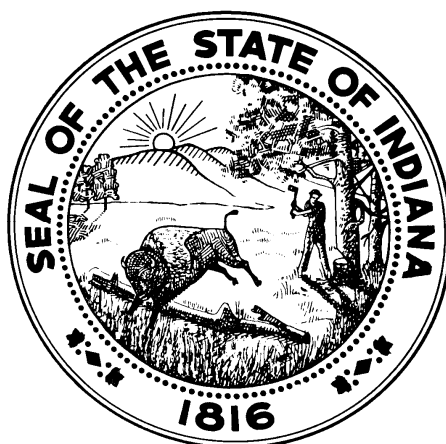


**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
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**INDIANAPOLIS, INDIANA 46204-2769**

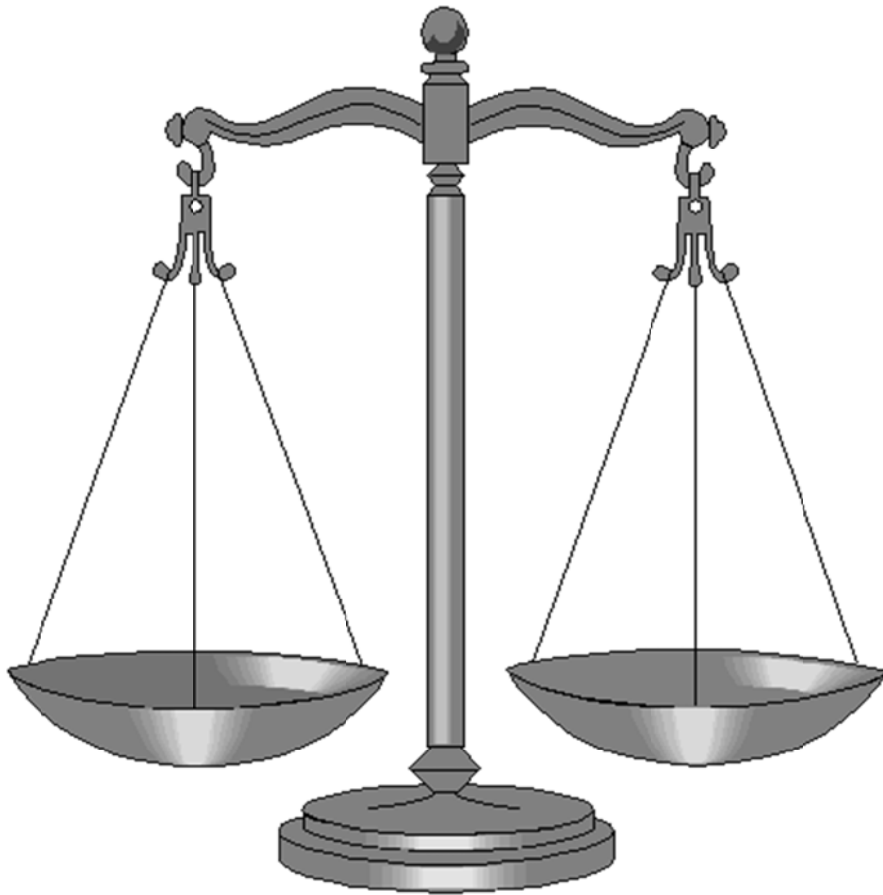
THE INDIANA STATE BOARD OF ACCOUNTS  
PRESENTATION TO THE STATE AUDIT COMMITTEE

August 18, 2014



**FILED**  
10/25/2017





## BOARD OF ACCOUNTS

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# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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## Members of the Audit Committee:

Good afternoon, Chairman Lehman, and members of the audit committee. Seated here with me are Deputy State Examiners Mike Bozyski and Tammy White. Thank you for the opportunity to review the operations of the State Board of Accounts and to discuss our impending issues as we move forward.

The main purpose of SB 338 was to address the issue of Independence of the State Examiner and the State Board of Accounts. Prior to the passage of SB338 the State Board of Accounts independence was in question based on Generally Accepted Governmental Auditing Standards established by the Comptroller General.

Auditor independence is the cornerstone of the auditing profession. It is the foundation of the public's trust in the accounting profession. The independence of the State Board of Accounts is sacrosanct and it is even more important for state government to have an independent fiscal monitor during these tough economic times.

The State Board of Accounts is responsible for making sure that the tax dollars of hard-working Hoosiers are spent efficiently, effectively, and for their intended purpose.

The State Board of Accounts audits government agencies and programs at the state and local level that receive state funds or federal funds that are passed through state government.

Our mission to improve the accountability and transparency of public funds is intended to help improve the decisions that directly affect operations of state and local governmental agencies for the benefit of the citizens of the State of Indiana. We serve the public interest by providing members of the Legislature and other policymakers with accurate and timely information, unbiased analyses, and objective recommendations on how to best use scarce public resources.

We fulfill our mission by adhering to the professional standards and the principles of integrity, objectivity, independence, and due care by conscientiously carrying out our audit responsibilities with an unbiased approach.

Government Auditing Standards issued by the Comptroller General of the United States and Generally Accepted Auditing Standards issued by the American Institute of Certified Public Accountants require auditor independence in fact as well as in appearance and specify what constitutes impairments to independence. The most recent National State Auditors Association external quality control review of the State Board of Accounts operations noted no impairments affecting our independence in providing auditing and other attestation services.

To help in fulfilling our audit mission and responsibilities, we have focused our efforts on maximizing the quality of our services and improving communication and strengthening our professional relationship with the Legislature, the agencies that we audit, and the citizens of the State of Indiana.

As the industry continues to increase its use of information technology to manage and control its programs and resources, the State Board of Accounts continues to maintain its leading edge in the use of information technology. We provide our staff with the appropriate technology and resources to enable them to fulfill their assignments and to ensure the successful achievement of our mission.

Additionally, our website continues to be an effective means to make our audit reports available to the Legislature and the general public. Visitors to our website can easily search for and retrieve audit reports that contain specific points of interest.

The core strength of our office continues to be the quality of our staff. There is strong competition from the private sector for new auditors, as well as a strong demand for trained professionals throughout state government. We continue to use innovative strategies to employ and retain highly motivated, skilled, and dedicated staff. The State Board of Accounts is committed to providing the Legislature and other interested parties with accurate and reliable information, and the key factors in achieving this commitment are the competency and professionalism of our staff.

It's a big responsibility, a responsibility that we take seriously.

We understand the ongoing fiscal crisis that the state is facing. We are doing all that we can to hold down spending. We are carefully managing our resources so that we can do more with less. Our department is one of the most productive and cost-effective in all of state government, and all of our employees are working to raise it to an even higher level.

Managing these tough financial and staffing challenges while also fulfilling our department's mission requires that I as State Examiner take a hard look at the way we do business, have an open mind to change and work with others to find workable solutions to current issues we are facing.

One thing I discovered is that very few people know what the State Board of Accounts does and how our work affects the lives of nearly all Hoosiers.

The State Board of Accounts responsibility, as stated in Indiana Code 5-11-1, is to conduct examinations of all state and local governmental agencies. When created in 1909 the primary responsibilities of the State Board of Accounts was to conduct examinations of all public offices, to ensure compliance with the statutes of Indiana, to prescribe and approve forms, and create a uniform system of accounting and financial reporting in Indiana for all units of government within Indiana.

Indiana Code 5-11-1-25, specifies whether an examination is to be annual or biennially. **We should consider changing this to be based on a risk-based approach as determined by the State Examiner.** In 2011, the State of Minnesota received a written comment in their peer review that called into question the independence of the state's audit function due to what they determined to be a possible external impairment.

*External Impairments:* GAGAS requires audit organizations to be free from external impairments to independence—those factors external to the organization that may restrict auditors' ability to form independent and objective findings and conclusions. (GAO 3.10) Specifically, GAO 3.10c requires the audit organization to be free from unreasonable restrictions on the time allowed to complete an audit or issue the report. GAO 3.1 requires the organization to be free from restrictions on funds or other resources provided to the audit organization that adversely affect the audit organization's ability to carry out its responsibilities. Massachusetts General Laws Chapter 11, Section 12 requires the Office to audit, ". . . no . . . less than once in every two years . . . the accounts, programs, activities, and functions related to . . . all departments, offices, commissions, institutions, and activities of the commonwealth. . . ." During the review, managers of the audit organization noted that the Office was unable to achieve the two-year cycle requirement. According to the Auditor, the Office's appropriation has also been reduced in the past budget cycle. As a result, from the perspective of the reviewers, it appeared that the audit content was guided less by risk and more by the statutory requirements to review a high number of organizations, and that organization resources were not directed to high-risk audit areas.

Last year we issued more than 1,586 audits and examinations and reviewed many more filed through contract audits. Annually we audit:

- the State's Comprehensive Annual Financial Report (CAFR)
- the State's Federal A-133 Audit of Federal Financial Assistance
- all 7 state supported Universities
- 3 City County Hospitals and review 25 other Hospital audits submitted by Independent Public Accounting firms
- the Bureau of Motor Vehicles (BMV)
- the Capital Improvement Board (CIB)
- 91 Counties
- 119 Cities
- 25 Towns

We biennially audit or examine:

- 423 Towns
- 1,006 Townships
- Over 300 School Corporations and Cooperatives (which include approximately 1,500 Extra-Curricular accounts)
- 92 Soil and Water Districts
- 79 Conservancy Districts
- 68 Solid Waste Management Districts
- 66 Regional Districts
- 54 Fire Protection Districts
- over 70 districts of other various types, including, among others, Public Transportation Corporations, Port Authorities, Area Library Service Authorities, Airport Authorities, Flood Control Districts, Military Reuse Authorities, Regional Planning Commissions and Redevelopment Authorities
- Review approximately 120 executive branch agencies of state government for compliance with state laws

We oversee the audits of approximately 82 Charter and Virtual Schools. We are also responsible for the examination of the records and accounts of approximately 2,400 entities receiving financial assistance from governmental sources. Most of these are performed through contractual audits between the NFP and Independent CPA firms. In this case, we review the contractual arrangement and report issued by the independent CPA.

In recent years, the State Board of Accounts has been given additional statutory responsibilities in the areas of federal fund audits, audits of nongovernmental entities, election recounts, pensions, and special studies created by the General Assembly. The State Board of Accounts also has been an active participant in various administrative and legislative study committees. The State Examiner participates on the State Board for Depositories and the Oversight Commission on Public Records by statute. In addition, Board Members are active members of the National Association of State Auditors, the Government Finance Officers Association, and many other national and state organizations committed to the improvement of government accounting and auditing.

In my opinion, the two biggest issues we face are:

- Not enough resources. Current staffing levels will not allow us to complete all of the required federal A-133 audits at the local government level. We will however complete all the required federal audits at the State level. We will not be able to complete any other examinations or audits that are statutorily required.
- Staff retention - Our wages are at least 30% below industry standards. Hiring and retaining qualified individuals will be a challenge as we move forward.

The State Board of Accounts was created in 1909 in response to an unacceptable level of fraud, waste, and abuse of assets within local and state government. Not completing examinations timely does not allow us to properly perform our intended purpose.

Taxing units reimburse the state \$45 per day for each field examiner assigned to a unit's examination for these services. Non-taxing units reimburse the state at full cost. However, the real cost of one day of a field examiner's service is about \$640 per day. The funds paid to the state, by law are deposited to the state's general fund. The State Board of Accounts does not receive any benefit from performing these additional services. The local governments very much appreciate the services we provide; I have heard many times that we are the cheapest CPA's and bookkeepers in the market at \$45 per day.

Funding the services we provide is one of the solutions for the short and long-term health of the State Board of Accounts. I believe the funding needs to be shifted from the State General fund to the units of government that are receiving the benefit. I do believe that the State has a stake and should share in the cost of the services that we provide; however, 50% to 75% of the work we perform is performed for the benefit of the local unit of government.

The economic disaster of 2007 caused severe budgetary gaps at the state. Subsequently, all agencies faced appropriation cuts to make up this loss of revenue. The State Board of Accounts has suffered severe personnel losses in excess of 30% since that time.


The current administration has recognized these losses and did not require the State Board of Accounts to revert any funds at the end of the year. They have also recognized the reimbursement of expenditures for funds received from the federal government for audit time spent on the state's federal audit. We have also allowed the Indiana Public Employee Retirement System to contract out their annual audit. This has allowed us to redeploy 4 field examiners on other audits. I am currently exploring other entities that may want to do this as well. I have approached Purdue University. Purdue officials stated that they are more than satisfied with our services and they do not appear willing to bid out their annual audit to an outside CPA firm.

In the last decade we have experienced a staff reduction from a staff of 315 to a current staffing level of 210. We were starting to experience reduced staffing levels as early as 2001. In 2005, we maintained a staff of 285. The subsequent staffing level reductions, which equate to a current staff of 210, were a direct result of the economic collapse of 2007. The State Board of Accounts, like all other executive branch agencies, received reduced budgets from the Legislature. The State Board of Accounts budget is 98% personnel services; therefore, any reduction in our budget is a direct reduction in staffing levels.

It's important that we work together and react quickly and proactively to the challenges facing the State Board of Accounts. At the same time, we must continue to give those that we are here to serve, as well as the users of our reports, the high quality of services they have come to expect from the State Board of Accounts.

The State Board of Accounts is a great department and more importantly a family of dedicated and passionate people. Putting a proper funding plan and examination plan in place is just a preliminary step. Over the coming months and years, it's going to take all of us working together to create the State Board of Accounts that we all know is possible. But, our problems are real and they are here now. I hope each of you will work with me as we try to fix our issues.

Sincerely,

  
Paul D. Joyce, CPA  
State Examiner

### ***State Board of Accounts – How and Why we became to be***

In the early 1900's, the citizens of Indiana became outraged at the numerous and continuous instances of theft of public funds. However, when these instances of theft became apparent, it was almost impossible to verify the amount of shortage of funds since bookkeeping requirements were non-existent. In response to the public's perception of widespread corruption, the General Assembly created a Department of Inspection and Supervision of Public Offices in 1909.

The Department was to be administered by the State Board of Accounts. As originally established, the Governor, Auditor of State, and State Examiner comprised the State Board of Accounts. In 1945, the General Assembly changed the composition of the State Board of Accounts. The Board now consists of the State Examiner and two Deputy State Examiners.

As in 1909, the primary responsibilities of the State Board of Accounts are to conduct post audits of all public offices, to ensure compliance with the statutes of Indiana, to prescribe and approve forms and create a uniform system of accounting and financial reporting in Indiana for all units of government.

In recent years, the State Board of Accounts has been given additional statutory responsibilities in the areas of federal fund audits, audits of nongovernmental entities, election recounts, and special studies created by the General Assembly. The State Board of Accounts also has been an active participant in various administrative and legislative study committees. The State Examiner participates on the State Board for Depositories and the Oversight Commission on Public Records by statute. In addition, board members are active members of the Association of Government Accountants, the National Association of State Auditors, the Government Finance Officers Association, and many other national and state organizations committed to the improvement of government accounting and auditing.

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# State Examiners 1909-2014

William DeHORITY 1909-1913	Thomas M. Hindman 1957-1961
Gilbert H. Hendren 1913-1919	Buell B. McDonald 1961-1965
Jesse E. Eschbach 1919-1923	Richard L. Worley 1965-1969
Lawrence F. Orr 1923-1933	Kenneth R. Beesley 1969-1981
William P. Cosgrove 1933-1938	M. F. Renner 1981-1985
Edward P. Brennan 1939-1941	James M. Gutting 1985-1989
Otto K. Jensen 1941-1945	Donald L. Euratte 1989-1997
Clarence E. Ruston 1945-1949	Charles Johnson III 1997-2005
Otto K. Jensen 1949-1953	Bruce A. Hartman 2006 - 2013
Robert R. Wickersham 1953-1957	Paul D Joyce 2013-

## **Types of Audits and Services Performed by the State Board of Accounts**

### ***Financial Audits***

Financial statement audits are designed to provide reasonable assurance about whether the financial statements and/or financial schedules of an audited entity are presented fairly in all material respects in conformity with generally accepted accounting principles. Other objectives of financial audits, which provide for different levels of assurance and entail various scopes of work, may include providing special reports for specified elements, accounts, or items of a financial statement and/or financial schedule.

Single Audits, which are financial audits performed in accordance with the Single Audit Act Amendments of 1996, are designed to meet the needs of all financial report users, including an entity's federal grantor agencies. Single Audits require the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133.

### ***Performance Audits***

Performance audits, which include economy and efficiency audits and program audits, are designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve operational effectiveness and efficiency, to improve public accountability, and to facilitate decision making by parties responsible for overseeing or initiating corrective action. Follow-up reviews of material performance audit findings are also classified as performance audits.

### ***Attestation Engagements***

Attestation engagements involve examining, reviewing, or performing agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting on the results. An attestation engagement can cover a broad range of financial or nonfinancial subjects.

Information Technology Audits; Special audits - shortages, misappropriations, public works and contracts, fraud audits; Agreed Upon Procedure Reviews

### ***Professional Standards***

State Board of Accounts audits are performed in accordance with the following professional standards:

- Generally accepted auditing standards of the American Institute of Certified Public Accountants
- *Government Auditing Standards* issued by the Comptroller General of the United States
- The federal Single Audit Act Amendments of 1996 and implementing regulations

### ***Independence***

*Government Auditing Standards* issued by the Comptroller General of the United States and generally accepted auditing standards issued by the American Institute of Certified Public Accountants require auditor independence in fact as well as in appearance and specify what constitutes impairments to independence. The most recent National State Auditors Association external quality control review noted no impairments affecting the State Board of Accounts' independence in providing auditing and other attestation services.

## **Value of State Board of Accounts' Reports**

**To the Legislature** – Board of Account reports provide objective, unbiased, and independently developed information that members of the Legislature can use in making informed decisions with confidence. The State Board of Accounts also responds directly to requests from any member of the Legislature to review activities, programs, or funds not included in the scope of scheduled audits. Annually, State Board of Accounts' reports contain hundreds of recommendations that identify opportunities for improving effectiveness and efficiency in State operations and provide information needed by the Legislature to make decisions regarding the continuation of programs and levels of funding.

**To the Auditee** – State Board of Accounts' reports provide objective, unbiased, and independently developed information about the auditee's operations that can be used by management to improve its methods of operating. Board of Accounts recommendations, when implemented, frequently result in more effective, efficient, and economical programs.

**To Third Parties** - Investors and creditors obtain State Board of Accounts' reports and use them as a source of information that they can rely on to make decisions. For example, the *State of Indiana Comprehensive Annual Financial Report*, which includes the State Board of Accounts' opinion regarding fair presentation in conformity with generally accepted accounting principles, is relied on by the financial community in setting bond ratings for State-issued debt. This report consistently qualifies for the annual Certificate of Achievement for Excellence in Financial Reporting presented by the Government Finance Officers Association. Also, State Board of Accounts' Single Audit reports satisfy the federal government's demand for accountability of federal funds allocated to the State of Indiana.

**To the Citizens of the State of Indiana** - The citizens have confidence in knowing that the Executive Branch and the Legislature is aggressive in its oversight and accountability of money paid to the State in the form of taxes, fees, and other revenue and prudent in expending funds in accordance with statutes and regulations.

## **Central Office Functions**

The central office of the State Board of Accounts' administrative support staff is comprised of eight (8) individuals who are a strong and efficient team, which enables the agency to maintain an exemplary level of professionalism. State Board of Accounts' support staff reviews, edits, and prints audit reports.

## **Office Directors**

The Office Director positions are organized on a functional basis. Each is a specialist in a specific type of governmental unit. The main areas are state agencies, counties, cities and towns, schools and townships, libraries, hospitals, universities, and nongovernmental entities. These directors communicate directly with both the field staff and local governmental officials on a daily basis.

## **Field Staff**

The Department has grown from a field audit force of twenty-five (25) field examiners in 1909 to one hundred eighty one (181) current field staff and a total staff (professional and clerical) of two hundred ten (210). Currently, 91% of our employees have a BS degree or higher and 92 Field Examiners are Certified Public Accountants.

The field staff is administratively supervised and assigned engagements by a team of audit coordinators or examination coordinators. The coordinators determine the nature of the engagement and assign staff to lead and perform the engagements that have the proper skills and experience. They are responsible to assign field staff within a reasonable proximity to their workstation for efficiency while still ensuring that all

engagements are properly staffed and supervised. Audits are also assigned an audit manager who provides technical expertise, on-site supervision, and reviews. Special investigations may require coordination with law enforcement and/ or other experts. Employees of the State Board of Accounts live throughout the State. Field staff performs the audits and provides assistance to public officials across the state as their daily functions.

### ***Professional Development***

We place great importance on developing and retaining staff. All staff members are encouraged and provided the opportunity to develop their professional skills. In addition, the Comptroller General of the United States, the American Institute of Certified Public Accountants, and the State Board of Accountancy require members of the profession to annually obtain continuing professional education. For example, *Government Auditing Standards* require that auditors complete at least 80 hours of continuing education every two years. Training focused on the implementation of American Institute of Certified Public Accountants Statements on Auditing Standards; improving compliance auditing, audit sampling, and fund accounting procedures; analytical review; audit documentation and security; ethics; project management; and an introduction to information systems auditing. Staff also received writing enhancement training to aide in the development of written audit findings and audit reports. The State Board of Accounts also provided technical training that covered numerous topics, including overviews of the State of Indiana's accounting system. As part of staff development, we actively support auditors seeking professional certification and advanced degrees through our administrative leave policy. Many State Board of Accounts' auditors are active in professional organizations including: the American Institute of Certified Public Accountants; the Indiana Association of Certified Public Accountants; the Government Finance Officers Association; the Association of Government Accountants; the National Association of State Auditors, Comptrollers, and Treasurers; the National State Auditors Association; the Institute of Internal Auditors; the Midwestern Intergovernmental Audit Forum; the National Legislative Program Evaluation Society; and the Information Systems Audit and Control Association. Staff members often participate as officers, board members, and committee members of local, State, and national accounting and auditing organizations

This organization has determined that it will offer in-house training to obtain the necessary hours of continuing professional education. One-day seminar presentations are made throughout the state during the year. Additional hours of CPE are provided at the State Board of Accounts' Annual Meeting. This is a two-day meeting where office directors, board members and guest speakers have the opportunity to speak to all field examiners and audit assistants.

The State Board of Accounts is dedicated to maintaining high professional development standards, while continually striving for excellence in technical knowledge.

## STATE AGENCIES

### ***Overview***

There are over 120 state agencies consisting of elected officials, departments, commissions, boards and institutions. The majority of these state units are required to comply with general state statutes, rules and regulations and specific sections of the Indiana Code which detail their unique powers, duties, and responsibilities.

### ***Certificate of Achievement***

For the State of Indiana Comprehensive Annual Financial Report, the Auditor of State has received the Government Finance Officers' Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting. The State Board of Accounts works closely with the Auditor of State's office to ensure that the stringent requirements of the program are met and that the audit of the financial report is completed by the Government Finance Officers' Association's deadline. Indiana has received the award every year since first achieving it for fiscal 1993.

### ***Federal Financial Assistance***

Approximately forty state units receive federal assistance. In addition to compliance with state statutes and regulations, these units are required to comply with specific federal regulations. The State Board of Accounts is required to annually audit the federal programs in compliance with the OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. The staff at the State Board of Accounts must continually be aware of changing regulations to ensure proper audit coverage.

### ***Uniform Accounting Procedures***

In order to provide more uniform accounting procedures and assist administrators and bookkeepers in fulfilling their responsibilities, the State Board of Accounts prepares the Accounting and Uniform Compliance Guidelines Manual for State Agencies. The manual provides necessary information on many aspects of the State's accounting system.

The State Board of Accounts is constantly working with other state agencies to improve the overall accountability and efficiency of state government.

## LOCAL GOVERNMENTAL ENTITIES

### ***Overview***

Audits and examinations of counties, cities, towns, schools, townships, utilities, special districts, libraries, and hospitals are performed on an annual or biannual basis. The audit of these entities are dependent on the State and local government needs and may include federal programs, elected offices, departments, and extra circular accounts.

### ***Training***

State Board of Accounts provides training in accounting and compliance procedures for local governmental officials and employees. Hundreds of days are devoted to preparation and training.

### ***Communication***

In order to provide more uniform accounting procedures and assist officials and their employees, the State Board of Accounts prepares and published Accounting and Uniform Compliance Guidelines Manuals for various entities.

Quarterly publications aimed at specific entities providing audit positions and guidance are published as well as digests of new legislation.

### ***Liaison***

Through phone calls, e-mails, training and other communication tools the directors unit provides audit positions to officials, field staff, the public, and news organizations as well as serves as advisors to the State Board of Accounts.

## **STATE UNIVERSITIES**

The State Board of Accounts performs annual audits of the financial statements of each of Indiana's seven state-supported institutions of higher education. Each university publishes an annual financial report that includes the State Board of Accounts' opinion on the financial statements of that university.

Statement No. 14 of the Governmental Accounting Standards Board (GASB) effective for financial statements for periods beginning after December 15, 1992, mandated the inclusion of each of Indiana's state supported universities as discrete component units in the annual financial report of the State of Indiana. The combined efforts of staff members in each university and field examiners of the State Board of Accounts make it possible to gather the required audited information in a timely manner for inclusion in the State of Indiana's Comprehensive Annual Financial Report (CAFR).

In addition to the audit of the university financial statements, the State Board of Accounts also performs the audit of federal awards received by each. These audits are conducted in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. By performing these audits in accordance with OMB Circular A-133, separate audits of the grants from the federal agencies are not required.

Other auditing services are provided to the universities as they are requested. For example, the State Board of Accounts completes the audit requirements of the National Collegiate Athletic Association (NCAA) for two of the State's seven universities. We also accomplish the audit requirements of the Corporation for Public Broadcasting for three of the universities that have radio and/or television stations. If instances of potentially fraudulent acts of a financial nature occur, the State Board of Accounts investigates and issues a supplemental report when necessary. Other auditing and reporting requests are considered on a case-by-case basis.

## **NONGOVERNMENTAL ENTITIES**

### ***Overview***

The State Board of Accounts is responsible for the examination of the records and accounts of entities receiving financial assistance from governmental sources. Entities are defined as providers of goods, services, or other benefits that are maintained in whole or in part at public expense or supported in whole or in

part by appropriations, public funds, or taxation. The definition does not include the state or municipalities, but does include for-profit and not-for-profit corporations, unincorporated associations and organizations and individuals. Financial assistance is defined as payments received in the form of grants, subsidies, contributions, aid, etc.

Entities are primarily nongovernmental organizations, many of which conduct their business as a not-for-profit corporation. By contract or other form of agreement, these entities provide a service or benefit to the public on behalf of and paid for by government.

The State Board of Accounts' responsibilities concerning these entities evolved as a result of the increased role of the nongovernmental sector in performing traditional government services and functions. Numerous studies documented the increasing tendency of government to contract with private organizations, primarily not-for-profit corporations, for services it usually performed itself. Since most of these organizations operated outside the accountability and control systems that exist for government agencies, concern was raised over the difficulty of monitoring and evaluating the expenditures of these public funds.

In response to these concerns, the Indiana Legislature commissioned the Legislative Services Agency to evaluate the reporting, accountability and auditing of public funds received and expended by private organizations. Their report, issued May 1985, concluded that a need for centralized oversight of these organizations' audits and reporting process existed.

The Legislature responded with the enactment of IC 5-11-1-9, which delegated the "oversight" responsibility to the State Board of Accounts. Specifically, the State Board of Accounts is to ensure that audits, in accordance with agency guidelines, are performed for all entities receiving financial assistance from state or local government sources. The State Board of Accounts is also required to establish a system of review, follow-up, and resolution of any findings of noncompliance identified during the audit process.

Prior to September 1, 1986, entities receiving state or local government assistance were not subject to independent audits unless required by the provider of funds or by internal organizational policy. However, those entities receiving federal funds directly from the U.S. Treasury or as a "pass-thru" from a state or local government were, and are presently, subject to federal audit requirements (OMB Circular A-133). As of September 1, 1986, all entities receiving assistance from state and local government, involving federal or non-federal dollars, are subject to audit by State law. Indiana Code 5-11-1-9 requires the complete audit of an entity when the public funds disbursed are equal to or greater than 50% of the entity's total disbursements. The State Examiner may waive the audit requirement if the public funds disbursed are less than 50% of the total disbursements, or at least 50%, but less than \$200,000 if the entity is organized as a not-for-profit corporation. The audit requirements may be waived if the State Examiner determines in writing that all disbursements of public funds appear to be made for the purposes for which the funds were received.

The State Board of Accounts has identified more than 2,500 entities that are subject to the requirements of IC 5-11-1-9.

### ***Annual Report***

Entities subject to the requirements of IC 5-11-1-9 are required to file an Entity Annual Report with the State Board of Accounts within sixty days of the close of their fiscal year. This report provides general information about the entity and also discloses the public funds received and disbursed during the year.

### ***Audit Coordination***

The coordination and administration of audits of entities is somewhat complex. The audits may be performed by the State Board of Accounts or private examiners approved by the State Board of Accounts. Audit costs are to be paid by the entity examined.

The State Board of Accounts actually performs very few of these audits. Due to manpower limitations, ever-increasing audit requirements mandated by federal agencies for state and local governments and the Department's traditional view that government agencies within the State will be audited by the State Board of Accounts, we have allowed the audits of entities to be performed by private examiners approved by the State Board of Accounts. However, when we become aware of suspected instances of fraud or abuse within any of these organizations, the State Board of Accounts has assumed a more active and aggressive role in the auditing process to help ensure that the interests of the taxpayers are protected.

Each year, the State Board of Accounts assists all reporting entities in both determining and meeting their audit requirements.

Most audits of entities are coordinated directly between entities and the State Board of Accounts. In most cases, entities are advised to engage outside private examiners to perform the required audit. To assist entities in this process we have made step-by-step instructions regarding procurement of audit services available.

Prior to the enactment of IC 5-11-1-9, each funding agency addressed its own audit needs. Since that time, the State Board of Accounts has developed working relationships with major state funding agencies including the Family and Social Services Administration, the Department of Workforce Development, and the Department of Education regarding the audits of entities. The State Board of Accounts has become responsible for auditing multi-funded entities and has successfully implemented the concept of one audit satisfying all requirements.

### ***Audit Guidelines***

IC 5-11-1-9 requires the State Board of Accounts to develop guidelines for these audits. We have made several revisions to these guidelines since they were originally issued in 1986. Our last revision was made in 2013.

### ***Contract Approvals***

Since most audits of entities are performed by private examiners, contracts for these engagements are submitted to the State Board of Accounts for approval. The Department reviews all contracts to determine that the needs will be completely satisfied by the performance of one audit. As a result, the traditional practice of performing "multiple audits" or "grant audits" has essentially been eliminated.

The private examiners are also evaluated during the contract approval process. The State Board of Accounts ensures that these examiners are licensed to practice in the State, are aware of government audit standards, if applicable, and do not have a record of performing substandard work.

Over the years, the State Board of Accounts has seen marked improvements in the general knowledge of, acceptance of, and compliance with the contract approval process.

### ***Audit Review***

Although IC 5-11-1-9 allows the engagement of private examiners to perform entity audits, the primary responsibility for the audits remains with the State Board of Accounts. As a result, desk reviews are performed by this Department on all audits performed by private examiners. In addition, field reviews of the private examiner's work are conducted occasionally by our Department.

## **QUALITY CONTROL**

The State Board of Accounts' Quality Control Division consists of individuals responsible for ensuring that the State Board of Accounts has adopted, and is following, applicable auditing standards, audit policies, and procedures. The Quality Control Division is achieving these goals by implementing modifications, and/or developing report formats, audit programs, and working paper forms whenever a new pronouncement or regulation is released from one of the authoritative boards. This division is also responsible for the development and presentation of training to all field staff.

Once every three years, the State Board of Accounts is required to undergo an external quality control review. The Quality Control Division also oversees the external quality control review. The external quality control review determines whether the State Board of Accounts' internal quality control system is in place and operating effectively to provide reasonable assurance that established policies and procedures and applicable auditing standards are being followed.

The State Board of Accounts has successfully passed its external peer reviews.

## **RECOUNTS**

The State Board of Accounts has the statutory responsibility to conduct election recounts of state and congressional offices as ordered by the State Recount Commission. During this process, the State Board of Accounts reviews the county election and security procedures, inspects voting equipment, records the vote count from the voting equipment, and counts all absentee and paper ballots. Various types of voting equipment are used throughout the State, ranging from electronic voting machines to punch cards. As a part of the counting procedure, the State Board of Accounts must make a determination as to whether each paper or absentee ballot has all of the elements required by statute, such as the proper initials, and seal of the clerk. In addition, the State Board of Accounts must note any other items affecting the validity of a ballot, such as distinguishing marks. After the count is complete, the State Board of Accounts issues a report to the State Recount Commission. Evidence from all candidates is heard at a public hearing conducted by the State Recount Commission. The State Board of Accounts is required to testify at the hearing regarding its findings. The entire process is to be completed by December 20 following the November election. Significant numbers of professional staff are devoted to properly conduct the recounts.

The State Board of Accounts has received many complimentary comments concerning our participation in the recount process, as quoted in the Indianapolis Star.

- "This system is good enough to take to the bank," proclaimed Democratic attorney Edward O. DeLaney, one of a handful of attorneys who deal in depth with election and recount law.
- "I am not in the practice of praising bureaucrats." DeLaney said, "but the Board of Accounts people are very, very good. They know what they are doing. They come in. They sit down and do it."

## **CHARGE REPORTS**

Pursuant to IC 5-11-5-1, if an examination report shows or discloses the potential commission of a criminal act by any person, it is the duty of the State Examiner to transmit and present the examination report and all available evidence to the grand jury of the county in which the alleged crime was committed.

If an audit report discloses missing funds or misappropriation of funds either through a failure of an official to properly perform his duties or otherwise, the examination report is transmitted to the Office of the Attorney General for civil recovery. As funds are recovered, the State Board of Accounts distributes the funds to the appropriate governmental units. Many times, however, funds are repaid by the responsible official during the examination.

## **CONFLICT OF INTEREST STATEMENTS**

Pursuant to IC 35-44-1-3, all conflict of interest statements of state and local government officials are to be filed with the State Board of Accounts. The conflict of interest statements are then reviewed during the examination of the affected governmental unit.

## **OTHER FUNDS OR PROGRAMS SUBJECT TO BOARD OF ACCOUNT AUDIT**

The following are audits required/approved which are not addressed in IC 5-11:

IC 4-3-17: Governor's Hoosier Alliance Against Drugs – subject to an annual audit by SBOA; subject to full costs

IC 4-8.1-1: State Treasury – At request of the governor (may also appoint CPA)

IC 4-12-4: Indiana Tobacco Use Prevention and Cessation Trust Fund – Subject to annual audit by SBOA

IC 4-24-6: Inmate Trust Funds -- subject to periodic audits SBOA considers necessary

IC 4-30-17: Build Indiana Fund – subject to audit each year of local project

IC 4-30-19: Indiana State Lottery – SBOA shall conduct an annual audit. Full cost.

IC 5-1-4: Hospital Bonding Authorities – subject to audit by SBOA

IC 5-1.4-3: Local Public Improvement Bond Banks – shall have audit at least once each year by either SBOA or auditor or auditing firm appointed by the board upon review of the firm's proposal by SBOA.

IC 5-1.5-3: Indiana Bond Bank – shall have audit at least once each year by CPA firm or SBOA. SBOA must approve firm's proposal.

IC 5-1.5-3: PERF Board of Trustees – have the accounts of the fund audited annually by SBOA

IC 5-10.3-9: PERF OTHER PLANS ADMINISTERED – SBOA shall audit

IC 5-13-10: SBOA verifies accuracy of depository balances in audit of Treasurer of State

IC 5-15-6: Local Public Records Commissions should not allow destruction of records until audits completed, report filed and exceptions satisfied

IC 5-22-10: Contract records for a special purchase are subject to annual audit by SBOA

IC 5-28-3: Indiana Economic Development Corporation's funds, accounts, and financial affairs shall be examined biennially by SBOA

IC 5-28-5: If IEDC establishes nonprofit subsidiary to solicit gifts and donations, SBOA shall annually audit this corp.

IC 5-28-18: Microenterprise Partnership Program Fund, a revolving fund established within the state treasury, is subject to an annual audit by SBOA; full cost.

IC 6-8.1-3: SBOA shall audit IDOR record of receipts and disbursements

IC 6-9-1;IC 6-9-2;IC 6-9-6;IC 6-9-10;IC 6-9-15: Tax On Hotels, Motels And Tourist Camps in St. Joseph, Lake, LaPorte, Wayne and Jefferson, respectively, is subject to audit and supervision by the SBOA, when in the possession of the board of managers, in the promotion fund, or in the alternate revenue fund (the latter two in Lake County only)

IC 6-9-17; IC 6-9-18; IC 6-9-19; IC 6-9-32; IC 6-9-37: County Innkeeper's Tax in Madison, other counties, Elkhart, Jackson and Hendricks, respectively, subject to audit and supervision by the SBOA.

IC 8-1-11.1-17: Records of department of public utilities of consolidated city subject to examination by SBOA to the same extent as those of other municipal governments, officers, or departments.

IC 8-1.5-3-11: SBOA shall examine all accounts of every municipally owned utility at regular intervals.

IC 8-5-15-19: Commuter Transportation Districts -- shall request the SBOA to perform any auditing services required under the chapter. If SBOA unable to perform these services, the district may employ another auditor. The SBOA shall, to the extent feasible and upon request: 1) perform auditing services for the district; and 2) consult with district in acquiring auditing services.

IC 8-10-1: Indiana Port Commission -- shall cause annual audit by CPAs; same shall be audited annually by SBOA.

IC 8-18-21: Money coming into possession of the Toll Road Authority is subject to audit and supervision by the SBOA

IC 8-22-3-22: SBOA shall audit records of airport authorities (and prescribe or approve all accounting forms and records); in addition the treasurer shall, if required by board, submit records to CPA for audit.

IC 9-15-3: BMVC – SBOA shall audit all accounts of the commission annually

IC 9-16-1-4: BMVC private contracts for branch operation – contractor shall pay any costs of SBOA or BMVC audits on actual cost basis

IC 9-16-5-1: SBOA shall audit license branches annually

IC 10-15-3-9: Emergency Mgmt, Fire & Building Services, Public Safety Training Foundations – funds subject to audit by SBOA

IC 10-16-3-18: State Armory Board – Allows State examiner to employ expert services (engineering, architectural, etc) when necessary to assist SBOA in making inspections and examinations.

IC 10-16-4-5: Local Armory Boards – SBOA shall make full and complete examination and report

IC 10-18-1: Indiana War Memorials Commission -- subject to audit by SBOA same as state agencies.

IC 12-8-10: FSSA Financial Services Group – The board shall 1) contract with SBOA to conduct audits of grantee agencies; or 2) Require grantee agencies to obtain independent audits. Copy of audit shall be submitted to SBOA not more than 30 days after completion.

IC 13-23-7-7: SBOA shall audit, every two years, the Underground Petroleum Storage Tank Excess Liability Trust Fund.

IC 14-13-3: SBOA shall audit periodically the Lake Michigan Marina Development Commission.

IC 14-13-4: SBOA shall audit periodically the River Marina Development Commission

IC 14-13-5: SBOA shall audit periodically the Ohio River Greenway Development Commission

IC 14-14-1: Recreational Development Commission shall have CPA audit at least once a year, and SBOA shall audit annually the accounts, books, and records of the commission.

IC 14-20-4: New Harmony Commission – Subject to examination by SBOA

IC 14-20-15: Lewis and Clark Bicentennial Commission subject to examination by SBOA

IC 14-30-1: Kankakee River Basin Commission – SBOA shall periodically audit

IC 14-30-3: St Joseph River Basin Commission – SBOA shall periodically audit

IC 14-32-2: Soil Conservation Board – subject to examination by SBOA

IC 15-1.5-3: IC 15-1.5-7: State Fair Commission, State Fair Fund – subject to audit by SBOA

IC 15-4-3.5-10: Establishment of Commodity Market Development Council – SBOA shall audit funds received and expended by this council

IC 15-6-4-16: Establishment of Dairy Industry Development Board – Board is to provide for an independent audit and provide the results of the audit to the SBOA

IC 16-22-3: Hospital may elect to have audit by CPA firm; copy must be provided to SBOA, and audit performed pursuant to SBOA guidelines. Must give notice to SBOA 180 days before beginning or year affected if hiring or dismissing CPA audit.

IC 16-22-3-14: Transfer of public funds from hospital to foundation – these funds may be audited by SBOA, unless 1) foundation files annually with hospital copy of CPA audit report; and 2) this report is on file at hospital and made available to SBOA.

IC 16-22-6-35: SBOA may supervise and audit funds of County Hospital Building Authorities.

IC 16-22-7-40: SBOA may supervise and audit funds of Hospital Building Authorities in county with hospital operated under IC 16-23-1 (City hospitals in 3<sup>rd</sup> class cities)

IC 16-23-1: City hospitals in 3<sup>rd</sup> class cities – must keep open business records, books, papers, and physical property to inspection and examination of SBOA

IC 16-24-1: County Tuberculosis Hospitals – funds subject to examination by SBOA

IC 16-24-2: County Tuberculosis Hospitals in Allen, St. Joseph, Vanderburgh and Madison counties – records (books, papers, accounts) open to inspection by SBOA

IC 20-12-.5: Commission for Higher Education --- treated as public institution for purposes of IC 5-11-1

IC 20-12-21.2: Secondary Market for Guaranteed Student Loans – corporation subject to annual audit by SBOA; full costs

IC 20-12-31.5: W.H. Coleman Hospital for Women of IU -- not subject to SBOA audit

IC 20-12-65-6: Higher Ed Joint Financing Agreements -- must be filed with SBOA for audit purposes

IC 20-20-15: Corporation for Educational Technology -- subject to annual audit by SBOA; full costs

IC 20-23-4-41: County Committee for Reorganization of School Corps – SBOA shall audit financial records at least once every 3 years

IC 20-24-8: Charter Schools –required audits by SBOA

IC 20-25-3-14: IPS Board of School Commissioners; Officers and Employees – records may be examined by SBOA at a time selected by SBOA.

IC 20-26-6-7: ECA activities may be examined by SBOA when state examiner deems necessary

IC 20-26-10: Joint School Programs – shall be audited by SBOA

IC 20-35-5: Special Ed Cooperative subject to audit by SBOA

IC 21-1-3-11: Common School fund and University Permanent Endowment Fund– SBOA shall annually examine status of this and the permanent endowment fund; SBOA examiners shall then prepare report which shall show balance of common school and permanent endowment principal and amount of interest and principal paid by each county to board of finance, plus statement of receipts and disbursements by board of finance and list of securities with detail (see IC)

IC 21-1-7-20: Common School fund and University Permanent Endowment Fund County Trust – SBOA shall examine records and affairs of these funds held in trust by counties. If a violation of this chapter found, the state examiner shall order that county auditor (or other official) comply with the chapter. If they do not then comply, shall certify to prosecuting attorney copy of report and order to comply

IC 21-5-11; IC 21-5-12: School Building Corp organized solely to finance building of certain school facilities may be audited by SBOA.

IC 22-14-5: Firefighting and Emergency Equipment Revolving Loan Fund – subject to annual audit by SBOA; full costs

IC 33-44-7-15: Indiana Attorney Trust Account fund – SBOA shall conduct audit at least one time during each year; may also conduct audits of qualified legal services providers, law school clinics, etc., to ensure that money is distributed to qualified providers and administration of justice is being used as required by this article

IC 34-57-3-8: Community Dispute resolution – SBOA or chief justice of IN may inspect, examine and audit fiscal affairs of local programs or centers

IC 36-7-5.1: Joint District Planning and Zoning Commission – SBOA shall periodically audit the commission

IC 36-7-7: Regional Planning Commissions – shall be periodically audited by SBOA

IC 36-7-7.6: NW IN Regional Planning Commission -- shall be periodically audited by SBOA

IC 36-7-11.5: Historic Hotel Preservation Commission– subject to examination by SBOA

IC 36-7-12: Economic Development and Pollution Control (Economic Development Commission)– subject to audit and supervision by SBOA

IC 36-7-13.5: Shoreline Development Commission – SBOA shall periodically audit

IC 36-7-18-37: Housing Authorities – SBOA shall periodically audit

IC 36-7-23: Multiple County Infrastructure Authority – subject to annual audit by SBOA

IC 36-7.5-2-9: NW IN Regional Development Authority – OMB shall contract with CPA for annual financial audit; in addition SBOA may at any time conduct an audit of any phase of the operations

IC 36-8-7.5: 1953 Police Pension Fund – consolidated City – Local board shall contract for biennial audit if the SBOA fails to examine the affairs of the fund during the period

IC 36-9-3-28: Regional Transportation Authorities – SBOA shall audit the records of the authority

IC 36-9-4-53: Urban Mass Transportation Systems – subject to examination, audit, and supervision by SBOA, to same extent as other municipal corporations; may keep records according to "Project Fare."

IC 36-9-13: County Building Authority – subject to audit and supervision by SBOA

IC 36-10-8: Capital Improvement Boards (except Marion Co.) – May have report prepared by CPA; subject to audit and supervision by SBOA

IC 36-10-9: Capital Improvement Board Marion Co. -- May have report prepared by CPA; subject to audit and supervision by SBOA

IC 36-10-10: Civic Center Building Authority, South Bend & Mishawaka – subject to audit and supervision by SBOA; may have report prepared by independent CPA; handling and expenditure of funds subject to audit and supervision by SBOA

IC 36-10-11-31: Gary Building Authority – shall be audited by SBOA; may require report be prepared by independent CPA; handling and expenditure of funds subject to audit and supervision by SBOA

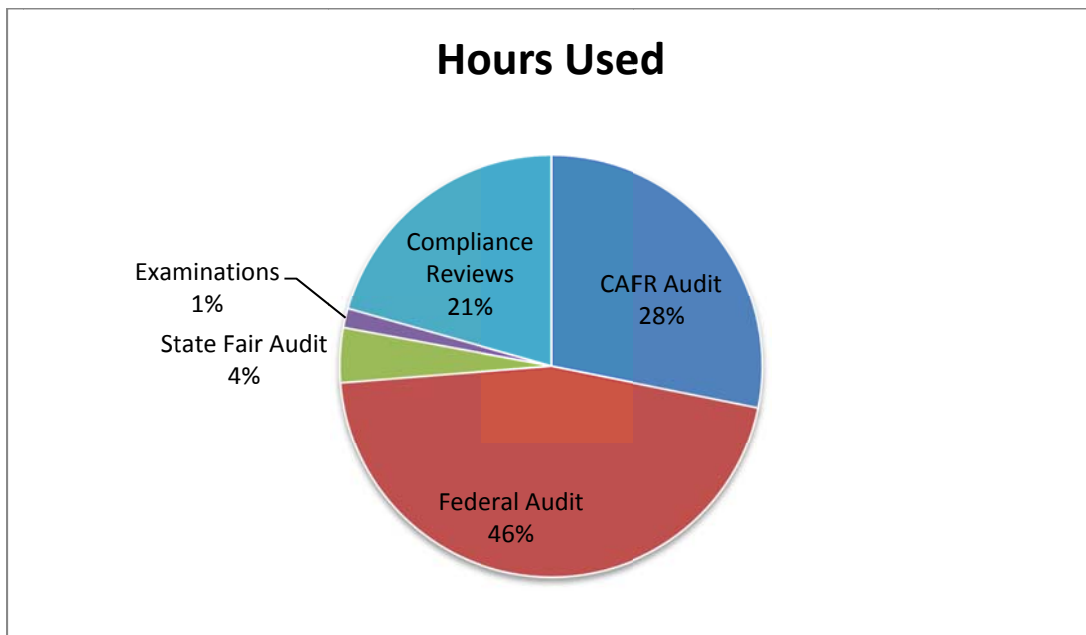
## STATE AUDIT AREA

The Indiana State Board of Accounts' State Field Examiners focus on 3 main areas:

- Audit of the State of Indiana Comprehensive Annual Financial Report (CAFR)
- Federal audit as required by U.S. Office of Management and Budget
- Compliance Reviews and other engagements

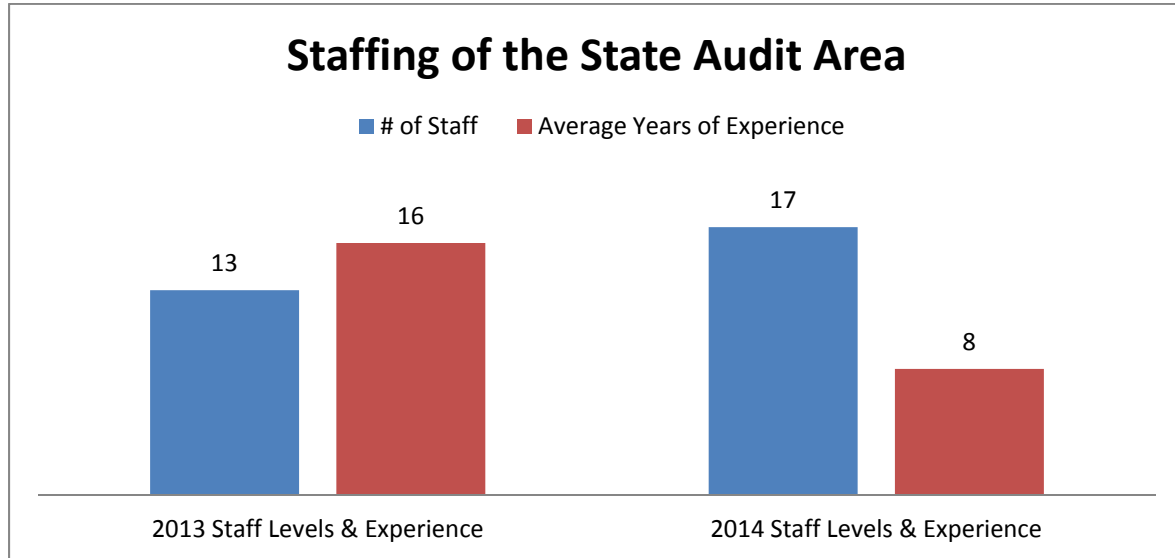
Below is the summary of the hours used to complete the various engagements:

Engagement Type	Hours Used	Percentage
<b>Audit of the 2014 CAFR</b>	4,747.50	28.17%
<b>2014 Federal Audit</b>	7,680.00	45.57%
<b>Audit of State Fair Foundation</b>	705.00	4.18%
<b>2014 Examinations</b>	247.50	1.47%
<b>2014 Compliance Reviews (as completed thru 8-2-14)</b>	<u>3,475.00</u>	20.62%
<b>Total</b>	<u>16,855.00</u>	



**State Audit Area – Staffing**

We did lose a lot of experienced staff in early 2014 from the state audit area. We have increased the # of examiners from 13 to 17; however, we have decreased the average years of experience from 16 to 8 years. We have also added to IT support staff that work directly with the state audit area. Examiners with less experience will need more training and time to complete the necessary tasks.



The plan is to continue to increase staffing in the state audit area; however, an estimate on the number of staff needed for future years is not available at this time. Data is still being gathered and analyzed in order to make this decision for future years.

*Audit of State of Indiana CAFR*

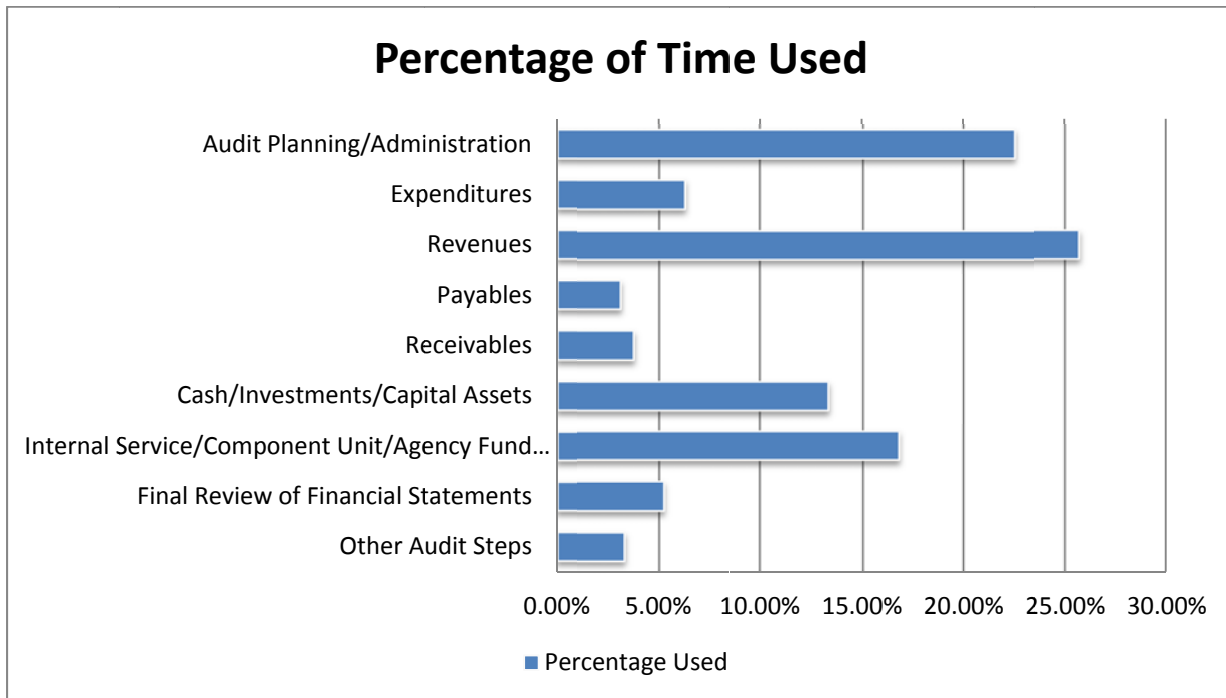
**Fiscal Year 2013 Facts**

**Time Used**

The 6-30-13 CAFR audit was conducted in 633 days which equates to 4,747.50 hours being used. The time was broken down by area as follows:

Area Summary	Days	Percentage
Audit Planning/Administration of Audit	142.50	22.51%
Final Review of Financial Statements	33.13	5.23%
Internal Service Fund/Component Unit/Agency Fund Review	106.70	16.86%
Cash/Investments/Capital Assets	84.30	13.32%
Receivables	23.73	3.75%
Payables	19.67	3.11%

<b>Revenues</b>	162.47	25.66%
<b>Expenditures</b>	39.60	6.26%
<b>Other Miscellaneous Areas</b>	<u>20.90</u>	3.30%
<b>Total Days</b>	633.00	



### Findings

If internal control deficiencies or noncompliance with laws and regulations related to the financial statements are identified while auditing the CAFR, we are required to identify those and make a determination if they are to be reported as a significant deficiency or a material weakness. These internal control findings are classified as Section II Findings. During the audit of the state's June 30, 2013 CAFR, we identified four Section II – Financial Statement Findings - as summarized below:

Finding Title	Type of Finding	First Year Reported	Auditee Contact
<b>Construction in Progress</b>	Significant Deficiency	2008	Steve Daniels
<b>Medicaid</b>	Material Weakness	2008	Steve Daniels
<b>Unemployment Insurance</b>	Material Weakness	2009	Steve Daniels
<b>Internal Controls Over Cash Receipts</b>	Material Weakness	2012	Valerie Hunt

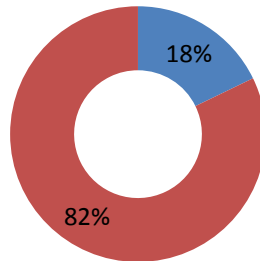
**The State CAFR, with a period end date of June 30, 2013, had an opinion date of 12-30-13, and was filed on 03-26-14 upon completion of the federal portion of the audit.**

### Fiscal Year 2014 Facts

We have begun the audit of the 6-30-14 CAFR. We have budgeted 760 days for the audit of the CAFR and we have tracked 136 days as of August 2, 2014. This indicates that we have completed approximately 18% of the CAFR project as of August 2<sup>nd</sup>, 2014.

## Completion of 2014 CAFR

■ Complete   ■ Not Complete



The audit plan for the State CAFR shows 8 examiners being assigned to various parts of the CAFR with an ***estimated completion date of December 19, 2014.***

We have identified our significant audit areas for the 2014 CAFR Financial Statement audit and these will be the areas that we will focus our testing. The significant areas are indicated below:

<u>Audit Area</u>
<b>Cash, Cash Equivalents, Investments</b>
<b>Securities Lending Collateral</b>
<b>Taxes Receivable</b>
<b>Accounts Receivable</b>
<b>Grants Receivable</b>
<b>Interest Receivable</b>
<b>Loans</b>
<b>Capital Assets (Accumulated Depreciation)</b>
<b>Accounts Payable</b>
<b>Interest Payable</b>
<b>Unearned Revenue</b>
<b>Advances from Federal Government</b>
<b>Due to Federal Government</b>
<b>Securities Lending Collateral (Liability)</b>
<b>Long Term Liabilities</b>
<b>Net Position</b>
<b>Revenue (Taxes)</b>
<b>Revenue (Other)</b>
<b>Expenditures</b>
<b>Notes to the Financial Statements</b>
<b>Federal Schedule with Notes</b>

*Federal Audit As Required By OMB*

**Fiscal Year 2013 Facts**

**Time Used**

The 2013 Federal audit was conducted in 1,024 days, which equates to 7,680 hours, and we audited 14 major programs. The major programs and the days used are summarized below:

Major Program	Agency	Days	Percentage
Special Supplemental Nutrition Program for Women	Department of Health	38	3.72%
Supplemental Nutrition Assistance Program	Family and Social Services Administration	30	2.93%
Military Construction, National Guard	Adjutant General	16	1.56%
National Guard Military Operations and Maintenance	Adjutant General	23	2.25%
Unemployment Insurance	Department of Workforce Development	80	7.81%
Special Education Cluster	Department of Education	34	3.32%
Vocational Education – Basic Grants to States	Department of Education	28	2.73%
School Improvement Grants Cluster	Department of Education	38	3.71%
Early Intervention Services Cluster	Family and Social Services Administration	11	1.07%
Child Support Enforcement	Department of Child Services	25	2.44%
Temporary Assistance for Needy Families	Family and Social Services Administration	76	7.42%
Adoption Assistance	Department of Child Services	65	6.35%
Children's Health Insurance Program	Family and Social Services Administration	52	5.08%
Medicaid Cluster	Family and Social Services Administration	295	28.81%
Administrative Time for Federal Audit		213	20.80%
<b>Total Time</b>		<b>1,024</b>	

**Findings**

During the 2013 federal audit we had twenty-three repeat, unresolved federal findings and 6 current 2013 findings. Detail of these findings can be seen in Exhibit A; but they have been summarized below showing the breakdown by agency, by type, and by years reported. Additionally we have provided a summary of questioned costs reported in our federal audit report.

Finding Summary By Agency		
Agency	# of Findings	Percentage
Family and Social Services Administration	22	75.9%
Department of Child Services	6	20.6%
Department of Workforce Development	1	3.5%
<b>TOTAL</b>	<b>29</b>	

Finding Summary by Type		
Type	# of Findings	Percentage
Significant Deficiency	22	75.9%
Material Weakness	7	24.1%
<b>TOTAL</b>	<b>29</b>	

Finding Summary by Year		
First Year Reported	# of Findings	Percentage
2000	2	6.8%
2003	1	3.4%
2004	1	3.4%
2005	3	10.3%
2008	2	6.8%
2009	3	10.3%
2010	2	6.8%
2011	3	10.3%
2012	6	20.6%
2013	6	20.6%
<b>TOTAL</b>	<b>29</b>	

Questioned Cost Summary			
Title of Finding	Year	Agency	Amount
Timely Follow-Up License Termination	2005	Family and Social Services	\$192,269
		Administration	
SCHIP Duplicate Expense	2008	Family and Social Services	\$5,223,868
		Administration	
Quality Assessment Fee Refunds	2009	Family and Social Services	\$1,198,888
		Administration	
ARRA Expense Overstatements	2010	Administration	\$3,538,382
TANF Period of Availability	2012	Department of Child Services	\$1,276,499
		Family and Social Services	
Drug Rebate Balance Held	2012	Administration	\$1,423,159
		Family and Social Services	
Medicaid Credits Removed From Projects	2012	Administration	\$30,150,642
		Family and Social Services	
Control Over Managed Care Rates	2013	Administration	\$56,698
		Family and Social Services	
CHIP Accounting	2013	Administration	\$22,222,316
<b>Total</b>			<b><u>\$65,282,721</u></b>

The 2013 federal audit was completed with a report date of February 14, 2014, and was filed on March 26, 2014.

### ***Fiscal Year 2014 Facts***

We have begun the 2014 federal audit. We have determined our initial major programs, which may be increased after further risk analysis. The major programs identified for testing, the numbers of days assigned, and the number of days billed to each major program as of 8-2-14 is summarized below:

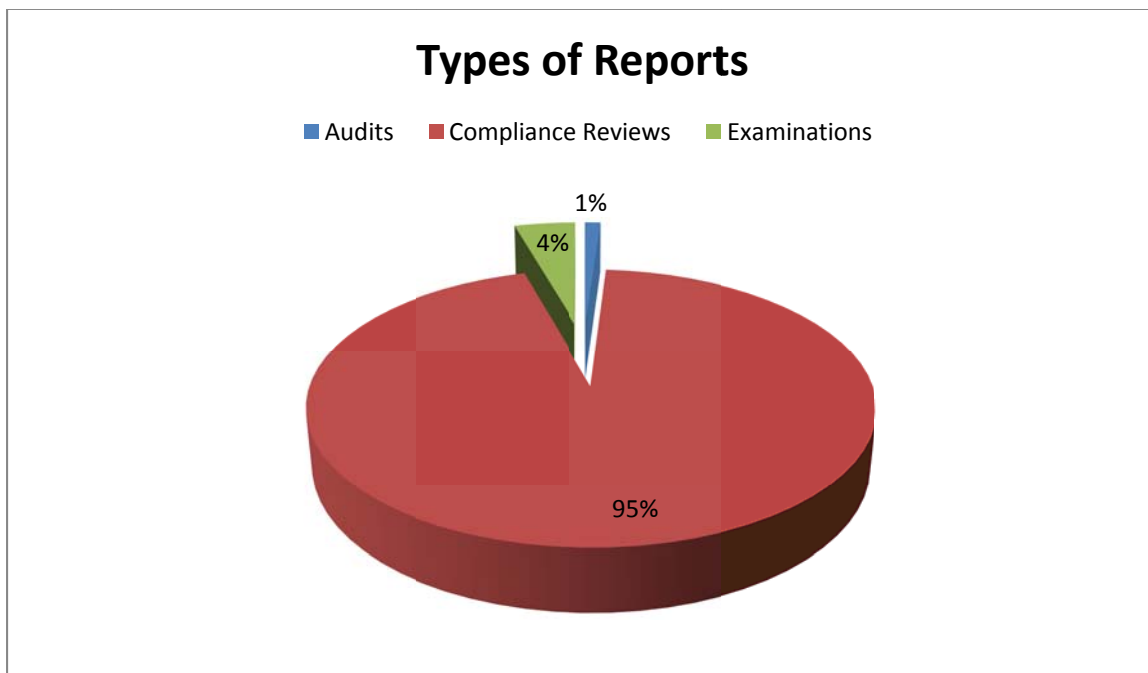
Federal Program	Days Assigned	Days Billed	% Complete
FSSA MEDICAID CLUSTER	365	42	11.51%
DWD UNEMPLOYMENT INSURANCE (17.225)	100	0	0.00%
INDOT HWY PLANNING/CONSTRUCTION CLUSTER	70	0	0.00%
DOE CHILD NUTRITION CLUSTER	55	6	10.91%
FSSA STATE CHILDREN'S INSURANCE PROGRAM	65	4	6.15%
FSSA TANF CLUSTER	95	0	0.00%
DCS CHILD SUPPORT ENFORCEMENT (93.563)	45	0	0.00%
DCS FOSTER CARE TITLE IV-E (93.658)	45	0	0.00%
LT GOV STATE ADMINISTERED CDBG CLUSTER	45	0	0.00%
DCS ADOPTION ASSISTANCE	80	0	0.00%
DISABILITY INSURANCE/SSI CLUSTER	<u>45</u>	<u>0</u>	<u>0.00%</u>
<b>OVERALL COMPLETION AT 8-2-14</b>	<u>1,010</u>	<u>52</u>	<u>5.15%</u>

The audit plan shows 10 field examiners and one audit manager assigned to the federal programs with an **estimated completion date of all programs to be March 1<sup>st</sup>, 2015.**

*Other Engagements  
(Audits, Examinations, Compliance Reviews)*

We complete 92 other engagements on an annual or biennial basis. A detail of the agency or governmental unit, the type of review, and the end date of the last report can be seen **at Exhibit B.**

A summary of the engagements by type is shown below. We complete 1 other financial statement audit, on an annual basis, which is the financial statement audit of the State Fair Commission. We additionally complete 4 examinations of various foundations and 87 compliance reviews of individual agencies on a biennial basis.



## 2014 Facts

### Audit

We completed the audit of the State Fair Foundation and filed our report on June 30, 2014. The audit took us 95 days which equates to 705 hours of time worked for the completion of that audit.

### Examinations

We are substantially complete with the following four examinations which we are required to examine on a biennial basis:

Unit of Government	Report Date	Days Used	Hours Used
ADJUTANT GENERAL-STATE ARMORY BOARD	7/28/14	7	52.50
MERIDIAN STREET PRESERVATION COMMISSION	7/23/14	9	67.50
NATURAL RESOURCES-NATURAL RESRCS FNDTN	5/29/14	9	67.50
INDIANA WAR MEMORIALS FOUNDATION	Not complete	8	60.00

### Compliance Reviews – Current Status

In March 2014, we started our work on completion of the compliance reviews. A majority of the compliance reviews were conducted in 2012. See chart below which shows the state of arrears.

Last Year Reviewed	Number	Percentage
2002	1	1.15%
2010	4	4.60%
2011	6	6.90%
2012	76	87.35%
Total	87	

Our plan for the current year is to complete 49 compliance reviews, which is 56.3% of the reviews. The detail of the compliance reviews that we intend to file a report on in 2014 can be [seen in Exhibit C](#). Below is a summary of the status of these 49 reviews:

Status	Number	Percentage
Filed	23	46.94%
Exited – Ready to Be Filed	5	10.20%
Completed – Ready for Review	9	18.36%
Started, Not Yet Completed	3	6.12%
Not Started	9	18.37%
Total	49	

Within our compliance reviews we issue written comments for any significant areas of non-compliance. A total of 36 written comments have been communicated in the 23 compliance reviews filed, as summarized below:

Number of Comments	Number of Reports
0 Comments	14
1 Comment	1
2 Comments	1
3 Comments	3
4 Comments	1
6 Comments	2
8 Comments	1

Of these 36 written comments, 11 of them were repeat comments.

Additionally, we issue discussion comments that do not rise to the level of a written finding, but still needs to be communicated. We communicated 21 discussion items in the 23 reviews already filed.

***Compliance Reviews – Moving Forward***

We are in the process of analyzing how we do our individualized agency reviews. During the next fiscal year, starting in February 2015 and forward, we will start analyzing the agencies by subject matter instead of each individualized agency. Each agency will not receive a separate report, but instead we will analyze all agencies under a certain topic of investigation. Some possible compliance report topics would be as follows:

- Review of P card and T card Use
- Review of Agency Revenue Controls and Procedures
- Review of Agency Capital Asset Controls and Procedures
- Review of Agency Contracting Controls and Procedures
- Review of Agency SDO Accounts
- Other

The subject matter compliance review reports would provide a summary of the issues found across the state as a whole on these different matters instead of segregating the issues by agency. The agency specific issues would still be communicated to management internally. Additionally, we will focus on conducting procedures that can be utilized to also support the CAFR. We are still in the process of determining the possible subject matters to review and how we will handle the final reporting of our findings.

## EXHIBIT A

PRIOR UNRESOLVED FINDINGS				
Finding Title	Type	First Year Reported	Agency	Questioned Cost Amount
TANF Period of Availability	Significant	2012	Department of Child Services	1,276,499
Reporting	Significant	2012	Department of Workforce	-
Drug Rebate Balance Held	Significant	2012	Family and Social Services	1,423,159
Medicaid Credits Removed From Projects	Significant	2012	Family and Social Services	30,150,642
Monitoring Eligibility	Significant	2012	Family and Social Services	-
Long Term Care Facility Audit Appeals	Significant	2012	Family and Social Services	-
Managed Care Projects	Significant	2011	Family and Social Services	-
Medicaid Administration Grant	Significant	2011	Family and Social Services	-
Missing Case Files	Material Weakness	2011	Family and Social Services	-
Error in Reprocessed Eligibility Costs	Significant	2010	Family and Social Services	-
ARRA Expense Overstatements	Significant	2010	Family and Social Services	3,538,382
Subrecipient Monitoring	Significant	2009	Department of Child Services	-
CHIP Package C Reporting	Significant	2009	Family and Social Services	-
Quality Assessment Fee Refunds	Significant	2009	Family and Social Services	1,198,888
SCHIP Duplicate Expense	Material Weakness	2008	Family and Social Services	5,223,868
Surveillance and Utilization Review Audit Files	Significant	2008	Family and Social Services	-
Tracking of Certification & Transmittal	Significant	2005	Family and Social Services	-
Timely Follow-Up License Termination	Significant	2005	Family and Social Services	192,269
Medicaid Bank Reconciliations	Material Weakness	2005	Family and Social Services	-
Death Verifications	Significant	2004	Family and Social Services	-
Ongoing Verification of Provider Medical License	Significant	2003	Family and Social Services	-
Lack of and Improper Supporting Documentation	Significant	2000	Department of Child Services	-
Overpayment of Adoption Assistance Subsidies	Significant	2000	Department of Child Services	-

Current Findings – Written in 2013				
Finding Title	Type	Year	Agency	Questioned Cost
Child Support Enforcement – Lack of Transparency	Significant	2013	Department of Child Services	-
TANF Eligibility – Healthy Families Program	Significant	2013	Department of Child Services	-
Fiscal Agent Accounting and Oversight	Material Weakness	2013	Family and Social Services	-
Control Over Managed Care Rates	Material Weakness	2013	Family and Social Services	56,698
CHIP Accounting	Material Weakness	2013	Family and Social Services	22,222,316
TANF Eligibility Income Determinations	Material Weakness	2013	Family and Social Services	-

## EXHIBIT B

Agency/Unit of Government	Type of Review	Last Engagement Date
FAIR COMMISSION, INDIANA STATE	Audit	12/31/2012
GOVERNOR-EXECUTIVE OFFICE	Compliance	3/31/2002
ADMINISTRATION, DEPARTMENT OF	Compliance	3/31/2010
HORSE RACING COMMISSION	Compliance	9/30/2010
DEPARTMENT OF CHILD SERVICES	Compliance	12/31/2010
FSSA	Compliance	12/31/2010
DEPARTMENT OF HOMELAND SECURITY	Compliance	2/28/2011
INDIANA HOMELAND SECURITY FOUNDATION	Compliance	2/28/2011
COMMISSION ON PROPRIETARY EDUCATION	Compliance	2/28/2011
WAR MEMORIALS COMMISSION	Compliance	3/31/2011
TREASURER OF STATE	Compliance	6/30/2011
MOTOR VEHICLES, BUREAU OF	Compliance	12/31/2011
CORRECTION, DEPARTMENT OF	Compliance	1/31/2012
CORRECTIONS-WOMENS PRISON	Compliance	1/31/2012
FINANCIAL INSTITUTIONS, DEPARTMENT OF	Compliance	1/31/2012
WORKER'S COMPENSATION BOARD	Compliance	1/31/2012
INSURANCE, DEPARTMENT OF	Compliance	1/31/2012
LABOR, DEPARTMENT OF	Compliance	1/31/2012
LT GOVERNOR	Compliance	1/31/2012
LT GOV-COMMISSIONERS OF AGRICULTURE	Compliance	1/31/2012
LT GOV/IND GRAIN INDEMNITY CORP (TREAS)	Compliance	1/31/2012
PERSONNEL, DEPARTMENT OF	Compliance	1/31/2012
PUBLIC ACCESS COUNSELOR	Compliance	1/31/2012
UTILITY REGULATORY COMMISSION	Compliance	1/31/2012
DEPT OF LOCAL GOVERNMENT FINANCE	Compliance	2/29/2012
ADJUTANT GENERAL	Compliance	2/29/2012
ARTS COMMISSION, INDIANA	Compliance	2/29/2012
ATTORNEY GENERAL	Compliance	2/29/2012
AUDITOR OF STATE	Compliance	2/29/2012
PENDLETON CORRECTION FACILITY	Compliance	2/29/2012
CORRECTIONS-CORRECTIONAL INDUSTRIAL COMP	Compliance	2/29/2012
PENDLETON JUVENILE CORRECTIONAL FACILITY	Compliance	2/29/2012
DEPT OF WORKFORCE DEVELOPMENT	Compliance	2/29/2012
ENVIRONMENTAL ADJUDICATION	Compliance	2/29/2012
INSPECTOR GENERAL	Compliance	2/29/2012
OFFICE OF FAITH-BASED COMM INITIATIVES	Compliance	2/29/2012
GOVERNOR'S PLANNING COUNCIL	Compliance	2/29/2012
HIGHER EDUCATION, COMMISSION FOR	Compliance	2/29/2012
PERSONNEL-EMPLOYEES APPEALS COMMISSION	Compliance	2/29/2012
INDIANA OFFICE OF TECHNOLOGY	Compliance	2/29/2012
POLICE ADMINISTRATION, STATE	Compliance	2/29/2012
PROSECUTING ATTORNEYS COUNCIL, INDIANA	Compliance	2/29/2012
PROTECTION & ADVOCACY SERVICES	Compliance	2/29/2012
PUBLIC DEFENDER	Compliance	2/29/2012

PUBLIC DEFENDERS COUNCIL OF INDIANA	Compliance	2/29/2012
INDIANA BOARD OF TAX REVIEW	Compliance	2/29/2012
VETERANS AFFAIRS, DEPARTMENT OF	Compliance	<u>2/29/2012</u>
SECRETARY OF STATE	Compliance	3/15/2012
CIVIL RIGHTS COMMISSION	Compliance	3/31/2012
FSSA-LARUE D CARTER MEMORIAL HOSPITAL	Compliance	3/31/2012
ACCOUNTS, BOARD OF	Compliance	3/31/2012
EDUCATION EMPLOYMENT RELATIONS BOARD	Compliance	3/31/2012
ENVIRONMENTAL MANAGEMENT, DEPARTMENT OF	Compliance	3/31/2012
GAMING COMMISSION, INDIANA	Compliance	3/31/2012
INDIANA DEPARTMENT OF GAMING RESEARCH	Compliance	3/31/2012
HEALTH, DEPT-SCHOOL FOR THE DEAF	Compliance	3/31/2012
HEALTH, DEPT-VETERANS HOME	Compliance	3/31/2012
LAW ENFORCEMENT TRAINING BOARD	Compliance	3/31/2012
LIBRARY, INDIANA STATE	Compliance	3/31/2012
LIBRARY-HISTORICAL BUREAU	Compliance	3/31/2012
NATURAL RESOURCES, DEPT OF	Compliance	3/31/2012
PROFESSIONAL LICENSING AGENCY	Compliance	3/31/2012
INTEGRATED PUBLIC SAFETY COMMISSION	Compliance	3/31/2012
PUBLIC RECORDS, COMMISSION ON	Compliance	3/31/2012
STUDENT ASSISTANCE COMMISSION	Compliance	3/31/2012
INDIANAPOLIS RE-ENTRY ED FACILITY	Compliance	4/30/2012
CORRECTIONS-DIAGNOSTIC & RECEPTION CTR	Compliance	4/30/2012
CORRECTIONS-ROCKVILLE TRAINING CENTER	Compliance	4/30/2012
CORRECTIONS-STATE FARM	Compliance	4/30/2012
CORRECTIONS-YOUTH CENTER	Compliance	4/30/2012
CRIMINAL JUSTICE INSTITUTE	Compliance	4/30/2012
HEALTH, DEPT-SCHOOL FOR THE BLIND	Compliance	4/30/2012
TRANSPORTATION, INDIANA DEPT OF	Compliance	4/30/2012
ANIMAL HEALTH, BOARD OF	Compliance	5/31/2012
HEALTH, DEPARTMENT OF	Compliance	5/31/2012
FSSA-LOGANSPORT STATE HOSPITAL	Compliance	5/31/2012
UTILITY CONSUMER COUNSELOR	Compliance	5/31/2012
INDIANA STATE MUSEUM/HISTORIC SITES CORP	Compliance	6/30/2012
THE STATE LOTTERY COMMISSION OF INDIANA	Compliance	6/30/2012
ALCOHOLIC BEVERAGE COMMISSION	Compliance	6/30/2012
BUDGET AGENCY	Compliance	6/30/2012
OFFICE OF MANAGEMENT AND BUDGET	Compliance	6/30/2012
EDUCATION, DEPARTMENT OF	Compliance	6/30/2012
INDIANA ECONOMIC DEV CORP	Compliance	6/30/2012
INDIANA STATE MUSEUM FOUNDATION	Compliance	6/30/2012
REVENUE, DEPARTMENT OF	Compliance	6/30/2012
PORTS OF INDIANA	Compliance	12/31/2012
DEPARTMENT OF TOXICOLOGY	Compliance	12/31/2012
INDIANA WAR MEMORIALS FOUNDATION	Examination	12/31/2010
ADJUTANT GENERAL-STATE ARMORY BOARD	Examination	6/30/2011
MERIDIAN STREET PRESERVATION COMMISSION	Examination	6/30/2011
NATURAL RESOURCES-NATURAL RESRCS FNDTN	Examination	6/30/2011

**EXHIBIT C**

<b>Agency</b>	<b>Last Engagement Date</b>
GOVERNOR-EXECUTIVE OFFICE	3/31/2002
ADMINISTRATION, DEPARTMENT OF	3/31/2010
HORSE RACING COMMISSION	9/30/2010
FSSA	12/31/2010
DEPARTMENT OF CHILD SERVICES	12/31/2010
INDIANA HOMELAND SECURITY FOUNDATION	2/28/2011
COMMISSION ON PROPRIETARY EDUCATION	2/28/2011
DEPARTMENT OF HOMELAND SECURITY	2/28/2011
WAR MEMORIALS COMMISSION	3/31/2011
TREASURER OF STATE	6/30/2011
PUBLIC ACCESS COUNSELOR	1/31/2012
LT GOV/IND GRAIN INDEMNITY CORP (TREAS)	1/31/2012
WORKER'S COMPENSATION BOARD	1/31/2012
CORRECTIONS-WOMENS PRISON	1/31/2012
FINANCIAL INSTITUTIONS, DEPARTMENT OF	1/31/2012
LT GOVERNOR	1/31/2012
LT GOV-COMMISSIONERS OF AGRICULTURE	1/31/2012
UTILITY REGULATORY COMMISSION	1/31/2012
LABOR, DEPARTMENT OF	1/31/2012
PERSONNEL, DEPARTMENT OF	1/31/2012
INSURANCE, DEPARTMENT OF	1/31/2012
CORRECTION, DEPARTMENT OF	1/31/2012
PERSONNEL-EMPLOYEES APPEALS COMMISSION	2/29/2012
INDIANA BOARD OF TAX REVIEW	2/29/2012
OFFICE OF FAITH-BASED COMM INITIATIVES	2/29/2012
GOVERNOR'S PLANNING COUNCIL	2/29/2012
PUBLIC DEFENDER	2/29/2012
ENVIRONMENTAL ADJUDICATION	2/29/2012
ADJUTANT GENERAL	2/29/2012
INSPECTOR GENERAL	2/29/2012
INDIANA OFFICE OF TECHNOLOGY	2/29/2012
PROSECUTING ATTORNEYS COUNCIL, INDIANA	2/29/2012
PUBLIC DEFENDERS COUNCIL OF INDIANA	2/29/2012
DEPT OF LOCAL GOVERNMENT FINANCE	2/29/2012
ARTS COMMISSION, INDIANA	2/29/2012
AUDITOR OF STATE	2/29/2012
PENDLETON CORRECTION FACILITY	2/29/2012
CORRECTIONS-CORRECTIONAL INDUSTRIAL COMP	2/29/2012
PENDLETON JUVENILE CORRECTIONAL FACILITY	2/29/2012
VETERANS AFFAIRS, DEPARTMENT OF	2/29/2012
HIGHER EDUCATION, COMMISSION FOR	2/29/2012
PROTECTION & ADVOCACY SERVICES	2/29/2012
ATTORNEY GENERAL	2/29/2012
POLICE ADMINISTRATION, STATE	2/29/2012
DEPT OF WORKFORCE DEVELOPMENT	2/29/2012
FSSA-LOGANSPORT STATE HOSPITAL	5/31/2012
INDIANA ECONOMIC DEVELOPMENT FOUNDATION	6/30/2012
REVENUE, DEPARTMENT OF	6/30/2012
MOTOR VEHICLES, BUREAU OF	12/31/2012

## AUDIT STATUS

### GENERAL AUDIT SIDE INFORMATION

Total Approximate Audits	788	Approximate Audit Days	28,549
University	16		2118
County	80		8390
City	80		5391
Town	36		829
School	290		8207
Other	286		3614

A normal year would require approximately 153 staff as stated below per year if there was no back log:

108	Staff @ 205 days per year	22,140
45	New Staff @ 70% production	<u>6,458</u>
	Total Production	28,598

In order to catch up the back log and keep up on current audits the recommended Audit Staff is 190. However, this would mean we would not be current until spring 2017 if we hired them today and no audits are added.

### 2013 AUDIT STATUS AT 12/31/14

838 Audits Filed (includes supplemental reports)

University	12
County	220
City	102
Town	67
School	160
Other	277

195 Audits Started But Not Completed in 2013 and Prior. (Approximate Audit Days to Complete 3,834)

University	12
County	12
City	6
Town	11
School	114
Other	40

149 2013 and Prior Audits Not Assigned. Approximate Audit Days Rolled 3,414

County	3	340
City	6	184
Town	10	207
School	44	1955
Other	86	728

### 2014 AUDIT STATUS AS OF 8/1/14

371 Audits Filed

University	12
County	77
City	36
Town	27
School	131
Other	88

56 Audits in the Office	
County	10
City	11
Town	2
School	4
Other	29

195 Under Audit	
University	4
County	48
City	42
Town	13
School	9
Other	79

559 Unassigned Audits (Includes 212 cycle 2 audits)	
University	3
County	29
City	38
Town	63
School	157
Other	269

Unassigned audits will continue to be assigned with the following priority:

1. University
2. A-133
3. Non-A-133 County Examinations (with some assistance from Exam Side)
4. Re-evaluate priorities starting 10/15/2014 to start A-133 Schools.

• Days needed to complete assignments Under Audit	6,923
Days needed for Unassigned Audits	<u>17,968</u>
Total Days needed	24,891

(Total Days needed includes 2,799 days for cycle 2 units)

• Audit Staff Production projected the remainder of 2014	
Approx. 75 Staff @ 205 days per year	6,406
Approx. 45 New Staff @ 70% production	<u>2,691</u>
Total Estimated Production in 2014	9,097
• Deficit to complete audits and backlog in 2014	
In Days	15,794
In New Staff@ 70% production	263
In New Staff if backlog is not cleared until 12/31/2015	78
In New Staff if backlog is not cleared until 12/31/2016	46

## EXAMS AND SPECIAL INVESTIGATIONS STATUS (AUGUST 2014)

### GENERAL EXAM SIDE INFORMATION

Total Approximate Exams	1,951	Approximate Exam Days	7,671 (50% BSD)
County	11		
City	37		
Town	412		
School	28		
Townships	1005		
Other	458		

A normal year would require approximately 37 experienced staff assuming 205 days per year.

Currently we are projecting rolling over 8,657 or 42 staff of exams at year end. Detail is provided on a separate attachment.

Currently the Exam team is made up of 5 Coordinators and 14 Special Investigators (although 2 have been on extended leaves recently.)

Since the inception of the team, nearly all of their time has been spent on Special Investigations and I would expect this trend to continue at least through the end of the year. Some of the higher profile reports recently released:

City of Warsaw – filed 7/15/14 – charged \$318,569 to former Street Supt and vendor for overbilling the City for sewer lines (100 ft per job was typically added on)

Wabash County – filed 5/19/14 – charged former Deputy Clerk \$75,333 for undeposited cash, check for cash substitution, voided receipts, etc.

Griffith Public Schools – filed 7/7/14 – EC Treasurer took \$17,050 from various funds.

Valparaiso High School – filed 6/9/14 – Food Service Manager charged for not depositing \$37,750 in receipts.

\*\* These last 2 are important because with a limited staff ECA's are not being looked at and Muncie Schools has hired a firm to examine all of their ECA accounts (at a cost higher than what we could have probably done it for).

Investigations currently under way:

Township – Big \$\$  
County Clerk - \$300,000  
County Auditor - \$200,000??  
....and many others!

Other info: The recount we did in 2010 for District 76 (Posey, Vanderburgh and Gibson Counties) used 216.3 days or just over the equivalent of 1 staff person.

## OTHER AUDIT SIDE ON-GOING COMMITMENTS

- Peer Review

Days in arrears to NASACT	39
Estimated Days for 2015 Peer Review	60

Going forward we need to commit approximately 30 days per year to catch up past days owed and continue to stay even.

- Quality Control

Training time has been considered within the production time of the field staff currently at around 120. Need to retain current staffing level of QC at 4 to prepare and present needed training.



# National State Auditors Association

October 26, 2012

Mr. Bruce Hartman  
State Examiner  
Indiana State Board of Accounts  
302 West Washington Street  
Room E 418  
Indianapolis, IN 46204

Dear Mr. Hartman:

We have reviewed the system of quality control of the Indiana State Board of Accounts, (the office) in effect for the period October 1, 2011 to September 30, 2012. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system, and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with government auditing standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with government auditing standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of Indiana State Board of Accounts in effect for the period October 1, 2011 to September 30, 2012 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

As is customary in a peer review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the opinion expressed in this report.

Tracey Moore, CPA  
Team Leader  
National State Auditors Association  
External Peer Review Team

Mark Ruether, CPA  
Concurring Reviewer  
National State Auditors Association  
External Peer Review Team