Material Weakness

Finding:

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.

Status of Finding as of June 30, 2011:

INDOT believes that this finding has been resolved. In accordance with INDOT's response to the FY09 Finding, INDOT has:

(1) Prepared a written definition of subrecipient based on the applicable program requirements and guidance provided by the grantors of the Federal program. The memorandum is pending review by the Director, Budget; Director, Accounting; Director, LPA/MPO & Grant Administration and Deputy Commissioner, Finance.

(2) Written procedures were updated to reflect the changes of subrecipient as well as the understanding that expenditures will be recorded upon the creation of the FND row. Procedures pending review by Director Accounting and Manager, Projects.

(3) The Director of Accounting will review the Schedule of Federal Financial Assistance (SFFA) Report more thoroughly to ensure that the SFFA data is materially accurate and in accordance with the applicable procedures.

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.

"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 June 2011:

The federal Payment Management System does not does not allow entry of expenditures above the authorized grant amount. CMS issued new grant draw policy for FFY10 followed by FSSA implementing 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. Pooled grant authorization through FFY2009 are now zero and there is a positive authorization balance for FFY10.

This finding is still closed.

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.

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 June 2011:

On September 16, 2009, the State began using PeopleSoft financials as part of the ENCOMPASS accounting system for recording financial transactions. Following the ENCOMPASS Project Approach the project and activity chartfields are used to track federal grant expenditures. Each expenditures transaction is to be assigned to the appropriate project representing the grant and FFP rate allowable for the expenditure. These entries are approved by a different individual to validate the expenses and chartfields. Reports are periodically reviewed for accuracy of the accounting information and again reviewed prior to submission of the quarterly CMS-64.

This finding is considered closed.

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 nonmatched 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.

- 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 June 2011:

HP is working PRV-0410 Non-Matched Pharmacy and PRV-0414 Matched Pharmacy reports monthly. Current business process, as outlined in the Provider Enrollment Operating Procedures Manual, includes claim review and initiation of recoupment when the enrollment analyst identifies payments having been made to an enrolled provider that was not in compliance with the requirements of the program at the time services were rendered.

OMPP continues to monitor HP's process for working license reports.

This finding is considered closed.

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:

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."

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 June 2011:

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.

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.

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.

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.

The State Accounting Manual now has a uniform policy for tracking grant expenditures which is followed by FSSA. Expenditures reported on the CMS-64.10 are reconciled to the State's accounting system each quarter.

This finding is considered closed.

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.

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 June 2011:

The cost report was finalized in 2008 and the per diem rate adjusted to $2,041.67. The claims were also mass adjusted in 2008. When the expense credit was recorded the prior federal rate was not applied. A balance of $33,334 federal share remained due. The return of the final $33,334 was made on 6/13/11 via Journal Entry 0002647137 in BU 00503.

This finding is considered closed.

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 Finance, FSSA; Assistant Deputy Director of Cash Management, 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.

Update for June 30, 2011:

DCS continues to consider this finding as remaining open. We will be using the ENCOMPASS system and query tools in its application for generating data for these reports which falls outside the June 30, 2011 Audit period. No change from last Fiscal Year's Report.

SBOA Note: This finding has been rewritten as 2011-DCS-3 as an update including only DCS. 2005-FSSA-4 is considered closed.

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, Social Services Block Grant
CFDA Number:	93.778, 93.563, 93.575, 93.596, 93.667
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."

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.

Update for June 30, 2011:

The process for obtaining the figures for the Schedule of Federal Financial Assistance used prior to FY11 is no longer in use. For this and future years, these figures will be pulled from the ENCOMPASS financial accounting system and verified by the various agencies in State Government. We understand that future findings will be based on the accuracy of our information in this system and our verification of that information.

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:

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 June 2011:

Federal balance was previously returned with the exception of $20,658 which was returned on 6/13/11 via journals entry 0002647132 in BU00503.

This finding is closed.

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	Donna Sobecki
Title of Contact Person:	Assistant Deputy Director, CEU and Cash Management
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.

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 June 30, 2011:

DCS continues to consider this finding closed. No change from last Fiscal Year's Report.

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 statewide 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 June 30, 2011:

DCS continues to consider this finding closed. No change from last Fiscal Year's Report.

FINDING 2000 - FSSA(DCS)-5, CHILD SUPPORT ENFORCEMENT PROGRAM FEDERAL

Federal Agency:	U.S. 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 reconcilement of ISETS transactions and balances on the State's accounting system. (Details of possible reconciling items were communicated to FSSA management in a letter dated March 27, 2000.)

In addition, ISETS produces the WEAAC224 - Daily Book Balancing report which documents the balance of funds remaining within ISETS on a daily basis. At the counties the report is used to support the reconcilement of ISETS to their bank accounts. The left side of the report calculates the balance at the end of the day by taking the prior day's balance and applying the total receipts, disbursements, and other transactions processed for the day. The right side of the report breaks the balance down into undistributed receipts (held items) and undistributed checks (the items that will be in the next check run). The left side balance should always match the right side balance. Although the report balances for funds processed at the counties, it does not balance for funds processed at the State. At June 29, 2000, there was a difference between the two balances of $43,635,881.

Since we were not able to verify the ISETS transactions and balances to the official Auditor of State records, we were not able to determine the reliability of those ISETS amounts used in the federal reports.

45 CFR 74.21 defines the financial management standards for child support enforcement programs. The code requires that the financial management system provide effective control and accountability for all funds.

To ensure accurate and reliable federal reporting, we recommended that FSSA strengthen the accounting procedures and controls over the above areas as required by 45 CFR 74.21.

Status of Finding as of June 30, 2011:

DCS continues to consider this finding closed based on correspondence from Federal Office of Child Support. No change from last Fiscal Year's Report.

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:	Cynthia Longest
Title of Contact Person:	Deputy Director, Child Support Bureau, Department of Child Services
Phone Number:	317-234-4482
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.

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 June 30, 2011:

Accounting Procedures and Controls - The Child Support Bureau (CSB) 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, this reconciliation process prevents any inaccurate tax intercept processing from occurring due to the fact that CSB is verifying the total federal and State tax amounts received against the total amount of tax money posted in ISETS.

CSB has also directed County offices to correct the inaccuracies of sub-account balance, as required by the 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.

DCS considers this sub part of the finding to be closed. Additionally, DCS received an audit determination letter dated 2/22/11 from the Federal Office of Child Support Enforcement stating that this audit finding is considered closed.

Cash Receipts Handling – The majority of paper checks received for child support payments are processed by the vendor selected to operate Indiana's State Disbursement Unit (Indiana State Central Collection Unit- INSCCU). Segregation of duties is a standard security and control feature of INSCCU operations. They are staffed so that no individual has responsibility for more than one processing element – accounting transactions, program changes, data entry, etc. – thus reducing risk and decreasing opportunities for processing errors. INSCCU allows access to the different modules based on job-related need and to the physical facility as well by allowing area access to only those whose position requires this access. There are defined roles for each of the managers and their supervisory and operational staff, and these roles do not overlap. INSCCU deposits all checks received into a Treasurer's zero balance account created at Huntington Bank on a daily basis. These checks are sent to the bank by a bonded courier.

The CSB processes a minimum number of child support payments daily. Our Undistributed Collections Unit staff is responsible for posting payments into ISETS and balancing the deposit before it is sent over to the DCS Cash Management for deposit. ISETS does not allow the same person who entered the batch to approve the batch. A different person will reconcile the checks and approve the batch. The checks are then sent over to DCS Cash Management by a CSB mail courier in a locked bag. DCS Cash Management verifies the balance before completing a Report of Collections to send to the Treasurer's office. All checks are deposited within 24 hours.

Any adjustments to payments posted in ISETS are completed by staff in the Adjustment Unit. Staff who post payments are not allowed to create adjustments in ISETS. Additionally, staff that post or adjust payments are not allowed to change addresses in ISETS.

The Child Support Bureau (CSB) has put manual processes in place to ensure cash accounts are properly reconciled. A DCS Cash Management employee 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.

DCS considers this subpart of the finding to be closed. Additionally, DCS received an audit determination letter dated 2/22/11 from the Federal Office of Child Support Enforcement stating that this audit finding is considered closed.

Security - CSB has created processes to ensure user access to various systems is appropriate and properly monitored. CSB limits user access at the county level based on staff needs. These needs are accessed and the proper profiles are assigned to staff. Supervisors are asked to review user profiles quarterly to validate the need of staff's current profile.

The county (CSA-County Security Administrator) receives a report quarterly of staff to review. Their review will consist of determining if the worker is still employed, as well as a check of users' profile. Any profile changes and/user deletes will be routed to the ISETS help desk. CSA responds back within the 30 days to ISETS to confirm their review.

All State users with active Mainframe IDs are also evaluated on a quarterly basis to delete users who no longer need access to the system. CSB demonstrated that ISETS produces this report quarterly for the counties and CSB supervisors for review and to take action.

Corrective Action Plan

DCS (CSB) has developed a procedure to monitor the worker (both State and County) quarterly to determine staff's need to retain access. Reports are received from IOT and ISETS to review State mainframe user IDs. Any user (State and County) who has not logged on to the mainframe in the last 90 days is reviewed to determine their continued need for the access. IOT deletes IDs from the mainframe who have not logged in shortly after receipt of the report. Annually the State user's profiles are reviewed to determine if their ISETS profile is still at the appropriate level. Also our practice is to review profiles if and when job duties change. The annual review will be another reminder to security staff to monitor.

DCS considers this finding to be the only subpart of the overall audit finding to remain unresolved.

DCS continues to consider this finding to be the only subpart of the overall audit finding to remain open. We continue to refine these processes and our communication with the County Security Administrators (CSA). For example, each county Prosecutor and Clerk now has its own CSA (instead of one per county); therefore reports are routed to two places per county instead of one as in the past. Additionally, we determined that the State user profiles will be reviewed quarterly instead of annually.

Child Support Data Supplied to the Welfare System – Transfer of referenced child support data to the welfare system was corrected in August 2005. 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. (CSB demonstrated on 2/7/11 that the interface between ISETS and ICES is providing accurate information.

DCS considers this subpart of finding to be resolved.

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. (CSB demonstrated on 2/7/11 that ISETS reflects SSNS verified by SSA. This is updated and verified daily by the Federal Case Registry (FCR) interface with OCSE.)

DCS considers this subpart of finding to be resolved.

SBOA Note: We concur that four of the five parts of this finding are resolved. As such we are considering this finding resolved and are updating the unresolved portion to 2011 - DCS (502) - 5, ISETS Information Technology (IT) Security Controls

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:	Robin Degner
Title of Contact Person:	Controller, Department of Child Services
Phone Number:	317-234-5079

Finding:

The Child Support Bureau of Family and Social Services Administration is responsible for the implementation of the Child Support Enforcement Program (IV-D) (93.563), including the collecting and the distribution of child support payments. The Bureau receives collections that must be either held as reimbursements to Federal, County, and State Governments to offset AFDC costs or forwarded to the child support client. 45 CFR S 302.15 states that the IV-D agency will maintain the records necessary to identify the amount, source, and distribution of collections.

As of June 30, 1996, Family and Social Services was holding $34,861,131 in several accounts identified for distribution to select entities or custodial parents. A reconcilement tying these funds to the Terminal Communication Access Method (TCAM) system which identify the amount, source and distribution had not been completed by the agency. We requested an accounting to identify the proper recipients of these funds. The agency responded by identifying potential reconciling items as follows:

Description of Funds Held	Amount
Federal AFDC Reimbursements	$ 6,827,069
State AFDC Reimbursements	3,456,123
County AFDC Reimbursements	919,195
Other Reimbursements in Process	4,086,144
Returned Monies Held by Agency	2,932,082
Potential Refunds to Payors and Other Undistributed Funds	10,387,617
June, 1996 Receipts Distributed in July, 1996	5,984,327
Unexplained Difference	286,574
Total	$ 34,879,131

We recommended that the funds in these accounts be reconciled to detailed source records. We also recommended that an aging account be maintained for funds that are held because the proper recipient either cannot be identified or located. We instructed that any funds deemed to be abandoned property as detailed in Indiana Code 32-9-1.5-20 and 4-10-10 be transferred to the Attorney General's Unclaimed Property Division.

Status of Finding as of June 30, 2011:

DCS continues to consider this finding closed based on correspondence from Federal Office of Child Support. No change from last Fiscal Year's Report.

AUDITOR OF STATE

Tim Berry

Telephone (317)232-3300
Facsimile (317)232-6097
http://www.in.gov/auditor

March 9, 2012

Mr. Bruce Hartman, State Examiner
Indiana State Board of Accounts (SBOA)
302 W. Washington Street
Indiana Government Center South, Suite E418
Indianapolis, IN 46204

Dear Mr. Hartman:

This letter provides official responses for the financial statement findings for inclusion in the State's Single Audit Report for the fiscal year ended June 30, 2011.

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. Procedures have been established which require state agencies to ensure that all purchases of land, equipment, buildings and related improvements, and retirement and sale of assets of $500 or more are properly recorded within the state's capital asset records. Additionally, agencies are required to physically tag assets and conduct an annual physical inventory of assets, comparing the results of such inventory to the asset listing. In our prior audits, testing revealed that agencies had not consistently complied with the above requirements. This lack of compliance resulted in a lack of internal control over the State's capital assets as well as misstatements of capital assets in the financial statements. In prior years, assets have frequently been reported as additions in subsequent fiscal periods after the acquisition of the assets, thus resulting in prior period adjustments in the State's financial statements. In response to this lack of compliance by the agencies, significant concentration was given by the state during the design and implementation of the new accounting system to determine measures and implement procedures that would properly and consistently record new personal and real property asset purchases within the Asset Management (AM) module of ENCOMPASS. These procedures have significantly improved the proper recording of new purchases; however, assets that previously were not properly reported have continued to require research and steps taken to correct the misstatements. These corrections required a prior period adjustment of $64 million in the current audit period to correct beginning net assets for assets acquired but not reported in prior periods, for corrections to acquisition cost reported by state agencies, and for the elimination of duplicate assets. Our current audit testing found that agencies still do not consistently comply with the established requirements for the physical tagging of assets and the conducting of annual inventories of assets. Additionally, it is noted that historical land purchases are not correctly itemized and reported within the AM module. Specifically, one land asset was recorded within AM at a cost greater than $97 million. This asset is actually several hundred parcels of real property owned by the State. The $97 million attributed to this asset has been reported in this amount since 1989, even though a number of parcels have been sold since that time. These parcels could not be classified as disposed when sold since the parcels are not adequately itemized within the AM module. Additionally, we were unable to determine that personal property assets being surplused were properly reclassified as such within ENCOMPASS. This was due to agencies not properly placing the tag number of surplused assets on the required State Surplus form.

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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, Organizational Overview Chapter)

All accounting forms, records and systems used by governmental units in the State of Indiana are required to be prescribed or approved by the SBOA. This includes all statements and reports necessary for the internal administration of the office to which they pertain. It also includes electronic, automated or computerized systems. Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview Chapter)

Status of Finding as of March 2012:

On February 8, 2012, the Auditor of State's Office released the State's annual fiscal year closeout memo to agencies, instructing them to:

1. Report all fixed assets acquired prior to fiscal year end to be reported to prevent a prior period adjustment to the State's financial statements;
2. Completely process all available FY12 asset related receivers and asset related vouchers through the interfaces into AM within two days after fiscal year end;
3. Enter all fixed asset manual additions, financial transactions, and retirements into the AM module of ENCOMPASS within two days after fiscal year end.

The Auditor of State's Office maintains and updates weekly an asset cleanup dashboard on the ENCOMPASS website. Agencies are to use this dashboard to help them identify their assets with issues that need to be resolved in order to be correctly recorded and reported in the AM module of ENCOMPASS. In addition, cleanup workshops are held at least monthly where agencies' staff can receive one-on-one assistance with AOS and IOT GMIS staff regarding completion of any issues with their assets.

State agencies will again be sent a reminder about the requirements in the State's capital asset policy and procedures to ensure that all capital assets are correctly recorded in the Asset Management (AM) module of ENCOMPASS, that assets are to be physically tagged, and that they are to conduct an annual physical inventory.

The Department of Natural Resources (DNR) is the state agency that owns the one land asset (asset ID 000000000976) recorded at a cost of $97,365,135.00. The DNR is working to separately identify individual parcels for recording into the AM module of ENCOMPASS. The DNR expects to complete the updating of this land asset into its correct pieces in the AM module of ENCOMPASS by June 30, 2012.

State Form 13812, Notification of Surplus State-Owned Property, was revised in March 2011 by the Indiana Commission on Public Records' Form Management Division to include the asset tag number. The Director of Indiana's State Surplus Division requires state agencies to provide the asset tag number on this form or to provide N/A if none exists. The Director does not accept forms that have a blank asset tag number.

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:	Significant Deficiency

As reported in prior audits, 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 in prior years required each agency that receives federal financial assistance to prepare a schedule that reflected fiscal year grant activity. This schedule included beginning cash balance, federal receipts, program expenditures, ending cash balance, and funds passed through to subrecipients, for each grant award. The state implemented a new accounting system during the prior fiscal year and business processes were designed that were to allow for a statewide grant schedule to be produced from the grant records maintained in the projects module. However, it was determined that agencies had not consistently followed the business processes designed for grant accounting in the projects module and, thus, a reliable grant schedule could not be produced out of ENCOMPASS. Therefore, for fiscal year 2010, agencies were directed to again individually compile grant schedules and submit them for compilation into a statewide schedule. During our audit of those schedules we had again found various errors in the agency-prepared grant schedules. During the current fiscal year, concentration was given by the state to the project costing module in relation to proper grant reporting. Throughout the year, meetings were held to determine measures to assure that all state agencies receiving federal funds were recording receipts and expenditures in a consistent manner in order that a reliable schedule of federal awards and the related amounts for grants receivable and deferred revenue could be generated. At year end, reports for each separate business unit were run and sent to the applicable CFO or Controller to verify the amounts, recommend any changes needed, attest to the accuracy, and return. During our testing of the returned schedules, various issues were required to be investigated and resolved with agency grant personnel. Although the process for obtaining federal awards expended is improved, federal cash balances are still unable to be pulled from the ENCOMPASS financial system and as such a control weakness still exists as it relates to the preparation of accruals for grants receivable and deferred revenue.

Adequate grant schedule reporting is necessary 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, Organizational Overview Chapter)

Status of Finding as of March 2012:

The State plans to request that the State Board of Accounts continue to provide non-audit services by compiling the grants receivable and deferred revenue accruals for the 2012 CAFR. The system reports developed in FY11 constitute the State's process for the compilation of a complete and accurate schedule of federal awards. Although there were issues identified in the reports for FY11, we are comfortable that the reports contain the necessary information and that the issues identified in FY11 have been adequately addressed for FY12. Therefore, agencies will use the reports again in FY12 to determine their expenditures for the grant schedule. For the grants receivable and deferred revenue accruals in FY12, the State plans to use an estimate based on federal revenues recorded and reported in the month after fiscal year end.

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:	Significant Deficiency

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 $12.8 million of construction projects were completed but were still accounted for in construction in progress. Additionally, our testing of IDOA projects disclosed $12.1 million in maintenance projects that were improperly classified as capital projects in 2010. 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. Subsequent to our testing, IDOA implemented new procedures to help properly determine if a construction project is a capital project.

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, Organizational Overview Chapter)

Status of Finding as of March 2012:

INDOT fiscal staff is currently reviewing all projects in their year end June 30, 2011 WIP to determine if there are any other projects besides those identified by the SBOA in their testing that were closed and should have been moved to their infrastructure inventory. INDOT's review and any additional prior period adjustment will be recorded in ENCOMPASS AM and reported to AOS for the 2012 CAFR by June 30, 2012. AOS believes that INDOT's completion of the current review and their implementation of periodic future reviews will resolve their part of this finding.

AOS concurs with the State Board of Accounts that the implementation of the new procedures mentioned above by IDOA will resolve their part of this CIP finding.

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 2008 audit, adequate procedures were not in place to properly report the Medicaid Assistance Fund transactions made by the Medicaid fiscal agent for proper external financial reporting. The State accounting records post only the net disbursement issued to fund the Medicaid checking account. In fiscal years 2009 through 2011, adjusting entries were submitted by FSSA for external financial reporting to properly recognize accounts receivable, accounts payable, and quality assessment fees. During our current audit, we found that prepayments issued by the fiscal agent for managed care contracts of $80.2 million were omitted from the adjusting entries.

Additionally, during the current audit we found that in fiscal year 2011 FSSA transferred $391.8 million in federal grant revenue from the Medicaid fund to the ARRA fund. The transaction was described as a 2009 adjustment, yet lacked sufficient basis. The ARRA fund also had understated revenue and expenses of $31 million when prior year overstated amounts were reversed.

Adjustments were made to correct the financial reporting for the above errors. In January 2012 the transfer error was corrected by returning funds from ARRA to the Medicaid fund.

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. Risk assessment should be applied to the understanding of the environment and transaction source changes in order to ensure complete and accurate financial statements. The state should design procedures to ensure material errors are detected and corrected in a timely manner. This may include regular review of project level trial balances as generated from ENCOMPASS.

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, Organizational Overview)

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, Organizational Overview)

Status of Finding as of March 2012:

The State Board of Accounts noted in the exit meeting that the regular annual accruals and adjustments are being provided properly by FSSA and that it is the non-routine or one-time adjustments and accruals that are the issue. AOS' annual request to FSSA for the accruals and adjustments indicates that they should consider any possible new accruals and adjustments as well as any changes to those provided in the prior year.

OMB/SBA staff will arrange for and conduct a meeting with the FSSA CFO, AOS CAFR personnel, and other interested parties to discuss the accruals and adjusting entries required for the CAFR. This meeting will consider the recommendations made by the auditors in this finding as well as others that may be discussed to aid in ensuring that the adjustments and accruals are complete and accurate. The OMB/SBA will arrange for this meeting to occur before May 5, 2012.

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 responsible 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. Additionally, in September 2009, IDWD began recording the receipt of unemployment tax from Indiana employers and the distribution of the funds to the US Department of the Treasury as a net amount. 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 fairly present 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. During our audit of the financial statements, we recommended material adjustments to fairly state the activity of the Unemployment Insurance Fund.

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.

System controls are in effect on the ENCOMPASS financial accounting system, which is the official book of record for the State; however, each agency is responsible for controls in any subsidiary systems used or other records maintained. At all times, the agency's manual and subsidiary ledgers should reconcile with ENCOMPASS. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview Chapter)

The state accounting system includes features of standardized source documents, uniform transaction identification and classification codes, uniform report formats, an account structure with summarization of activity for business units and funds, and centralized control for revenue deposits and warrant issuance. This structure is designed to identify, analyze, classify, record, and report the State of Indiana financial transactions and to maintain accountability of the related assets and liabilities. This account structure provides for the preparation of the Indiana Comprehensive Annual Financial Report (CAFR) in conformity with generally accepted accounting principles, as prescribed by Governmental Accounting Standards Board (GASB) pronouncements. The GASB 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, Organizational Overview Chapter)

Status of Finding as of March 2012:

During the current fiscal year, IDWD began recording their draw downs from the U.S. Department of Treasury and the payment of unemployment benefits in the state accounting system. IDWD stopped recording a net amount for UI tax received from employers and the distribution of funds to the U.S. Department of Treasury and began reporting these as separate amounts on July 1, 2011. IDWD has worked diligently to re-establish recording the UI financial activity in the state accounting system and for the first time since prior to February 2007 is now doing this.

2011 was the first year for IDWD to take responsibility for the preparation of their UI financial statements, notes, and schedules needed for the State's CAFR. The auditors had compiled these statements, notes, and schedules since 1993 as a part of agreed upon non-audit services. IDWD has committed to recording all of their UI financial activity on the state accounting system and for preparing of the UI financial statements, schedules, and notes both accurately and timely as is required for their UI fund which is reported as a major proprietary fund in the State's CAFR. Further guidance and assistance from the auditors may be needed by IDWD in the preparation of their statements, notes, and schedules for the 2012 CAFR.

OMB/SBA staff will arrange for and conduct a meeting with IDWD, AOS CAFR personnel, and other interested parties to discuss UI recordkeeping and reporting. This meeting will consider any recommendation made by the auditors in this finding as well as others that may be discussed to aid in ensuring that IDWD maintains its UI accounting on the state accounting system and that its preparation of the UI financial statements, notes and schedules are complete and accurate. The OMB/SBA will arrange for this meeting to occur before May 5, 2012.

FINDING 2011 - CAFR-1, INTERNAL CONTROLS OVER CORPORATE TAX

Auditee Contact Person:	Darrel Anderson
Title of Contact Person:	Chief Financial Officer
Phone Number:	317-232-2177
Internal Control:	Material Weakness

The Indiana Department of Revenue (IDOR) administers and collects tax revenues for the state. Beginning in 2007, IDOR provided taxpayers the option to pay their estimated corporate income tax through an electronic payment method known as eCheck. In November 2011, an error was discovered in IDOR's post-remittance transfer process in which estimated corporate income tax payments made since the inception of the electronic filing were not transferred out of IDOR's Collection Fund and credited to the state's General Fund. The error occurred from January 2007 through November 2011, totaling $320,193,219.24. Of this amount, $148,850,227.31 occurred prior to the current audit period, $139,194,582.51 occurred during state fiscal year (SFY) 2011, and $32,148,409.42 occurred subsequent to the audit period in SFY 2012. These errors resulted in a prior period adjustment in the SFY 2011 financial statements of $148,850,227.31 to increase the beginning net assets of the General Fund and reduce the net assets of the Collection Fund, as well as adjusting entries to properly reflect corporate income tax revenues during SFY's 2011 and 2012.

The post-remittance transfer error was a result of a programming error in IDOR's Voucher Commit Report that is used to transfer revenues out of the Collection Fund. The lack of internal controls in place over the Collection Fund by not having proper reconciliation procedures in place allowed the accumulation of corporate tax revenues in the Fund to go undetected.

During our audit of IDOR's adjusting entries to correct the General Fund understatement of $320,193,219.24, we discovered IDOR had duplicated $993,174.17 of the estimated corporate income tax eCheck November 2011 activity, thereby causing the Collection Fund to be understated and the General Fund overstated by that amount after the adjusting entries were posted to the state's accounting system. As of November 30, 2011, a balance of $46,404,516.52 remained in the Collection Fund after the adjusting entries for corporate income tax revenues were made. If the duplication error had not occurred, the November 2011 Collection Fund balance would have been $47,397,690.69. As of January 2012, IDOR was unable to account for all of the payments that make up the Collection Fund's balance as of November 30, 2011.

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

System controls are in effect on the ENCOMPASS financial accounting system, which is the official book of record for the State; however, each agency is responsible for controls in any subsidiary systems used or other records maintained. At all times, the agency's manual and subsidiary ledgers should reconcile with ENCOMPASS. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview Chapter).

Controls over the receipting, 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, Organizational Overview Chapter)

Status of Finding as of March 2012:

The Department of Revenue (DOR) recognizes the finding and has corrected the programming error that led to the failure to transfer estimated Corporate Tax payments from the Collection Fund to the state's General Fund. The DOR reviews and approves journal entries prior to entry into the General Ledger as a matter of practice.

The DOR met with the Auditor-of-State's office and the State Budget Agency, and conducted an internal review that identified risks and deficiencies in the administration of the Collection Fund, supporting systems, reports, and operational processes. As a result of this analysis, the DOR developed and implemented an Action Plan to streamline the use of the Fund and the Voucher Commit Report that provides the instructions to record dollars into and out of the Fund. The Action Plan also addresses internal control and supporting process improvements to prevent the occurrence of similar errors in the future, including monthly review and reconciliation of the Fund's balance; cross-agency training in the use and accounting logic of the Fund facilitated by the Auditor-of-State's office; greater use of systems and electronic files to reduce the number of times data is manually transferred from report-to-report or person-to-person; and weekly status meetings within the DOR to ensure that activities are being carried out according to plan.

Additionally, the DOR has conducted an extensive review and reconciliation of all data streams into and out of the Collection Fund, and remaining balance, at the transactional level as of November 30th, 2011. This reconciliation was performed for the last 10 years; accounting for key events, policies, and programming changes. Final results will be furnished to the SBOA in March, 2012 in accordance to the pre-established timeline accepted by the SBOA.

The correcting entry was made on December 6, 2011 as a closing entry to the General Ledger for the month of November. Due to the magnitude of the issue, on December 7, 2011 the DOR conducted a second review of the entry to ensure its accuracy and discovered a duplicate amount of $993,174.17. A correcting entry of that amount was made in December 2011.

FINDING 2011 - CAFR-2, ARRA FUND 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 American Recovery and Reinvestment Act (ARRA) fund was created in fiscal year 2009. Budgetary cash advances were made to each individual ARRA fund on the state's accounting system. These were recorded as transfer transactions from its closing fund. By June 30, 2011, a total of $4.6 billion had been advanced from the closing fund over the course of three fiscal years. The advances were to be repaid by revenue reversions. At June 30, 2011, the reversions were recorded for fiscal 2009 through 2011 which totaled $3.1 billion. This left $1.5 billion of negative cash in the closing center fund

A detailed record of ARRA budgetary advances, reversions and balances was compiled at our request during the audit. We considered this necessary to identify the cause of a cash overdraft of $514 million in the ARRA fund in the draft financial statements presented for audit. This had increased from the 2010 reported cash overdraft of $273 million. The financial overdraft was caused by an error in recognizing grant expense for the budgetary advance transfers issued to several ARRA funds maintained for discretely presented component units.

A prior period adjustment to increase the ARRA beginning fund balance by $305.4 million, and financial statement adjustments to correct the balance of $212 million for fiscal 2011 transactions were made, for a total fund balance increase of $517.4 million.

The budgetary advance balances also identified an error in recording transactions on the general ledger causing one ARRA fund to be overstated by $110 million and another ARRA fund to be understated by an equal amount. The monitoring of the budgetary general ledger transactions for ARRA was not evidenced.

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview Chapter)

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, Organizational Overview Chapter)

Status of Finding as of March 2012:

The closing center fund was one of one hundred fifty (150) PeopleSoft funds that comprised the ARRA fund as of June 30, 2011. Total cash for all of ARRA was $7.3 million at June 30, 2011.

We believe this was an isolated error caused by an incorrect assumption that excluded the cash resulting from the budgetary transfers for the Indiana Finance Authority (IFA) and the Indiana Housing and Community Development Authority (IHCDA) both of which are discretely presented component units. We realize now that this cash should be included in the compilation of the State's financial statements. We are confident that we will properly treat the transfers between the ARRA fund and these two discretely presented component units in preparing the 2012 CAFR.

By their nature, temporary cash overdrafts are one of the last adjustments made in preparing the CAFR. We will investigate whether there is a process we can implement that will allow us to identify earlier in the CAFR compilation any possible cash overdrafts for further review. An additional procedure we will consider is to make the ARRA cash analysis performed as a result of this issue an annual requirement.

Adjusting journal number 0002866013 dated January 9, 2012 corrected the $110 million overstatement in one ARRA fund and the equal understatement in the other ARRA fund.

FINDING 2011 - CAFR-3, INTERNAL SERVICE FUND 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 and review of internal service fund activity for inclusion in the state's financial statements. Statements compiled and presented for audit for the State Personnel Health Insurance Fund, State Police Health Insurance Fund and Administrative Services Aviation Fund were determined to include various errors, for which we recommended adjustments to fairly state the activity of the internal service funds. Revenues and expenses of the Employee Health Insurance Fund, the Employee Disability Fund and the State Police Health Insurance Fund are posted as increases or decreases to liability accounts in the state's accounting system. In order to prepare financial statements for external financial reporting, the agencies either keep manual subsidiary ledgers or rely on ENCOMPASS journal entry types to track revenues and expenses. Neither method was adequate for accurate classification of these entries as revenues and expenses for financial statement preparation. During our audit of the State Health Insurance Fund, we found Miscellaneous Revenue overstated by $6.4 million, Premium Revenue overstated by $1.8 million, expenses overstated by $6.4 million and transfers in and out each overstated by $6.2 million. During our audit of the State Police Health Insurance Fund we found revenue overstated and expenses understated by $1.4 million. Additionally, errors in accrual entries were found during our audit. Health Claims Payable was understated by $10.2 million in the State Health Insurance Fund and by $1.2 million in the State Police Health Insurance fund and Accounts Payable for the Aviation Fund was overstated by $26 thousand.

The accounting system should support a general ledger trial balance for the fund necessary for the financial administration, interim and financial statement reporting of the fund. "Each fund must be accounted for in a separate self-balancing set of accounts for its assets, liabilities, equity, revenues, expenditures, or expenses (as appropriate), and transfers." (NCGA Statement 1, paragraph 21)

Adequate procedures should be in place to ensure accruals and other adjustments needed to fairly state internal service fund activity and balances for external financial reporting are made 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, Organizational Overview Chapter)

Status of Finding as of March 2012:

OMB/SBA staff will arrange for and conduct a meeting with the internal service fund agencies, AOS CAFR personnel, and other interested parties to discuss the preparation and review of internal service fund financial statements, notes, and schedules. This meeting will consider any recommendation made by the auditors in this finding as well as others that may be discussed to aid in ensuring that the agencies with internal service funds prepare financial statements, notes and schedules that are complete and accurate. The OMB/SBA will arrange for this meeting to occur before May 5, 2012.

The 2011 CAFR was the first for four of the five agencies with internal service funds to assume responsibility for the preparation of their financial statements, notes, and schedules. The auditors had compiled these financial statements and note disclosures since 1993 as a part of agreed upon non-audit services. PEN Products was the one agency which was already preparing their own statements, schedules, and notes.

Each internal service fund agency has indicated that they will continue the process that they established last year for the preparation of their statements, schedules, and notes. Each has also acknowledged that it is their responsibility to conduct a thorough review of their statements, schedules, and notes for accuracy whether they themselves are the preparer or if this service is performed by a contractor. We believe that the errors made are attributable to this being a new endeavor and getting re-acclimated to the requirements for compiling these statements.

The decision to use liability accounts for revenues and expenses of proprietary fund types such as internal service funds was made by the ENCOMPASS team prior to launching the new state accounting system in September 2009. The ENCOMPASS team included staff from AOS, SBOA, OMB/SBA, IOT, and TOS. It was agreed that liability accounts should be used for this fund type so as to not duplicate revenues and expenses reported for the State. It is incumbent that each internal service fund agency understands the financial transactions recorded to their funds and accounts and that they develop an appropriate method of reporting from reports and/or queries originating from the state accounting system supplemented as necessary with any subsidiary agency records.

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.

Sincerely,

Tim Berry

Tim Berry
Auditor of State
State of Indiana

A M Horst

Adam M. Horst
Director
Office of Management and Budget

STATE OF INDIANA

INDIANA CRIMINAL JUSTICE INSTITUTE

Mitch Daniels, Governor
Mark Massa, Executive Director

February 28, 2012

State Board of Accounts
302 Washington St., Room E418
Indianapolis, Indiana 46204-2765

RE: State Board of Accounts audit response of the Edward Byrne Memorial Justice Assistance Grant program at the Indiana Criminal Justice Institute for the period July 1, 2010, to June 30, 2011

FINDING 2011 – CJI (032)-1. UNALLOWABLE COSTS

CJI agrees that costs from another grant were charged to the Byrne JAG cluster program. The confusion and subsequent error occurred due to only one purchase order for $120,000 being created (PO #0011508397) for two professional services contracts to be partially funded by the Byrne Jag Grant. A second purchase order for the exact same amount ($120,000) for compliance monitoring services should've been created but was not.

The incorrect line splits on the purchase order between the JAG and Title II funding were corrected. Corrections were finalized and the modifications to the cash draws for the two grants were completed in February of 2012. The attached PDF document contains the journal entry for correction.

FINDING 2011 – CJI(032) -2. SUBRECIPIENT MONITORING

CJI has established internal control procedures to ensure subrecipients are adequately monitored. CJI has a policy and procedure for compliance monitoring which includes site visits and desk reviews. Both include a review of the A-133 audit reports, see attached policy.

FINDING 2011 – CJI (032)-3. SPECIAL TESTS AND PROVISIONS

The State Budget Agency has modified its procedures for accounts payable payments to correct the omission of the Federal award number, CFDA number and amount of Recovery Act funds. The Federal award number and CFDA number will be added to each account payable document in the ACH payment method box. Every quarter, a list of accounts payable documents processed with Recovery Act funds will be presented to the Deputy Director of ICJI. The Deputy Director of ICJI will choose 10% of the total number randomly and SBA staff will make copies of the Accounts Payable document to show that said information had been entered. SBA staff will initiate this process beginning with quarter ending 3/31/2012.

FINDING 2011 – CJI (032) - 4. SUSPENSION AND DEBARMENT

The Criminal Justice Institute had been using the boilerplate language issued by the Indiana Department of Administration and the Indiana Attorney General in all grant agreements. This boilerplate did not contain the suspension and debarment language. From this moment forward, all CJI grant agreements will contain the following clause:

Debarment and Suspension

A. The Grantee certifies by entering into this Grant that neither it nor its principals nor any of its subgrantees are presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from entering into this Grant by any federal agency or by any department, agency or political subdivision of the State. The term "principal" for purposes of this Grant means an officer, director, owner, partner, key employee or other person with primary management or supervisory responsibilities, or a person who has a critical influence on or substantive control over the operations of the Grantee.

B. The Grantee certifies that it has verified the state and federal suspension and debarment status for all subgrantees receiving funds under this Grant and shall be solely responsible for any recoupment, penalties or costs that might arise from use of a suspended or debarred subgrantee. The Grantee shall immediately notify the State if any subgrantee becomes debarred or suspended, and shall, at the State's request, take all steps required by the State to terminate its Grant relationship with the subgrantee for work to be performed under this Grant.

INDIANA
DEPARTMENT OF
CHILD
SERVICES

Mitchell E. Daniels, Jr., Governor
James W. Payne, Director

Indiana Department of Child Services
Room W392 - MS03
402 W. Washington Street
Indianapolis, Indiana 46204-2739

317-232-4705
FAX: 317-232-4490

www.in.gov/dcs

Child Abuse and Neglect Hotline: 800-800-5556

February 22, 2012

Bruce Hartman, State Examiner
State Board of Accounts
302 W. Washington St., E418
Indianapolis, IN 46204

Dear Mr. Hartman,

This letter represents the Department of Child Services' response to the State Board of Accounts A-133 Audit Findings presented to our agency during an Exit Conference held on February 145, 2012. The matters discussed herein were brought to the attention of the appropriate staff. In addition, statuses of proposed corrective action plans are attached.

If you need anything else please let me know.

Sincerely,

Doug Weinberg
Chief Financial Officer
Department of Child Service

Protecting our children, families and future

FINDING 2011 - DCS (502)-1, SF-425 QUARTERLY REPORTS

Federal Agency:	Department of Health and Human Services
Federal Programs:	Title IV-D Child Support Enforcement; Title IV-E Adoption Assistance
CFDA Numbers:	93.563; 93.659
Auditee Contact Person:	Donna Sobecki
Title of Contact Person:	Assistant Deputy Director of Cash Management, DCS
Phone Number:	317-234-5686
Compliance Requirement:	Reporting
Internal Control:	Significant Deficiency

DCS did not properly prepare the SF-425 quarterly reports for the Child Support and Adoption Assistance programs. Adequate controls were not followed to verify that expenses in the accounting records were recorded properly on the SF-425 reports prior to being reported to the federal government. This is a significant control deficiency.

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 DCS implement adequate controls to verify that the amounts recorded on the SF-425 quarterly reports are accurate prior to being reported to the federal government.

Note: The FSSA portion of Finding 2005-FSSA (DCS)-4, SF-425 (formerly PSC 272) Quarterly Reports was considered resolved as of June 30, 2010, and the DCS portion of the Finding remains unresolved as of June 30, 2011. The 2005 Finding will not be repeated for SFY 2011 as the condition discusses FSSA's process prior to the creation of DCS and DCS does not follow the process as discussed in the condition paragraph. Finding 2011-DCS-1, SF-425 Quarterly Reports replaces the 2005 Finding for DCS.

DCS Response - As DCS participates in the Project Costing initiatives of Encompass with OMB and SBoA, a process to deliver required Quarterly estimates and reporting will be created. DCS forecasts that this will be resolved in the 2013 Fiscal Year.

FINDING 2011 - DCS- 2 (502), SWCAP- ACCOUNTING ERRORS

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Adoption Assistance, Child Support
CFDA Number:	93.659, 93.563
Auditee Contact Person:	Robin Degner
Title of Contact Person:	Controller, DCS
Phone Number:	317-234-5079
Compliance Requirement:	Allowable Cost/ Cost Principles
Internal Control:	Significant Deficiency

The Department of Child Services (DCS) is responsible for correctly accounting for their portion of the Statewide Cost Allocation Plan (SWCAP) each fiscal year. The agency did not correctly post or transfer their SWCAP cost for State Fiscal Years 2010 and 2011. SWCAP recoveries totaling $1,835,178.55 for SFY11 and $2,655,094.29 for SFY10 were not posted and recorded correctly but were retained in DCS funds rather than being transferred to Budget Agency funds. Consequently, SWCAP revenues recovered for the SFY 2010 and FY2011 were understated. Further, DCS did not detect these errors at the end of the fiscal year until we brought it to their attention. This is a significant control deficiency.

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."

“For this process to repay the general fund for SWCAP expenses, debit (+) funds to be charged using account 759900 and credit (-) Fund 10520, Account 749900, Program 10000, Department 051000. When federal revenue is drawn to reimburse these costs, credit Account 446000.” (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Federal Financial Assistance)

We recommended that DCS establish adequate internal control procedures to ensure that SWCAP bills are correctly accounted for and that errors are detected within a reasonable time.

DCS Response - DCS will work with OMB and Encompass to rectify this situation. Training of Finance Staff on appropriate procedures for ensuring that all SWCAP obligations are processed properly will be put in place to prevent a repeat of this situation in the future.

FINDING 2011 - DCS (502) - 3, ISETS Information Technology (IT) Security Controls

Federal Agency:	Department of Health and Human Services
Federal Program:	Child Support Enforcement
CFDA Number:	93.563
Auditee Contact Person:	Cynthia Longest
Title of Contact Person:	Deputy Director, Child Support Bureau, Department of Child Services
Phone Number:	317-234-4482
Compliance Requirement:	Special Tests and Provisions
Internal Control:	Material Weakness

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 that 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.

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.

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.

Note: This is an update to Finding 1999-FSSA-7, the only section out of five that remains unresolved. The Corrective Action Plan submitted by DCS and Update for June 30, 2011 for the

1999 finding is in the Resolved Findings section of this document.

DCS Response - DCS/CSB generates ISETS reports on a quarterly basis for each county IV-D Prosecutor and Clerk. These reports are sent to the County Security Administrator to review their user's ISETS access and worker profiles for their respective offices. DCS/CSB also reviews the state user's ISETS access and worker profile on the same schedule, quarterly. We are exploring options to automate the disable/delete process for county users who have not signed on in the last 90 days.

FINDING 2010 - DCS-2, CASH MANAGEMENT DOCUMENTATION OF PROCEDURES

Federal Agency:	U.S. Department of Health and Human Services
Federal Program	Foster Care-Title IV-E, Adoption Assistance Title IV-E, Child Support
CFDA Number:	93.658, 93.659, 93.563
Auditee Contact Person	Donna Sobecki
Title of Contact Person:	Assistant Deputy Director for Cash Management, DCS
Phone Number:	317-234-5686
Compliance Requirement:	Cash Management
Internal Control:	Significant Deficiency

Finding:

During our audit of the Indiana Department of Child Services (DCS), we found that no Check Clearance Pattern (CCP) Template was created to support the Cash Management Improvement Act (CMIA) Agreement for DCS major programs. This occurred because DCS management was unaware that they were required to establish and implement a CCP. This is a significant control deficiency.

As a result, we were unable to audit Foster Care, Adoption Assistance, and Child Support Cash Management draws by verifying their CCPs and thus, could not determine the timeliness of federal draws.

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 clearance patterns meet the following standards: (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. "

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 DCS establish a CCP to represent the flow of federal funds under the Federal assistance programs to which it is applied, and also develop written procedures to ensure that federal draws follow their respective CCP. We further recommended that adequate supporting documentation of CCP is maintained for audit.

Status of Finding as of June 30, 2011:

DCS continues to consider this finding as remaining open. We will be using the Encompass system and query tools in its application for generating data for these reports which falls outside the June 30, 2011 Audit period. No change from last Fiscal Year's Report.

Status of Finding as of February 22, 2012:

As DCS participates in the Project Costing initiatives of Encompass with OMB and SBoA a process to deliver required CMIA Cash Clearance Pattern reporting will be created. DCS projects that this will be resolved in the 2013 Fiscal Year.

FINDING 2010 - DCS-4, SUBRECIPIENT MONITORING

Federal Agency:	U.S. Department of Health and Human Services - ACF
Federal Program:	Child Support Enforcement Program (IV-D)
CFDA Number:	93.563
Auditee Contact Person:	Cynthia Longest
Title of Contact Person:	Deputy Director, Child Support Bureau, Department of Child Services (DCS)
Phone Number:	317-233-4482
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Significant Deficiency

Finding:

During our audit of the DCS Child Support Program, we noted that DCS did not adequately review the applicable A-133 audits of subrecipients. Therefore, DCS was unable to verify that the applicable subrecipients took timely and appropriate corrective action concerning any findings from those audits. This is a significant deficiency.

31 USC 7502(f)(2)(C) states, "Each Federal agency which provides Federal awards to a recipient shall review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; . . ."

We recommended that DCS review applicable audits of subrecipients to determine whether prompt and appropriate corrective action has been taken with respect to audit findings.

Status of Finding as of June 30, 2011:

DCS continues to consider this finding open. The DCS CSB Field Auditors have pulled all county A-133 findings since 2007 from the State Board of Accounts website. They will continue to monitor the website for any new county A-133 audit findings. An audits spreadsheet has been created listing the county, year, summary of SBOA finding, and summary of the county's response.

The county A-133 audit findings will be discussed at the Monitoring Core Team meetings to determine who would conduct the follow up with the county. (Please see response to 2009-DCS-1 for more information about the new Monitoring Core Team.) CSB Field Auditors will track the date the county is contacted, to whom we spoke, and a summary of the county's response to the corrective action plan that they provided in their response to the SBOA. The county's responses will be discussed at the Monitoring Core Team meeting if it appears that the county has not taken timely and appropriate corrective action.

Status of Finding as of February 22, 2012:

DCS recommends this finding for closure. The DCS CSB Field Auditors are reviewing all county A-133 audit findings from the State Board of Accounts website. An audits spreadsheet, 'Review of A-133 Audits', that lists the county, year, summary of SBOA finding, and summary of the county's response is being updated with any new county A-133 audit findings.

The county A-133 audit findings are categorized into the different audit issues and are discussed at the DCS Monitoring Core Team meetings. CSB contacts the county for follow-up when appropriate. The DCS monitoring action and information regarding any follow-up contact with the county is also being tracked on the audits spreadsheet.

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:	Cynthia Longest
Title of Contact Person:	Deputy Director, Child Support Bureau
Phone Number:	317-233-4482
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Significant Deficiency

Finding:

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 funds expended at least annually. Under its current system, DCS does not have adequate assurance as to the actual incentive funds expended for 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 expended at least annually.

Status of Finding as of June 30, 2011:

DCS continues to consider this finding as remaining open. Regarding item 1 above, DCS is requesting an additional two field auditors for the purposes of monitoring its IV-D subrecipients. If this request is successful, we will have a total of four auditors. Regarding the training referenced in item 2, DVDs of the February training session were made available to county Auditors. DCS is currently discussing with the Association of Indiana Counties a mechanism for ongoing training. Regarding item 3, cutover balance documentation has been received for 64 counties. The remaining counties requested an extension; their balance documents are due no later than August 31, 2011. Additionally, each county Auditor was required to confirm in writing that they had established the required six separate accounts/funds for the Clerk, Prosecutor, Title IV-D incentive and ARRA monies. DCS has received confirmations from all auditors but one. The legislation referenced in item 6 above passed the 2011 General Assembly and was effective on July 1, 2011. The new language may be found in IC 31-25-4-23 and IC 31-25-3-23.5. The Monitoring Manual referenced in item 7 is complete. A "Monitoring Core Team" consisting of staff from the DCS Child Support Bureau and DCS Accounting Operations began meeting in May and now meets at least monthly to review monitoring issues, determine whether any county entity needs additional training, whether the CSB Claims Guide needs to be updated, and/or whether any additional action is necessary. Requirements sessions for an automated tool that will allow county Clerks, Prosecutors, Title IV-D Courts and Auditors to submit claim and incentive forms electronically have been completed, and design/implementation of the tool is underway. Some discussion in these sessions regarding the "Quarterly Incentive Balance Form" (referenced in item 4 above), led DCS to change this form. Because of these changes, the first submission date for this quarterly form has been pushed back to October 2011.

Status of Finding as of February 22, 2012:

DCS continues to consider this finding as remaining open. Additional activities that have occurred since our last response are:

1) DCS has received approval to hire one additional DCS CSB Field Auditor and a Field Auditor Supervisor to join the existing two Field Auditors in monitoring the IV-D subrecipients.
2) A DVD of a Claims Training session is available to send out to counties upon request when needed for new staff or staff who were unable to attend the scheduled training sessions in 2011.
3) Cutover incentive balance documentation has been received from 89 of the 92 county Auditors. Follow-up is being done with the 3 counties who have not sent in their cutover balance information. All county Auditors have confirmed in writing that they have established the required six separate accounts/funds for the Clerk, Prosecutor, Title IV-D incentive and ARRA monies.
4) All counties started sending in the 'Quarterly Incentive Balance Form' starting with the quarter ending 9/30/11.
5) The DCS CSB Field Auditors are reviewing the 'Quarterly Incentive Balance Form' submitted by the counties along with the cutover balance report, incentive remittances sent to the counties, and expenditures based on the information provided in the county's 'Quarterly Incentive Expenditure Report'. The county is then contacted to help resolve any substantive discrepancy issues that are found.
6) Legislation (IC 31-25-4-23 and IC 31-25-3-23.5) passed in the 2011 General Assembly effective on July 1, 2011 to clarify that Title IV-D incentive funds for county general purposes must be placed in a separate, non-reverting fund.
7) The DCS/CSB Monitoring Manual was completed in June 2011. The Monitoring Core Team continues to meet on a monthly basis to review monitoring issues, determine whether any additional training is needed, and discuss changes needed to the CSB Administrative Claim Guide. An update to the CSB Administrative Claim Guide will be provided to the county entities in March 2012. Design work is continuing on an automated tool that will allow county Clerks, Prosecutors, Title IV-D Courts and Auditors to submit claim and incentive forms electronically instead of by paper forms.

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.

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 June 30, 2011:

DCS continues to consider this finding as open for cases initiated prior to Jan. 2009 and closed for those initiated after January 2009. No change from last Fiscal Year's Report.

Status of Finding as of February 22, 2012:

Effective January 1, 2009, the Central Eligibility Unit (CEU) became responsible for determining if a child is eligible for a Title IV-E adoption subsidy or the State's new subsidy program. CEU maintains files on these new adoption cases that contain the adoption agreement, copies of the adoption decree, and other relevant information to begin new adoption subsidies. DCS considers this finding closed for cases initiated after January 2009. While DCS currently considers this finding open for cases initiated prior to January 2009, DCS requests future consideration of complete closure as more of the caseload is becoming comprised of cases opened after January of 2009.

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 June 30, 2011:

DCS continues to consider this finding as open for cases initiated prior to Jan. 2009 and closed for those initiated after January 2009. No change from last Fiscal Year’s Report.

Status of Finding as of February 22, 2012:

The Central Eligibility Unit (CEU) now initiates new adoption subsidy payments in DCS' KidTraks financial system upon finalization of adoptions. CEU ensures that the subsidy agreement does not reflect anything more than the standard foster care per diem. While DCS currently considers this finding open for cases initiated prior to January 2009, DCS requests future consideration of complete closure as more of the caseload is becoming comprised of cases opened after January of 2009.

Indiana Department of Education
SUPPORTING STUDENT SUCCESS

February 17, 2012

State Board of Accounts
Mr. Bruce Hartman, State Examiner
302 Washington St., Room E418
Indianapolis, Indiana 46204-2765

Dear Mr. Hartman:

On February 7, 2012, Marilyn Rudolph and Patti Serbus shared with Indiana Department of Education (IDOE) finance and program staff the Schedule of Findings for the following federal programs: Improving Teacher Quality State Grants (Title II-A), Special Education Cluster (IDEA), and Title I Part A. Please consider this letter the official response for the IDOE to the Schedule of Findings.

FINDING 2011 – DOE (700)-1. CASH MANAGEMENT ADVANCES

Federal Agency:	U.S. Department of Education
Federal Program:	Improving Teacher Quality State Grants
CFDA Number:	84.367
Auditee Contact Person:	Kent Hatcher
Title of Contact Person:	Chief Financial Officer, DOE
Phone Number:	317-234-6792
Compliance Requirement:	Cash Management
Internal Control:	Significant Deficiency

The Department of Education (DOE) allowed up to two weeks of anticipated expenses for the Improving Teacher Quality State Grant to be included in bi-weekly reimbursement requests submitted by the subgrantees. Reimbursing anticipated expenses is not consistent with the reimbursable funding basis and results from a significant deficiency in internal control.

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 205.11(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."

31 CFR 205.12(b)(5) states: "Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal Assistance program purposes."

We recommended that DOE implement processes and procedures to ensure compliance with applicable cash management requirements.

OFFICIAL RESPONSE: To minimize the time elapsing between the transfer of federal funds to the LEAs 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. Effective July 1, 2010, subrecipients were allowed to submit a reimbursement form for actual expenses and anticipated expenses for a two week period. Request for reimbursement may be submitted up to twice per month.

Under federal regulation, reimbursement of anticipated expenses is still considered advancement of federal funds. On July 29, 2011, a memo was sent to all subrecipients that effective immediately all reimbursement requests must be only for actual expenditures. The corrective action became effective July 29, 2011.

IDOE believes that this Finding has been resolved.

FINDING 2011 – DOE (700)-2. MONITORING SUBRECIPIENT A-133 REPORTS

Federal Agency:	U.S. Department of Education
Federal Program:	Special Education Cluster (IDEA), Title I, Part A Cluster, Improving Teacher Quality State Grants
CFDA Number:	84.027, 84.173, 84.391, 84.39284.010, 84.389, 84.367, 10.553, 10.555, 10.556, 10.559
Auditee Contact Person:	Kent Hatcher
Title of Contact Person:	Chief Financial Officer
Phone Number:	317-234-6792
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Significant Deficiency

The Department of Education (DOE) did not adequately monitor the subrecipient A-133 reports for the Special Education (IDEA) Cluster, Title I, Part A Cluster, and Improving Teacher Quality State Grants. Testing of the fiscal division's monitoring procedures revealed ineffective controls. Although DOE electronically receives A-133 reports of local educational agencies from the State Board of Accounts, DOE staff were unable to accurately identify subrecipient reports containing findings or show documentation that proper follow up was performed. This is considered a significant deficiency in internal controls.

OMB Circular A-133 (SS.400(d) states, in part, "Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes: (4) Ensure that subrecipients expending $300,000 *($500,000 for fiscal years ending after December 31, 2003)* or more in Federal Awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year. (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

We recommended that DOE implement effective monitoring procedures for compliance with monitoring of all subrecipient A-133 reports and follow up on subrecipient report findings.

OFFICIAL RESPONSE: The IDOE has reviewed and revised its processes for monitoring subrecipient A-133 reports. Effective December 2011, subrecipient A-133 audit reports are electronically received, reviewed, and logged by the Director of Finance. The audits are electronically forwarded to the Office of School Finance. Audits that contain federal findings are forwarded to the appropriate finance staff and program area staff.

The Special Education program staff reviews the audit and adds the LEA to the upcoming monitoring cycle that is done by an outside contractor. Title I and Title II-A program staffs review the audits and send memos to the LEA regarding the findings and request a response on the corrective action taken.

The IDOE believes this Finding has been resolved.

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.

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(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."

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."

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.

OFFICIAL RESPONSE: To minimize the time elapsing between the transfer of federal funds to the LEAs 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. Effective July 1, 2010, subrecipients were allowed to submit a reimbursement form for actual expenses and anticipated expenses for a two week period. Request for reimbursement may be submitted up to twice per month.

Under federal regulation, reimbursement of anticipated expenses is still considered advancement of federal funds. On July 29, 2011, a memo was sent to all subrecipients that effective immediately all reimbursement requests must be only for actual expenditures. The corrective action became effective July 29, 2011.

IDOE believes that this Finding has been resolved.

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.

OFFICIAL RESPONSE: In FY 2011, the Office of Special Education began tracking the maximum amount of CEIS dollars that could be spent based on the allocated Part B amounts. When final reports are submitted for this grant cycle, we will be able to cross check our tracking mechanism to assure that no LEA exceeded the maximum amount allowed. Modification reports for this grant also include columns for each scope of service (CEIS, Non-Public, and Special Education) in order to track the amounts expended for each budget category.

For FY 2012, a new application was created that will better track CEIS expenditures. The application calculates the maximum amount of CEIS dollars that can be spent and asks each applicant to notate whether or not they will be using CEIS funds (voluntarily or mandatorily). The application also requires each applicant to designate the scope of each line item throughout the application as Special Education, Non-Public Proportionate Share, or CEIS. The application keeps a running total of each category scope so that the expenses do not exceed the allocation.

The FY 2012 application also contains a narrative portion that asks the applicant if the use of CEIS funds is mandatory or voluntary. This is documented on our FY 2012 tracking sheet to assure it is cross-checked when final reports are submitted. A narrative template must be completed for any use of CEIS funds to rationalize the use of the money being spent.

IDOE believes that this Finding has been resolved.

Please contact me if you have questions or if further information is needed.

Sincerely,

Kent Hatcher
Chief Financial Officer

INDIANA
WORKFORCE
DEVELOPMENT
AND ITS WorkOne CENTERS

March 7, 2012

Bruce Hartman, State Examiner
State Board of Accounts
302 West Washington Street
4th Floor, Room E418
Indianapolis, IN 46204

Re: **OFFICIAL REPONSE**
Federal Programs Audit: 07/01/10 through 06/30/11

Dear Mr. Hartman:

Please find attached the Department of Workforce Development's Corrective Action Plan to the 2011 audit finding in the SBOA report issued February 2012. 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.

Sincerely,

Mark W. Everson
Commissioner

Mitchell E. Daniels, Jr., *Governor*
Mark W. Everson, *Commissioner*

10 North Senate Avenue
Indianapolis, IN 46204-2277
www.workforce.IN.gov

Phone: 317.232.7670
Fax: 317.233.4793

An Economic Development Partner

FINDING 2011- DWD-1, CASH MANAGEMENT CONTROLS

Federal Agency: U.S. Department of Labor
Federal Program: Workforce Investment Act Cluster
CFDA Number: 17.258, 17.259, 17.278
Audited Contact Person: Randy Gillespie
Title of Contact Person: Chief Financial Officer, DWD
Phone Number: 317-232-7675
Compliance Requirement: Cash Management
Internal Control: Significant Deficiency

Finding:

During our audit of the Workforce Investment Act Cluster (WIA) of the Indiana Department of Workforce Development (DWD) we found that DWD drew down federal funds in advance for the WIA funds. This occurred because DWD Management is not following established internal control procedures to ensure that federal funds are not drawn down in advance, as required by federal regulation. This significant control deficiency occurred due to lack of effective communication between management and staff over federal draws, resulting in DWD maintaining the federal funds for excessive days.

20CFR 437.20 (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…"

31 CFR 205.11 (a) states in part, "A state and 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 ___ business days prior to the day the State issues checks or initiates EFT payments."

We recommend that DWD follow agency written procedures over Cash Management to ensure that WIA funds are not drawn down in advance.

Response:

The cash draws which lead to this audit finding were done in the midst of stalled federal budget negotiations which threatened to cease all federal operations. Consistent with sound management practices and a desire to sustain operations that provide crucial services to the citizens of Indiana, a decision was made to draw incremental funds from our federal sources knowing that any necessary adjustments would be completed within a few weeks.

Once the cash was drawn, the federal shutdown was averted and the daily procedures for drawing cash were not altered to reflect the cash that had already been drawn. When this was identified during the course or our routine procedures, corrective action was taken and all draws were suspended until cash was brought in line per the requirements.

Current procedures have been modified to allow for a more timely correction if we are faced with another situation like this.

The modifications to our procedures include, but are not limited to:

- Additional reviews and reconciliation of draws by the ARU staff.
- Adding a statement regarding Combined Draws that will include a combination of the draw methods due to the daily restrictions on our draws.
- Correcting the payroll draw worksheet created by ARU (Analysis & Reconciliation Unit) to include actual benefits paid and removing the statement that we will add estimated benefits.

FINDING 2011- DWD-2, UI ELIGIBILITY - WORK SEARCH REQUIREMENT

Federal Agency:	U.S. Department of Labor
Federal Program:	Unemployment Insurance
CFDA Number:	17.225
Audited Contact Person:	Randy Gillespie
Title of Contact Person:	Chief Financial Officer, DWD
Phone Number:	317-232-7675
Compliance Requirement:	Eligibility
Internal Control:	Significant Deficiency

Finding:

The structure of Federal-State UI Partnership assigns to the State the responsibility to determine claimant eligibility and disqualification provisions. The eligibility policy of the Indiana Department of Workforce Development in effect during State fiscal year 2011 required claimants, unless a work search waiver has been approved, to submit at least one application and search for two additional positions each week. The three work searches were to be documented in the online claim system, Uplink. In October 2011 the requirement to submit an application was removed; however, the work search requirements remained.

Follow up to determine compliance with DWD eligibility and disqualification policy is inadequate. Testing processes in place during FY11 and currently do not adequately review and enforce the work search standard, thus increasing the risk of improper benefit payments. Additional details regarding DWD's Uplink system and testing processes have been communicated to DWD in a separate management letter dated March 7, 2012.

20CFR604 5(3)(h) states: "Work search. The requirement that an individual be available for work does not require an active work search on the part of the individual. States may, however, require an individual to be actively seeking work to be considered available for work, or States may impose a separate requirement that the individual must actively seek work.

The March 2011 A-133 Federal Compliance Supplement states in part: "State responsibilities include: (4) determining claimant eligibility and disqualification provisions;

Indiana Statute, IC 22-4-14-3(b)(3) states in part: "An unemployed individual shall be eligible to receive benefits with respect to any week only if the individual: is found by the department to be making an effort to secure full-time work." IC 22-4-14-2(a)(2) states in part, "An unemployed individual is eligible to receive benefits with respect to any week only if the individual has subsequently reported with the frequency and in the manner, either in person or in writing, that the department by rule adopts."

DWD Policy 2008-44, Revised March 2, 2010, states in part: "A claimant must make an effort to secure full-time work during each week the claimant files a weekly claim for UI benefits. A claimant's weekly search for work must include the submission of at least one application and a search for two additional positions during every week in which the claimant files a weekly claim for UI benefits. Claimants may submit applications for jobs in person, by mail, facsimile, or email , or online through an internet website, as requested by the employer. The two additional searches may be done online, by telephone, or in person." The policy further states: "A claimant must report the claimant's effort to secure full-time work to DWD on a weekly basis. A claimant reports his or her effort to secure full-time work by completing the information requested on the claimant's weekly, online claim form, available through DWD's Uplink claimant self-serve system. "

DWD Policy 2011-04, dated October 7, 2011, states in part: "A claimant's weekly search for work must include a search for three positions during every week in which the claimant files a weekly claim for UI benefits. The searches may be done online, by telephone, or in person." The policy further states: "A claimant must report the claimant's effort to secure full-time work to DWD on a weekly basis. A claimant reports his or her effort to secure full-time work by completing the information requested on the claimant's weekly, online claim form, available through DWD's Uplink claimant self-service system."

We recommended that DWD's eligibility testing processes be increased to reduce the risk of improper payments.

Response:

This audit was being conducted pursuant to OMB Circular A-133 regarding CFDA Number 17.225 which establishes guidelines for an audit of Unemployment Insurance (UI) benefit payment operations. Due to the complexity of the UI benefit payment operations, OMB Circular A-133 recommends that the objective of the audit should be to verify that a State's BAM program operates in accordance with Federal Requirements to assess the accuracy of UI benefit payments and denied claims. That BAM unit is subject to audit by the U.S. Department of Labor (DOL) and peer review. The most recent independent review of our BAM unit in October 2011 provided no significant findings or concerns.

DWD has worked closely with the U.S. DOL to resolve issues surrounding improper benefit payments. With the cooperation and guidance from DOL, DWD established a "UI Integrity Task Force". The solution to the work search issue proposed by the task force was to issue a new policy regarding the handling of work search issues. That policy was DWD Policy 2011-04, dated October 7, 2011 and has been fully implemented.

FINDING 2011- DWD-3, CASH MANAGEMENT INTERNAL CONTROLS

Federal Agency:	U.S. Department of Labor
Federal Program:	Unemployment Insurance
CFDA Number:	17.225
Audited Contact Person:	Randy Gillespie
Title of Contact Person:	Chief Financial Officer, DWD
Phone Number:	317-232-7675
Compliance Requirement:	Cash Management
Internal Control:	Significant Deficiency

Finding:

The Department of Workforce Development (DWD) does not have adequate internal control procedures to ensure that federal funds are not drawn down in advance, partially due to ineffective communication between management and staff. During State fiscal year 2011, DWD held federal funds for excessive days beyond the allowable time as dictated by the federal regulations, a significant control deficiency.

Significant errors existed in the interest calculations reported on DWD's Cash Management Improvement Act Annual Report. DWD is required to calculate interest liabilities using the average daily cash balance of Federal funds held by the State. The spreadsheets used to determine daily cash balances for the Federal Benefit, State Benefit and UI Administration draws had errors in draw dates, amounts, and cell formulas resulting in unreliable interest calculations. The interest calculation for the UI Federal Benefit draws was understated by $2,202 in the report submitted in fiscal year 2011, and due to undetected formula errors compounding over two years, understated by $21,355 in the report submitted in fiscal year 2012.

In addition, the current CMIA agreement has not been updated to reflect current funding techniques for UI Administration draws.

The Cash Management Improvement Act Agreement between the State of Indiana and the Secretary of the Treasury, United States Department of the Treasury for the period July 1, 2010 to June 30, 2011, Section 8.3.1, states in part: "The State's liability for interest on funds withdrawn from the FECA (Federal Employees Compensation Account) and the EUCA (Extended Unemployment Compensation Account), and any other benefit accounts of Federal funds in the UTF from which the State draws funds, shall be the average daily cash balance of Federal funds multiplied by the annualized rate equal to the average equivalent yields of 13-week Treasury bills auctioned during the States fiscal year."

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)(1) states: " Zero balance accounting means that a Federal Program Agency transfers the actual amount of Federal funds to a State that are paid out by the State each day. "

31 CFR 205.7(c) states in part: "…a State must amend a Treasury-State agreement as needed to change or clarify its language when the terms of the existing agreement are either no longer correct or no longer applicable. A State must notify us in writing within 30 days of the time the State becomes aware of a change, describing the Federal assistance program change."

31 CFR 205.19(d) states in part "…a Treasury-State agreement must include the method a State uses to calculate and document interest liabilities."

We recommended that DWD develop and follow effective written procedures over Cash Management to ensure that UI funds are not drawn down in advance and to ensure interest liabilities are accurately reported. We further recommended that DWD update the CMIA agreement to reflect current funding techniques.

Response:

The cash draws which lead to this audit finding were done in the midst of stalled federal budget negotiations which threatened to cease all federal operations. Consistent with sound management practices and a desire to sustain operations that provide crucial services to the citizens of Indiana, a decision was made to draw incremental funds from our federal sources knowing that any necessary adjustments would be completed within a few weeks.

Once the cash was drawn, the federal shutdown was averted and the daily procedures for drawing cash were not altered to reflect the cash that had already been drawn. When this was identified during the course or our routine procedures, corrective action was taken and all draws were suspended until cash was brought in line per the requirements.

Current procedures have been modified to include a daily follow-up of the draws by the Analysis and Reconciliation Unit as well as a monthly comparison of payroll draws to the actual payroll paid. These additional procedures will allow for a more timely correction if we are faced with another situation like this.

In regards to the cash balance and interest calculations on the CMIA annual report, we agree that there was a formula error in the worksheets and we appreciate the error being brought to our attention. The correction to the formula has since been completed.

The final issue of the incorrect verbiage in the State's CMIA agreement with the US Treasury is something that we have worked to correct but is largely out of our direct control. Prior to this being identified by the State Board of Accounts, we had made several requests to the State Budget Agency in November 2009, June 2010, and June 2011 to correct the language in the document. As a result of the finding, we once again requested the agreement be adjusted to address the current system. The State Budget Agency has responded that they will make the change in next year's document.

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

Michael A. Gargano, Secretary

"People helping people help themselves"

March 5, 2012

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 2011 A-133 Audit report and for closing thirteen of the Prior Year Findings.

The following are our responses for the new findings:

1. FINDING 2011 - FSSA (497)-1, VOCATIONAL REHABILITATION, ACTIVITIES ALLOWED OR UNALLOWED

   FSSA Response:

   FSSA agrees with the finding. FSSA will ensure adequate segregation of duties between authorization and review of costs via an increase in the Supervisory review of the Individualized Plan for Employment (IPE) from the current random sample of one in ten IPEs to a minimum of 75% of IPEs. The Individualized Plan for Employment is a document that is agreed to and signed by the VR Customer and the VR Counselor. Once the individual and the VR Counselor or other qualified professional employed by the Vocational Rehabilitation Program have signed the IPE, the supervisor must complete a review of the proposed plan and either sign and date it as approved or return it to the Counselor for further work. Any changes in the authorizing document will need supervisory sign off as well. Also, the electronic case management system will be modified in late spring 2012 to directly link the identified/approved services to the automatic generation of fiscal authorizations. In addition, FSSA Audit will review a random sampling of case files to ensure compliance.

2. FINDING 2011 – FSSA-(500)-3, SPECIAL TESTS AND PROVISIONS

   FSSA Response:

   Corrective Action:

FSSA agrees with the finding. The agency currently stipulates on all contract agreements if an agreement is sub-recipient in nature, and includes the CFDA number. If the agency should receive ARRA funds in the future, the Federal award number, year, and amount of ARRA funds will be included on the sub-award agreement and the disbursement of funds.

3. FINDING 2011 – FSSA (410)-4, SSBG CLAIMS PROCESSING

FSSA Response:

FSSA agrees with this finding. The FSSA Division of Mental Health (DMHA) contracts for SFY 2012 and beyond were redesigned in order to streamline and organize the payments more effectively and efficiently. DMHA has approximately thirty (30) funding sources which are used to fund 125 contracts. For SFY 2012 and beyond, there is a separate Claim Program Identification (CPID) number for each of the funding sources used within a contract. In turn, the contract system will generate an individual claim for each funding source used by DMHA. This will unburden the Administrative Services staff accountants from deciding which funding source should be used to pay the claims since the funding source was determined at the contract development level. In addition, two (2) DMHA staff member have been assigned to monitor the payments on a monthly basis, effective 10/1/2011. This will ensure payments are paid from the correct funding source.

4. FINDING 2011 – FSSA (503)- 5, MEDICAID PAYMENT ISSUANCE CONTROLS

FSSA Response:

FSSA agrees with the finding that the "Suspicious Checks Report" was not reviewed regularly by State staff during SFY 2011. As noted in the finding the "Suspicious Checks Report" was reviewed by February 2012. No payments issued were determined to have been paid in error from this report. The fiscal agent has numerous claim edits and internal controls to minimize the risk of inappropriate payments being issued. FSSA does not believe a manual review of payments after created and prior to issuance would be of add any significant control value. FSSA will continue to add and develop system controls and claim monitoring to prevent and/or detect erroneous or fraudulent payments.

5. FINDING 2011 – FSSA- (503)-6 MANAGED CARE CONTRACTS

FSSA Response:

FSSA agrees with the finding. OMPP has updated the internal contract amendment policy and tracking tools to add controls to ensure there are quality checks to confirm the contract rate pages, as well as the rate form that is sent to the fiscal agent, accurately reflect the certified rates.

Further, in order to monitor the not-to-exceed contract amounts, OMPP has added procedures to receive quarterly payment data from the fiscal agent for both the HHW and HIP programs to cross check to the listed NTE MCE contract amounts. If a concern is noted during the quarterly review, it will immediately be noted in the contract amendment tracking tool in order to be properly addressed during the routine annual amendment process.

6. FINDING 2011 - FSSA-(503)-7, MEDICAID ADMINISTRATION GRANT

   FSSA Response:

   FSSA does not agree that approximately $30 million dollars in federal share of Medicaid administrative payments were made but not drawn as indicated in this finding. A FSSA review of accounting records as noted in prior findings has not uncovered evidence that any additional federal funds are available to draw. CMS adjusted the grant close out process during the time noted in this finding. Whereas the current Medicaid grant authorization is closed-out to equal the amounts reported on the CMS-64 during the FFY, grants prior to FFY10 had grant authorization adjustments made as part of the CMS close-out process for expenditures reported as prior period adjustments on the CMS-64.

If you have any questions or comments, please feel free to contact us.

Regards,

Paul Bowling
Chief Financial Officer

Attachment: Corrective Action Plans for Prior Year FSSA Findings

Corrective Action Plans for Prior Year FSSA Findings

FINDING 2003 – FSSA – 16, ONGOING VERIFICATION OF PROVIDER MEDICAL LICENSE

Corrective Action:

HP has been working all six reports generated from IPLA data each month for the last six months. OMPP monitors the reports and HP activity on a monthly basis.

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

Corrective Action:

DFR has fully implemented the Hybrid business process to all 92 Indiana counties. In this model, all TANF applications and redeterminations are processed in DFR Local Offices under State Management. DFR Quality Control conducts a monthly audit of a sample of TANF cases. The results are shared with Management for continuous improvement. Details to be provided with the SFY 2012 Status Update.

FINDING 2004 - FSSA–6, DEATH VERIFICATIONS

Corrective Action:

DFR has fully implemented the Hybrid business process to all 92 Indiana counties. In this model, all TANF applications and redeterminations are processed in DFR Local Offices under State Management. DFR Quality Control conducts a monthly audit of a sample of TANF cases. The results are shared with Management for continuous improvement. Details to be provided with the SFY 2012 Status Update.

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

Corrective Action:

The project to update the enrollment documentation of participating waiver providers has been completed. Any providers that had not submitted the required paperwork had their enrollments end-dated effective 10-1-2011.

FINDING 2005 – FSSA-16, TRACKING OF CERTIFICATION & TRANSMITTAL (C&T)

Corrective Action:

OMPP implemented a process to monitor documentation from ISDH and CMS regarding the compliance of providers subject to survey. The objective of this process is to ensure that payment is not made to providers who do not meet the requirements for participation.

FINDING 2005 – FSSA-19, ONGOING OUT-OF-STATE LICENSE VERFICATION

Corrective Action:

HP is working with Lexis Nexis to develop the exchange of data and the creation of reports to identify any licensed providers located outside of Indiana. Until this final step is completed with Lexis Nexis, HP will continue the manual review process implemented in the fall of 2011. State websites have been identified, and staff validates the active status of each license number. Action is taken to end-date the enrollment if the license is not active.

FINDING 2005 – FSSA-20, TIMELY FOLLOW-UP OF LICENSE TERMINATION

Corrective Action:

OMPP will ensure HP continues to follow current business processes for end-dating enrollment on the date the license ends for all deactivations related to license issues.

FINDING 2005 – FSSA-23, AIMS CONTRACTOR ACCESS ASSIGNMENTS AND CONTROLS NOT MONITORED

Corrective Action:

The contractor produces Quarterly Access Audit Reports, which are reviewed by each business unit leader who will submit a request via the Security Access Request website recommending any changes to access, including termination. The access assignments for each business unit are defined according to the Standard AIM Profile by each business unit leader. The tool for monitoring this process will be completed by March 8, 2012.

FINDING 2005 - FSSA-30, MEDICAID BANK RECONCILIATIONS

Corrective Action:

FSSA will continue to work with HP, the Medicaid fiscal agent to complete an appropriate reconciliation review process.

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

Corrective Action:

OMPP implemented a process to monitor documentation from ISDH and CMS regarding the compliance of providers subject to survey. The objective of this process is to ensure that payment is not made to providers who do not meet the requirements for participation.

FINDING 2006 – FSSA-11, TANF ELIGIBILITY INCOME DETERMINATIONS

Corrective Action:

DFR has fully implemented the Hybrid business process to all 92 Indiana counties. In this model, all TANF applications and redeterminations are processed in DFR Local Offices under State Management. DFR Quality Control conducts a monthly audit of a sample of TANF cases. The results are shared with Management for continuous improvement.

FINDING 2006-FSSA-12 TANF ELIGIBILITY – DOCUMENTATION

Corrective Action:

DFR has fully implemented the Hybrid business process to all 92 Indiana counties. In this model, all TANF applications and redeterminations are processed in DFR Local Offices under State Management. DFR Quality Control conducts a monthly audit of a sample of TANF cases. The results are shared with Management for continuous improvement.

FINDING 2006-FSSA-13 TANF ELIGIBILITY - VERIFICATION

Corrective Action:

DFR has fully implemented the Hybrid business process to all 92 Indiana counties. In this model, all TANF applications and redeterminations are processed in DFR Local Offices under State Management. DFR Quality Control conducts a monthly audit of a sample of TANF cases. The results are shared with Management for continuous improvement.

FINDING 2006-FSSA-14 TANF ALLOWABLE COST

Corrective Action:

DFR has fully implemented the Hybrid business process to all 92 Indiana counties. In this model, all TANF applications and redeterminations are processed in DFR Local Offices under State Management. DFR Quality Control conducts a monthly audit of a sample of TANF cases. The results are shared with Management for continuous improvement.

FINDING 2007 – FSSA -2, INACCURATE GRANT ACCOUNTING RECORDS

Corrective Action:

Adjustments to correct the Allot vs. Expends will be reviewed to determine if any further action is required.

FINDING 2007 – FSSA-6, FACULTY PHYSICIAN ACCESS TO CARE ADJUSTMENTS

Corrective Action:

OMPP believes utilizing estimates for quarterly payments is reasonable based on the language in the state plan, Attachment 4.19B page 1c.

OMPP has drafted a provider payment agreement specific to the physician faculty access to care payments that identifies the payments as estimated payments and states that providers are required to repay any amount subsequently determined to be an overpayment. OMPP has also taken additional steps to limit the likelihood of overpayments by reviewing a preliminary calculation prior to the fourth quarter payment, which allows OMPP to reduce the final estimated quarterly payment if it appears that the total quarterly payments will be higher than the preliminary calculation amount. Completion of the provider payment agreements is anticipated by 5/17/2012.

FINDING 2008 - FSSA-3, SCHIP DUPLICATE EXPENSE

Corrective Action:

A report of daily funding transactions is completed each week by accounting operations, and is distributed to OMPP and Federal Funding for review. To capture duplicate expenditures, this report compares expenditures posted to the accounting system to the fiscal agent weekly invoice detailing SCHIP expenditures.

FSSA will complete a reconciliation process between expenditures reported on the CMS-64 and the accounting system. Adjustments will be completed where allowable.

FINDING 2008 - FSSA-5, GRANT ACCOUNTING INTERNAL CONTROL ENVIRONMENT

Corrective Action:

FSSA will review accounting procedures to determine if additional controls are needed.

FINDING 2008 – FSSA-7, SURVEILLANCE AND UTILIZAITON REVIEW AUDIT FILES

Corrective Action:

OMPP entered into a contract with Thomson Reuters to provide a comprehensive Fraud and Abuse Detection System (FADS), which took effect on January 3, 2011. The FADS solution includes software tools and consulting services to support the identification, investigation, audit, and recover related to health care fraud cases. The case management tool is now in operation, and OMPP is currently working on processes and reports to resolve this finding.

FINDING 2008 – FSSA-10, OMPP AIM ACCESS, TRAINING, AND CONTROLS

Corrective Action:

OMPP has obtained and retained the security access forms and confidentially agreements for each OMPP employee or contractor. The list of management personnel and Access Administrators for OMPP and other agencies, divisions, and organizations is complete and will be updated as new supervisors are confirmed. The notification to CMS of the OMPP ADP Security Coordinator appointment has yet to occur, but is in process.

FINDING 2009 - FSSA-2, CHIP PACKAGE C REPORTING

Corrective Action:

FSSA will complete a reconciliation process between expenditures reported on the CMS-64 and the accounting system. Adjustments will be completed where allowable.

FINDING 2009 - FSSA-4, ARRA GRANT ACCOUNTING

Corrective Action:

FSSA will complete a reconciliation process between expenditures reported on the CMS-64 and the accounting system. Adjustments will be completed where allowable.

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

Corrective Action:

FSSA will review accounting records and return the federal share of any over-claim.

FINDING 2009 - FSSA-7, MEDICAID ACCOUNTING RECORDS

Corrective Action:

FSSA will be reviewed accounting records and compile documentation of the adjustments.

FINDING 2010 – FSSA-5, ERROR IN REPROCESSED ELIGIBILITY COSTS

Corrective Action:

FSSA and the fiscal agent have reviewed procedures for classifying Medicaid and CHIP expenditures, and have updated the criteria in the MMIS for determining Medicaid or CHIP eligibility. FSSA will verify that recipients exceeding the traditional Medicaid but within the CHIP income guidelines but have credible TPL are eligible for medical benefits at the FMAP rate.

FINDING 2010 – FSSA-6, ACCOUNTING FOR SPECIAL HOSPITAL PAYMENTS

Corrective Action:

FSSA will document the internal controls for receiving, depositing and crediting checks for IGTs, and DSH/Supplemental payment refunds.

FINDING 2010 – FSSA-8, DRUG REBATE BALANCE HELD

Corrective Action:

All drug rebate monies invoiced by the State's rebate contractor are deposited into a bank account for Indiana drug rebate collections, which are transferred to the Medicaid checking account on a weekly basis. FSSA Internal Audit completed an audit of the drug rebate bank account that identified the amounts held that could not readily be associated to transactions in transit. The balance was remitted to FSSA on October 25, 2011.

FINDING 2010 – FSSA-9, MEDICAID PROJECT ACCOUNTING ERRORS

Corrective Action:

FSSA will research the following items with respect to this finding:

- The Medicaid 2009 grant was overstated within the PeopleSoft General Ledger by $34,406,435.35. There was no effect on the draws The Medicaid 2010 grant was understated within the PeopleSoft General Ledger by $34,406,435.35. There was no effect on the draws.
- As of June 30, 2011, an expense credit of $6.6 million had not been fully recorded to reduce draw downs for the 2010 grant project 503MASTFMAPF10. This was recorded on JE 2650775 6/16/11.

Adjustments will be made as necessary.

FINDING 2010 – FSSA-10, ARRA EXPENSE OVERSTATEMENTS

Corrective Action:

FSSA will reviews the completed corrections to determine if any further adjustments are needed. The outstanding items remaining to be resolved are CHIP expense transfer credits that may not have been recorded to ARRA. The questioned costs were $557,810 and $2,980,572. The correction of the $163,111 was omitted from the expense adjusted through FETS. There remains a question as to whether a FETS adjustment is needed.

FINDING 2010 – FSSA-11, MONITORING OF CLAIM PROCESSING

Corrective Action:

HP has in place a claims quality management process, and conducts monthly quality reviews of all claim types for both paper and electronic submissions. HP generates a report and submits to OMPP for review. On a periodic basis, a member of the OMPP Operations team also performs an independent sampling and review of adjudicated claims. OMPP has reestablished monthly claims meetings with OV&V and HP to review and document the monthly quality results and address any necessary corrective actions to be taken to resolve the issue.

STATE OF INDIANA

Mitchell E. Daniels
Governor

STATE BUDGET AGENCY

212 State House
Indianapolis, IN 46204-2796
317-232-5610

Adam M. Horst
Director

February 14, 2012

Mr. Bruce A. Hartman, CPA, State Examiner
State Board of Accounts
302 Washington St., Room E418
Indianapolis, Indiana 46204-2765

Dear Mr. Hartman,

This letter is in response to the findings identified in the audit of the State Fiscal Stabilization Fund for the period July 1, 2010 to June 30, 2011. Please consider this letter the official response for the Indiana State Budget Agency to the audit findings.

In response to the 2011 Audit Finding – SBA (057)-1, the Budget Agency has taken the following corrective actions to limit future occurrences. We have prepared necessary adjusting entries to reclassify expenditures to appropriately defined projects within the Budget Agency's business unit and have established a more thorough review process for management to approve future Schedules of Federal Financial Assistance. Following those necessary adjustments, we have confirmed that the program activity related to CFDA# 84.394 will appear on future reports utilized to populate the Schedule of Federal Financial Assistance.

In response to the 2011 Audit Finding – SBA (057)-2, the Budget Agency has since reviewed the most recent A-133 audit reports for all subrecipients. None of these reports had any audit findings. We will continue to monitor these reports in the future.

In response to the 2010 Audit Finding – ISBA-1, the Budget Agency implemented a policy in early 2011 for notifying subrecipients of their respective Federal Award numbers and CFDA numbers at the time of award and disbursement. Since then, the person responsible for processing ARRA payments abruptly left the Budget Agency, and the newly assigned employees were not adequately trained on this portion of their job. We have again notified the individuals responsible for disbursements and their direct supervisor of the established policy. To ensure compliance and uniform application in the future, our office has established a review process in which we will regularly assess compliance with the policy, and in the event of employee turnover, we will make sure the new, responsible individuals are adequately trained.

Sincerely,

Jay L. Collins, Deputy Budget Director
State Budget Agency

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

November 15, 2012

Bruce Hartman, State Examiner
State Board of Accounts
IGCS, Room E418
Indianapolis IN 46204

Subject: Response to Findings and Questioned Costs - - Fiscal Year 2011 Finding

FINDING 2011 - DOT (800) – 1 REPORTING

Federal Agency:	U.S. Department of Transportation
Federal Program:	Transportation Investment Generating Economic Recovery (TIGER)
CFDA Number:	20.932
Auditee Contact Person	Dan Brassard
Title of Contact person:	Chief Financial Officer
Phone Number:	317-232-1472
Compliance Requirement:	Reporting
Internal Control:	Significant Deficiency

The Indiana Department of Transportation (INDOT) did not prepare and submit to the US Dept of Transportation the required SF-425 Federal Financial Reports for the quarter and year ended June 30, 2011 for the Transportation Investment Generating Economic Recovery (TIGER) grant. The quarterly report was originally due on July 20, 2011, but was waived by the Federal Highway Administration (FHWA) until August 5, 2011. The year-end report was due on August 15, 2011.

Due dates for these reports were communicated to INDOT on July 21, 2011, from FHWA along with instructions and guidance for completing the reports timely.

We recommended that INDOT prepare and submit all required reports to FHWA timely as required.

Response/Corrective Action:

1) INDOT submitted timely the required report for INDOT's largest CFDA 20.205 which encompasses 95% of the ARRA funds INDOT received for FY11. However, INDOT did not submit its first Transportation Investment Generating Economic Recovery TIGER report until September 2011.

2) All quarterly reports since September 2011 for the Transportation Investment Generating Economic Recovery (TIGER) grant have been submitted and have been forwarded to the State Board Auditor.

3) INDOT does submit the following plan to address the subject finding to resolve and avoid future findings on this issue:

   a. The report will be prepared, upon notice, by the Project Finance Federal Budget Analyst and forwarded to the MPO/LPA Grant Program Coordinator who will submit the report to FHWA. The MPO/LPA Program coordinator will send FHWA confirmation of receipt to the Project Finance Federal Budget Analyst. The Project Finance Manager and LPA Program Grant Director will ensure that the report is submitted timely and subsequent FHWA receipts are maintained.

   b. INDOT is preparing a month close report which will list required external reports that are required to be submitted to INDOT's partners. This report will be added to this calendar to ensure that all appropriate staff are aware of the required submission to FHWA. The Fiscal Analysis & Reporting Manager will complete and manage the monthly close calendar.

Dan Brassard

Dan Brassard
Chief, Financial Officer,
INDOT

"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

Michael A. Gargano, Secretary

November 26, 2012

Bruce Hartman, State Examiner
Indiana State Board of Accounts
402W. Washington St. Room E418
Indianapolis, IN 46204

Mr. Hartman:

In response to the new Finding 2011-FSSA-7, please find the response and current status regarding case documentation.

Prior to the beginning of SFY12 all eligibility documentation files were maintained in paper form. FSSA/DFR recognized the challenges of storing and retrieving the numerous paper files for in excess of one million applicants and clients. As such, FSSA/DFR began the roll-out of the Family Assistance and Care through Technology Services (FACTS) system, an electronic document imaging system. Whereas the final county was completed by March 2012, all documents supporting residency, citizenship, family relationships, income and resources of recipients should now be available in FACTS and retrievable through ICES for cases opened after the implementation of FACTS.

Two cases, one Medicaid and one CHIP, were cited as with missing documentation in FACTS. FSSA concurs that the other two cases did not contain complete documentation. The missing documentation failed to be entered as the county administration staff were becoming familiar with the FACTS system and processes. With additional experience gained in working with FACTS FSSA/DFR believes such oversights should now be minimized. As an additional corrective action the Quality Control section and other DFR areas that review cases will be notified that if any information needed for their reviews is not accessible through FACTS or ICES to bring missing documentation to the attention of DFR Management so the situation can be investigated to determine if there are any weaknesses in the FACTS documentation collection and maintenance process.

If you have any questions regarding this response, please contact David Nelson at David.Nelson@fssa.in.gov or 317-233-3045.

Regards,

Paul Bowling
Chief Financial Officer