

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

AUDIT AND FINANCIAL REPORTING

SUBCOMMITTEE MEETING

September 13, 2016



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STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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September 13, 2016

Members of the Audit Committee:

Good afternoon Chairman Lehman and members of the audit committee. Thank you for the opportunity to review the operations of the State Board of Accounts and to discuss impending issues as we move forward.

As you are aware, "The audit and financial reporting subcommittee of the legislative council is established to assure the independence of the state board of accounts." Ind. Code § 2-5-1.1-6.3(b).

Auditor independence is the cornerstone of the auditing profession and is the foundation of the public's trust not only in the accounting profession but also in the citizen's confidence in audits and investigations conducted by the State Board of Accounts. Since the creation of the State Board of Accounts in 1909, independence has always been held sacred and unimpeachable. The Board acts in a nonpartisan manner and is always mindful to remain independent in accordance with established standards.

Real and perceived independence are essential to achieve the goals of true independence. Real independence refers to independence of the auditor, also known as independence of mind. More specifically, real independence concerns the state of mind an auditor is in, and how the auditor acts or deals with a specific situation. An auditor who is independent 'in fact' has the ability to make independent decisions even if there is a perceived lack of independence present, or if the auditor is placed in a compromising position by someone in the executive branch or the legislative branch of government. Many difficulties lie in determining whether an auditor is truly independent because it is impossible to measure a person's mental attitude and personal integrity. An auditor's objectivity must be beyond question; but how can this be guaranteed and measured? That is why perceived independence is so important.

It is essential that auditors not only act independently, but also appear independent. If an auditor is in fact independent, but one or more factors suggest an impairment to true independence, the public may conclude that the auditor does not present a true and fair report. Independence in appearance reduces the opportunity for an auditor to act in any manner other than independently, which lends credibility to the final audit report.

The Generally Accepted Government Auditing Standards (GAGAS), also known as the Yellow Book, provide a framework for conducting high quality audits with competence, integrity, objectivity, and independence. The Yellow Book is for use by auditors of government entities, entities that receive government awards, and other audit organizations performing Yellow Book audits.

In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be independent.

Independence of Mind - The state of mind that permits the performance of an audit without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

Independence in Appearance - The absence of circumstances that would cause a reasonable and informed third party, having knowledge of the relevant information, to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the audit team had been compromised.

Auditors and audit organizations maintain independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by reasonable and informed third parties. Auditors should avoid situations that could lead reasonable and informed third parties to conclude that the auditors are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the audit and reporting on the work.

Threats to independence are circumstances that could impair independence. Whether independence is impaired depends on the nature of the threat, whether the threat is of such significance that it would compromise an auditor's professional judgment or create the appearance that the auditor's professional judgment may be compromised, and on the specific safeguards applied to eliminate the threat or reduce it to an acceptable level. Threats are conditions to be evaluated using the conceptual framework. Threats do not necessarily impair independence. Threats to independence may be created by a wide range of relationships and circumstances. Auditors should evaluate threats to independence when threats are identified.

In carrying out the stated objective of ensuring the independence of the State Board of Accounts, the audit and financial reporting subcommittee shall perform the following tasks:

1. Review and monitor the independence and objectivity of the State Board of Accounts and the effectiveness of the examination process.

A 2012 peer review of the State Board of Accounts by the National State Auditors Association indicated that the State Board of Accounts was not in compliance with the independence standards established by the Yellow Book. In response, the legislature passed P.L. 104-2014 to re-structure the State Board of Accounts' posture with regards to state-level executive branch agencies. Thus, the intent of P.L. 104-2014 was to bring the State Board of Accounts into compliance with the dictates of structural independence of the Yellow Book.

Section 3.29(c) of the Yellow Book allows that "auditors who report both externally and internally" may meet the requisite standard of independence when "the head of an audit organization" is:

Appointed by someone other than a legislative body, so long as the appointment is confirmed by a legislative body and removal from the position is subject to oversight or approval by a legislative body, and reports the results of audits to and is accountable to a legislative body.

P.L. 104-2014, Sec. 2 incorporates these requirements. The amendments to Ind. Code 5-11-1-1: 1) retain gubernatorial appointment, but subject it to confirmation by the legislative council; and 2) limit the Governor's power to remove the head of the State Board of Accounts to removals for cause, subject to review by the legislative council. In addition, P.L. 104-2014 requires the State Board of Accounts to report audit results directly to the "audit and financial reporting subcommittee of the legislative council" (the audit committee). These three provisions were intended to bring the State Board of Accounts' structure into compliance with the relevant Yellow Book standards.

The Office of Management and Budget (OMB) has broad powers concerning the financial management of Indiana's executive branch. These powers are located throughout Ind. Code Chapter 4-3-22. Several of these powers entitle OMB to some measure of control over some of the State Board of Accounts' functions.

For example, the State Board of Accounts is still subject to OMB authority with regards to the State Board of Accounts' own "budgeting, accounting, and spending functions." The State Board of Accounts is still subject to apportionment of legislative appropriations, which is performed by the State Budget Agency under OMB's direction. This is similar to the situation of independently elected offices within the executive branch which are not structurally subordinate to the Governor generally but are still subject to certain financial controls, most of which are now consolidated under OMB.

Ind. Code 4-3-22-14 states that all state government entities, which include the State Board of Accounts, must: "(1) comply with the policies and procedures related to fiscal management that are established by the OMB and approved by the governor; and (2) cooperate with and provide assistance to the OMB."

The large majority of the State Board of Accounts' audit functions are directed both externally and internally. Therefore, nearly all of the State Board of Accounts' audit functions are likely beyond the scope of OMB's power to prescribe policies and procedures for "fiscal management."

It is important to note, however, that the duty of state entities to "cooperate with and provide assistance to" OMB is not limited by the scope of the term "fiscal management." This is an unconditional command which requires all state entities to cooperate with OMB. As the statute makes "cooperation and assistance" distinct from OMB's authority to prescribe "policies and procedures," "cooperation and assistance" can be interpreted to mean that all state entities, including the State Board of Accounts, have a duty to share information with OMB upon request. It is unlikely that this duty, which does not give OMB any power to take or prescribe any particular action with respect to the State Board of Accounts, will conflict with the State Board of Accounts' duty to perform independent audit functions. However, to the extent that this duty does hinder the State Board of Accounts' independent auditing functions, the law may intend this check.

Ind. Code 4-3-22-15 requires all state entities, which include the State Board of Accounts, to "in addition to complying with all statutory duties applicable to state purchasing, be accountable to the OMB for adherence to policies, procedures, and spending controls established by the OMB." Relative to the State Board of Accounts, this section grants OMB essentially the same powers as Ind. Code 4-3-22-4. This section incorporates an expansive definition of state entities, see Ind. Code 4-12-1-2, that extends beyond the core state agencies covered in Ind. Code 4-3-22-4. As a result, many of the included entities have little to do with state budgeting or accounting, but still undertake government spending. Thus, while this section extends OMB's control over government spending beyond the terms of Ind. Code 4-3-22-4, this section has little meaning for core state agencies like the State Board of Accounts as these agencies are already subject to OMB's direction, under the terms of Ind. Code 4-3-22-4.

We believe that the lawful operation of P.L. 104-2014 is sufficient to establish the State Board of Accounts' compliance with the Yellow Book standards for structural independence. We have concerns with the perceived independence due to the specific administrative controls OMB has over the operations of the State Board of Accounts. We currently rely upon Executive Order 13-26 as a safeguard from any agency attempting to assert undue influence upon the State Board of Accounts. There is no guarantee if the new governor elected in November will sign an Executive order as Governor Pence did to ensure certain safeguards are in place. If these safeguards are not in place then we would not be independent and I would not be in a position to state in the financial statement opinion that I was independent. I would also not be in a position to opine on any federal audits that we currently perform. These would include the state's financial statements and federal audit, all state university financial statements and federal audits, and the majority of the federal audits performed on the state's local units of government.

2. Evaluate the findings and recommendations of any peer review.

I am pleased to inform you of the results of the recently completed State Board of Accounts peer review.

The State Board of Accounts external quality control review was conducted in October 2015 and covered audits that issued reports from October 1, 2014, through September 30, 2015. The State Board of Accounts received a rating of pass indicating the highest degree of compliance with auditing standards, which is evidence of the quality and professionalism of the State Board of Accounts audit staff. I have included a copy of the peer review report for your review. (See Section 5)

Government Auditing Standards, Section 3.82b states, "Each audit organization performing audits in accordance with generally accepted government auditing standards must have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years."

The external peer review should determine whether, during the period under review, the reviewed audit organization's internal quality control system was adequate and whether quality control policies and procedures were being complied with to provide the audit organization with reasonable assurance of conforming to applicable professional standards. Audit organizations should take remedial, corrective actions as needed based on the results of the peer review.

The State Board of Accounts meets this requirement through participation in the National State Auditors Association's (NSAA) Quality Control Review Program.

NSAA has a Quality Control Review Program that enables members to be reviewed by an established network of external or "peer" reviewers from other states. NSAA's peer reviews are conducted in accordance with policies and procedures developed by the NSAA External Quality Control Review Committee and approved by NSAA members. NSAA also has coordinated with the American Institute of Certified Public Accountants to adapt portions of its copyrighted peer review program materials to fit the NSAA model.

Peer review teams travel on site to review each peer agency's internal quality control systems. Each review team identifies a sample of audits performed during the review period and evaluates the audit documentation used to support these audits. The teams determine, based on their evaluation, whether the agency's overall quality control system should receive a pass, pass with deficiency(ies), or fail. Pass is the highest rating an audit organization can receive from the NSAA review team.

3. Review reports of examinations to monitor the integrity of the financial reporting process and the effectiveness of the State Board of Accounts in evaluating internal accounting controls of audited entities.

The State Board of Accounts is statutorily required to file all audit reports with (1) the officer or person examined, (2) the auditing department of the municipality examined, if applicable, and (3) the legislative services agency (LSA). Ind. Code 5-11-5-1(a). The Board also posts all of its reports of examinations on its public website. The State Board of Accounts firmly believes in the integrity and effectiveness of the financial reporting process. (See Sections 1 through 4)

With the implementation of Ind. Code 5-11-1-27 and Ind. Code 5-11-1-28, the State Board of Accounts is more actively involved in evaluating the internal accounting controls of audited entities. Specifically, the Board developed the *Uniform Internal Control Standards for Indiana Political Subdivisions* manual from which political subdivision are statutorily required to adopt their own internal control procedures. The Board is required to report on the existence of internal control policies of political subdivisions, as well as mandatory internal control training. In addition, three state agencies (BMV, FSSA, and DOR) are required to undergo annual internal audits and reviews of internal control systems. The State Board of Accounts is responsible for compiling the internal audits and submitting the final report to several parties, including this committee.

4. Monitor the actions of the examined entities to follow up on reported findings to assure corrective action is taken.

The State Board of Accounts supports a statutory requirement that all audited entities provide an action plan to address any uncorrected reported findings. The Board also supports the authority of this committee to enforce any such statutory requirement. Currently, there is no requirement that any corrective actions on findings reported by the State Board of Accounts be made, and there is no enforcement authority granted to this committee other than the general charge to "monitor the actions of the examined entities . . . to assure corrective action is taken." Ind. Code 2-5-1.1-6.3(b)(4).

5. Review the policy on the engagement of the State Board of Accounts to supply nonaudit services.

The State Board of Accounts adopted the "Provision of Nonaudit Services to Audited Entities" as set forth in *Generally Accepted Government Auditing Standards* (the "Yellow Book") by the Comptroller General of the United States.

The State Board of Accounts is tasked with performing election recounts for state and statewide races in accordance with Indiana Code 3-12-10-8. We completed two such recounts this summer resulting from the 2016 May primary. The races recounted were the Indiana Senate District 36 which included portions of 2 counties and 76 precincts, and the United States Representative District Eight which included 19 counties and 659 precincts. These recounts were a huge undertaking for our agency and resulted in over 7,000 hours of manpower at a cost of approximately \$700,000.

6. Provide guidance to the State Board of Accounts on any accounting, examination, or financial reporting matter requested.

Thank you for your time, your thoughtful review of the operations of the State Board of Accounts, and your continued support.

Sincerely,



Paul D. Joyce, CPA, CFE
State Examiner

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Update of FY 2015 State CAFR Audit

- The Opinion on the State's financial statements was provided on December 23, 2015.
- The Opinion was unmodified, indicating that the State's financial statements presented fairly, in all material respects, the financial position of the State.
- The Auditor of State did receive the GFOA Certificate of Achievement for Excellence in Financial Reporting for the FY 2015 CAFR.
- The FY 15 CAFR audit took a total of 5,310 hours to complete.
- We reported six internal control findings related to the financial statements. Those findings, and the corrective action plans prepared by the State to address the findings, are including in your handout as findings 2015-001 through 2015-006.

Summary of Findings

Finding No.	Title
2015-001	Medicaid Accruals
2015-002	Investment Note Disclosures Errors
2015-003	Internal Controls Over Tax Revenues
2015-004	Reconciliations Between KidTraks and ENCOMPASS
2015-005	Internal Controls Over ENCOMPASS Accounting System
2015-006	Preparation of the Schedule of Expenditures of Federal Awards

Update of FY 2015 Supplemental Audit of Federal Awards

- We provided our opinion on the supplemental audit of federal awards on March 23, 2015.
- The audit of the federal awards took 11,473 hours to complete.
- We audited 19 major programs for FY 2015 supplemental audit of Federal Awards.

Federal Programs Audited in FY 2015

CFDA #	Title	Agencies
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster	Department of Education
10.558	Child and Adult Care Program	Department of Education
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Lieutenant Governor's Office
17.225	Unemployment Insurance	Department of Workforce Development
17.258, 17.259, 17.278	WIA Cluster	Department of Workforce Development
20.205	Highway Planning and Construction	Department of Transportation
84.01	Title I Grants to Local Educational Agencies	Department of Education
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	Family and Social Services Administration
84.367	Improving Teacher Quality Grants to States	Department of Education
84.377, 84.388	School Improvement Grants	Department of Education
93.563	Child Support Enforcement	Department of Child Services
93.575, 93.596	CCDF Cluster	Family and Social Services Administration
93.558	Temporary Assistance to Needy Families (TANF)	Family and Social Services Administration
93.658	Foster Care	Department of Child Services
93.659	Adoption Assistance	Department of Child Services
93.767	Children's Health Insurance Program	Family and Social Services Administration
93.778	Medical Assistance Program	Family and Social Services Administration
93.959	Block Grant for Prevention and Treatment of Substance Abuse	Family and Social Services Administration
96.001	Social Security – Disability Insurance and Supplemental Income	Family and Social Services Administration

We reported 28 federal findings in 13 of the 19 major programs audited in the FY 2015 Supplemental Audit of Federal Awards. Those findings, and the corrective action plans prepared by the State to address the findings, are included in your handout. We have summarized the findings by type and by major program below:

Findings By Type

Summary of Findings	
Internal Control, Non Compliance, Qualified	9
Internal Control, Scope Limitation, Qualified	1
Internal Control, Non Compliance, Not Qualified	11
Non Compliance Only	1
Internal Control Only	<u>6</u>
Total Section III Major Program Findings	<u>28</u>

Detail of Findings By Major Program

14.228 – Community Development Block Grants							
Finding #	Requirement	Related Finding Reported in Fiscal Year 2014	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2015-007	Subrecipient Monitoring	X					X
20.205 – Highway Planning and Construction							
Finding #	Requirement	Related Finding Reported in Fiscal Year 2014	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2015-008	Suspension and Debarment				X		
2015-009	Subrecipient Monitoring	X					X
2015-010	Special Tests and Provisions – Quality Assurance	X			X		

2015-011	Special Tests and Provisions – Wage Rate	X		X			
2015-012	Special Tests and Provisions – Value Engineering				X		
93.659 - Adoption Assistance							
Finding #	Requirement	Related Finding Reported in Fiscal Year 2014	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2015-013	Activities Allowed, Allowable Costs, Eligibility	X	X				
93.563 – Child Support							
Finding #	Requirement	Related Finding Reported in Fiscal Year 2014	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2015-014	Subrecipient Monitoring	X	X				
2015-015	Cash Management				X		
17.258, 17.259, 17.278 – WIA Cluster							
Finding #	Requirement	Related Finding Reported in Fiscal Year 2014	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2015-016	Subrecipient Monitoring						X

17.225 – Unemployment Insurance							
Finding #	Requirement	Related Finding Reported in Fiscal Year 2014	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2015-017	Special Tests and Provisions - UI Program Integrity - Overpayments	X				X	

93.959 – Block Grants for Prevention and Treatment of Substance Abuse							
Finding #	Requirement	Related Finding Reported in Fiscal Year 2014	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2015-018	Subrecipient Monitoring		X				

96.001 - Social Security – Disability Insurance and Supplemental Income							
Finding #	Requirement	Related Finding Reported in Fiscal Year 2014	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2015-019	Reporting	X			X		
2015-020	Period of Performance				X		

93.558 – Temporary Assistance for Needy Families							
Finding #	Requirement	Related Finding Reported in Fiscal Year 2014	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2015-021	Activities Allowed, Allowable Costs, Eligibility	X	X				X

84.126 – Rehabilitatin Services_Vocational Rehabilitation Grants to States							
Finding #	Requirement	Related Finding Reported in Fiscal Year 2014	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2015-022	Eligibility						X
2015-023	Special Tests and Provisions - Completion of IPES		X				
2015-024	Earmarking				X		
2015-025	Period of Performance		X				
84.010 - Title I Grants to Local Educational Agencies. 84.367 – Improving Teacher Quality State Grants 84.377 and 84.388 – School Improvement Cluster							
Finding #	Requirement	Related Finding Reported in Fiscal Year 2014	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2015-026	Cash Management				X		
2015-027	Special Tests and Provisions - Schoolwide Programs		X				
84.010 - Title I Grants to Local Educational Agencies. 84.367 – Improving Teacher Quality State Grants							
Finding #	Requirement	Related Finding Reported in Fiscal Year 2014	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2015-028	Subrecipient Monitoring		X				

84.377 and 84.388 – School Improvement Cluster							
Finding #	Requirement	Related Finding Reported in Fiscal Year 2014	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2015-029	Suspension and Debarment	X			X		
2015-030	Eligibility, Earmarking	X					X
2015-031	Subrecipient Monitoring	X	X				
84.010 - Title I Grants to Local Educational Agencies							
Finding #	Requirement	Related Finding Reported in Fiscal Year 2014	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2015-032	Allowable Costs/Cost Principles				X		
2015-033	Allowable Costs/Cost Principles				X		
2015-034	Reporting						X

Section II - Financial Statement Findings

FINDING 2015-001 - MEDICAID ACCRUALS

Adequate controls were not in place to ensure that the Public Welfare-Medicaid Assistance Fund (Medicaid Fund) accruals were properly reported. The Family and Social Services Agency (FSSA) compiles year end Medicaid Fund accrual entries which the Auditor of State manually posts as adjustments to the financial statements. The accounts payable accrual for medical claims incurred, but not yet paid, is determined using a query of Medicaid claims data. The associated grants receivable is calculated by applying the federal matching rate to the Medicaid accounts payable calculation. In 2014, errors were identified in the query which resulted in an immaterial overstatement of the modified accounts payable and grant receivable. The Auditor of State declined to make the immaterial adjustments to the statements in 2014, but instructed FSSA to use corrected queries in 2015 for both the modified and full accrual adjustments. In 2015, FSSA again used the old query which resulted in material overstatements of accounts payable and grants receivable. For the modified accrual, FSSA overstated accounts payable and grants receivable in the Medicaid Fund by \$54,272,926 and \$36,113,207 respectively. For the full accrual, FSSA overstated the incremental accounts payable and grants receivable adjustments by \$1,073,608,470 and \$714,189,480 for a total overstatement of accounts payable and receivables (net) in the Government-Wide Statement of Net Position of \$1,127,881,396 and \$750,302,687, respectively.

FSSA posted a prior period adjustment based on the corrected accounts payable query results. The full accrual accounts payable is an average of the most recent three years of data for claims paid in a fiscal year with a date of service from a prior fiscal year. In the calculation of the prior period adjustment, FSSA neglected to re-run the 2012 calculation using the new criteria. FSSA instead used the previously reported number for 2012, creating an overstatement in the prior period accounts payable adjustment of \$96 million and an associated overstatement of grants receivable of \$64 million for a net understatement of restated net position of \$32 million.

FSSA had a review process in place; however, the review process did not prevent, or detect and correct, the errors in the current year accrual or prior period adjusting entries.

Following our communication of the above noted errors, adjustments were recorded to correct the financial statements.

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-- General Guidelines and Policy, Section IV)

FINDING 2015-002 - INVESTMENT NOTE DISCLOSURE ERRORS

Adequate controls were not in place to ensure that the information presented in the investment note disclosures were accurate. The Treasurer of State compiles the investment note disclosures and provides them to the Auditor of State for inclusion in the State's Comprehensive Annual Financial Report (CAFR). Our audit identified the following errors in the investment note disclosures presented for audit:

- Concentration of Credit Risk - Federal Home Loan Bank (FHLB) was shown as \$451,161,334. This is the FHLB General Fund amount and should have also included the FHLB Trust Fund amount of \$330,411,631, for a combined total of \$781,572,965.

- Major Moves & Next Generation - Credit quality rating for investments in debt securities table documented \$26,582,863 in Government Collateralized Mortgage Obligations (CMO's) rated as "NR" or Not Rated. The rating should be "AA" based on the Interest Rate Risk spreadsheet.
- Major Moves & Next Generation - Credit quality rating for investments in debt securities table documented \$130,623 as Non US Govt/Corp Bonds rated as "AA." This amount should be rated as "AAA" based on the "5 - 10 year" tab on the Interest Rate Risk spreadsheet.
- Major Moves & Next Generation - Credit quality rating for investments in debt securities table documented 83 (expressed in thousands) with a rating of "NR" and nothing rated as "B" for Municipal Bonds. Based on the Interest Rate Risk spreadsheet, it should show Municipal Bonds at 81 (expressed in thousands) with a rating of "B" and 3 (expressed in thousands) with a rating of "NR."
- Major Moves & Next Generation - Credit quality rating for investments in debt securities table documented 3 (expressed in thousands) with a rating of "CCC & Below" for Municipal Bonds. Based on the Interest Rate Risk spreadsheet, none of the Municipal Bonds should be rated at CCC & Below.

Following our communication of the above noted errors, adjustments were recorded to correct the note disclosures.

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-- General Guidelines and Policy, Section IV)

FINDING 2015-003 - INTERNAL CONTROLS OVER TAX REVENUES

During our audit of tax revenues administered by the Indiana Department of Revenue (DOR), we identified the following deficiencies in internal control:

1. DOR utilizes stand-alone custom taxpayer account systems, spreadsheets, and databases that were developed over time to support the core tax processes at DOR. DOR's Revenue Processing System (RPS) processes the majority of tax returns collected, refunds issued, and adjustments to taxpayer accounts, but other stand-alone taxpayer account systems and databases are used by DOR to support tax types not maintained in RPS.

DOR did not perform timely reconciliations between the State's ENCOMPASS accounting records and its stand-alone custom taxpayer account systems, spreadsheets, and databases. DOR performed one comprehensive reconciliation encompassing the state fiscal year as of June 30, 2015, which was not completed until late August 2015; therefore, inhibiting DOR from detecting and correcting errors or omissions in a timely manner.

Our testing identified errors in the reconciliation and multiple revisions to both the reconciliation and supporting population transaction files were needed. After working with DOR to make the necessary revisions, DOR presented the final reconciliation to us in mid-October 2015. The reconciliation indicated the following differences between DOR's population transaction files and the State's ENCOMPASS financial accounting records:

Opinion Unit	Amount per the State's ENCOMPASS Accounting Records	Amount per DOR's Transaction Population Files	Difference
General Fund	\$ 13,983,882,654	\$ 13,953,241,472	\$30,641,182 or 0.22%
Aggregate Remaining Fund Information	1,646,421,876	1,650,496,365	(4,074,488) or -0.25%

Additionally, as a result of our testing of General Fund and Aggregate Remaining Fund Information tax revenues transactions, we identified specific variances between the transaction files and ENCOMPASS. Based on our audit procedures, we projected variances of \$12,583,871 and \$2,125,609 for the General Fund and Aggregate Remaining Fund Information opinion units, respectively. The projected variances identified less activity in the aforementioned detailed transactions than in ENCOMPASS. DOR did not present additional transactions or provide additional information to account for these differences. The projected variances, alone or in combination with the above noted respective variances, were not considered material to either of these opinion units in the financial statements.

2. Each day, when hardcopy tax return information is automatically posted to RPS from the originating system, a Recap Discrepancy Report is generated listing the batches of tax returns, which includes the following information for each batch: batch identification number, tax type, total count of items, total dollar amount, and problems identified by the system. Our inquiry of DOR management and staff revealed that the Recap Discrepancy Report does not consider the tax type when verifying the recap data to the batches in RPS, which could result in a misclassification of tax revenues. DOR management did not design and implement adequate controls to sufficiently compensate for this deficiency.
3. DOR's internal controls over changes to taxpayer account systems were not adequate to ensure compliance was being maintained. Deficiencies in internal controls increase the risk that discrepancies or fraud could be undetected. We issued a management letter to DOR management dated April 16, 2014, concerning this matter. On August 26, 2015, we received a status update from DOR stating that DOR was unable to implement wholesale security changes within RPS to eliminate internal control deficiencies; however, the status update indicated that improvements and progress had been made.

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-- General Guidelines and Policy, Section IV)

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-- General Guidelines and Policy, Section IV)

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-- General Guidelines and Policy, Section IV)

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from the original source of entry into the system, through all system processing, through various levels of summarizations, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing and summarizations, and to the original source of entry into the system. Audit trails must also identify the user that processed the transaction or updated the information. These audit trails must be protected from modification and deletion. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 14.3.5)

FINDING 2015-004 - RECONCILIATIONS BETWEEN KIDTRAKS AND ENCOMPASS

The Indiana Department of Child Services (DCS) maintains a subsidiary system, KidTraks. DCS did not perform a comprehensive reconciliation between expenses recorded in KidTraks and expenses posted to the State's accounting system, ENCOMPASS. Management of DCS did not design and implement adequate controls to sufficiently compensate for this deficiency.

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-- General Guidelines and Policy, Section IV)

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-- General Guidelines and Policy, Section IV)

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-- General Guidelines and Policy, Section IV)

FINDING 2015-005 - INTERNAL CONTROLS OVER ENCOMPASS ACCOUNTING SYSTEM

Our audit testing identified internal control and security issues in the State's ENCOMPASS accounting system. The issues identified include deficiencies in the following areas:

- approval processes
- segregation of duties
- password controls
- system access
- system monitoring controls

It is critical that an agency approver, whether it be approval of a deposit, payment, journal entry or asset entry, be cognizant of the various funds, accounts, departments and programs of his/her agency in order that incorrect entries be returned to the entry staff for correction prior to approval. It is not the responsibility of the AOS staff to be aware of all operations within an agency and how they should be recorded. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 2.4)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Segregation of duties and safeguarding controls over cash, all other assets, and all forms of information processing are necessary for proper internal control.

Segregation of duties is the concept of having different people do different tasks within the organization. It provides the foundation of good internal control by assuring that no one individual has the capability to perpetuate and conceal errors or irregularities in the normal course of their authorized duties. Segregation of duties is achieved within information technology systems by appropriate assignment of security profiles that define the data the users can access and the functions that they can perform. Access must be restricted to the minimum required for the user to perform their job function. Access rights must be periodically reviewed and approved by management. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 14.2)

Reporting of user access rights to system functional capabilities and information, as well as reporting of security definitions such as configuration parameters, workflow approval hierarchy, thresholds, and override capabilities must be available to, and easily understood by, management and State Board of Accounts' Field Examiners during the course of a regularly scheduled audit. These security definitions and user access rights must enforce adequate segregation of duties for the accounting system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 14.3.4)

FINDING 2015-006 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Adequate controls were not in place to ensure that the Schedule of Expenditures of Federal Awards (SEFA) was reported accurately. The State did not have a proper system of internal control in place to prevent, or detect and correct, errors on the SEFA.

During the audit of the SEFA, we identified the amount reported for the Foster Care program was underreported by \$45,186,693. This error was not detected by the control processes put into place at the State to ensure that the SEFA is materially accurate.

An audit adjustment was proposed, accepted by the State, and made to the SEFA presented in this report.

The State should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

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)

Section III - Federal Award Findings and Questioned Costs

FINDING 2015-007 - SUBRECIPIENT MONITORING

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's Program
and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Number and Year (or Other Identifying Number): B-05-DC-18-0001, B-06-DC-18-0001,
B-07-DC-18-0001, B-08-DC-18-0001,
B-08-DF-18-0001, B-08-DI-18-0001,
B-09-DC-18-0001, B-10-DC-18-0001,
B-11-DC-18-0001, B-12-DC-18-0001,
B-13-DC-18-0001, B-14-DC-18-0001,
B-08-DI-18-0001

Management of the Indiana Office of Community and Rural Affairs (OCRA) has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Subrecipient Monitoring compliance requirement. Controls were not in place to ensure all subrecipients were monitored for compliance with laws, regulations, and the provisions of the grant agreements. Additionally, controls were not in place to ensure all subrecipients obtained the required audits in accordance with OMB Circular A-133. Employees of OCRA maintained monitoring schedules to ensure audits were properly completed; however, there were not any controls in place to ensure that the schedules were properly maintained.

This finding was originally reported during the Fiscal Year 2014 audit of Federal Awards as Finding 2014-008.

OMB Circular A-133, Subpart C, section .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."

The failure to establish effective internal controls over Subrecipient Monitoring could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds.

We recommended that OCRA's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

FINDING 2015-008 - SUSPENSION AND DEBARMENT

Federal Agency: U.S. Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205

Federal Award Number and Year (or Other Identifying Number): Estimated \$, N4510.705, N4510.770, N4510.774, NHSTA, RTA-000-1661, various

Management of the Indiana Department of Transportation (INDOT) did not establish an effective internal control system related to the grant agreement and the Suspension and Debarment compliance requirement.

INDOT did not have procedures in place to verify that subawards were not granted to a Local Public Agency that had been suspended or debarred.

OMB Circular A-133, Subpart C, section .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."

23 CFR 420.121(o) states in part:

"(1) The State DOTs and their subrecipients shall not award grants or cooperative agreements to entities who are debarred or suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549 of February 18, 1986 . . ."

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."

The failure to establish internal controls resulted in noncompliance with the compliance requirement. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds.

We recommended that INDOT officials establish and implement effective internal controls and comply with the Suspension and Debarment requirements of the program.

FINDING 2015-009 - SUBRECIPIENT MONITORING

Federal Agency: U.S. Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205

Federal Award Number and Year (or Other Identifying Number): Estimated \$, N4510.705, N4510.770, N4510.774, NHSTA, RTA-000-1661, various

Management of the Indiana Department of Transportation (INDOT) did not establish an effective internal control system related to the grant agreement and the Subrecipient Monitoring compliance requirement. Controls were not in place to ensure all subrecipients obtained the required audits in accordance with OMB Circular A-133. Employees of INDOT maintained monitoring schedules to ensure audits were properly completed; however, there were not any controls in place to ensure that the schedules were properly maintained.

A finding related to this compliance requirement was reported during the Fiscal Year 2014 audit of Federal Awards as Finding 2014-016.

OMB Circular A-133, Subpart C, section .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."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds to INDOT.

We recommended that INDOT's management establish controls related to the grant agreement and the Subrecipient Monitoring requirements of the program.

FINDING 2015-010 - SPECIAL TESTS AND PROVISIONS - QUALITY ASSURANCE PROGRAM

Federal Agency: U.S. Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Federal Award Number and Year (or Other Identifying Number): Estimated \$, N4510.705, N4510.770, N4510.774, NHSTA, RTA-000-1661, various

Management of the Indiana Department of Transportation (INDOT) did not establish an effective internal control system related to the grant agreement and the Special Test and Provisions - Quality Assurance Program (QA) compliance requirement. INDOT employees did not review the QA activities performed by qualified testing personnel until the project was complete, which could be several years after the QA activities were performed. Due to the timing of this review, any errors in the QA activities would not be identified timely.

During the audit for Fiscal Year 2015, a sample was selected of the required Quality Assurance Tests. Of the 98 selected, 3 Quality Assurance Tests were performed by individuals that were not properly qualified to perform the testing.

A finding related to this compliance requirement was reported during the Fiscal Year 2014 audit of Federal Awards as Finding 2014-017.

OMB Circular A-133, Subpart C, section .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."

23 CFR 637.205(d) states:

"Verification sampling and testing. The verification sampling and testing are to be performed by qualified testing personnel employed by the STD or its designated agent, excluding the contractor and vendor."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds.

We recommended that INDOT's management establish effective internal controls and comply with the Special Tests and Provisions - Quality Assurance Program compliance requirement.

FINDING 2015-011 - SPECIAL TESTS AND PROVISION - WAGE RATE REQUIREMENTS

Federal Agency: U.S. Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Federal Award Number and Year (or Other Identifying Number): Estimated \$, N4510.705, N4510.770, N4510.774, NHSTA, RTA-000-1661, various

Management of the Indiana Department of Transportation (INDOT) has not established an effective internal control system related to the grant agreement and the Special Test and Provision - Wage Rate Requirements. Controls were not in place to ensure the District Offices of INDOT received all weekly certified payrolls from contractors and subcontractors for weeks in which work was completed. A similar finding was reported in the prior year's report as Finding 2014-014. Based upon the prior year finding and information provided by INDOT, we selected 3 projects to test to determine if any changes have been implemented. For all 3 tested, we were unable to determine if we received all weekly certified payrolls for the audit period to test. As a result, we were not able to identify a complete population to sample from and therefore, we did not do any further testing. The District Offices maintained weekly payrolls that had been submitted and certified by the contractors; however, no records were kept to track if work was completed each week and if a certified payroll should have been submitted.

OMB Circular A-133, Subpart C, section .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."

29 CFR 3.3(b) states in part:

"Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by this part 3 and part 5 of this title during the preceding weekly payroll period. . . ."

The failure to establish internal controls resulted in noncompliance to the compliance requirement. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the Agency.

We recommended that INDOT's management develop and implement procedures and controls to ensure that all weekly certified payrolls are received for work completed on construction contracts.

FINDING 2015-012 - SPECIAL TEST AND PROVISIONS - VALUE ENGINEERING

Federal Agency: U.S. Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205

Federal Award Number and Year (or Other Identifying Number): Estimated \$, N4510.705, N4510.770, N4510.774, NHSTA, RTA-000-1661, various

Management of the Indiana Department of Transportation (INDOT) did not establish an effective internal control system related to the grant agreement and the Special Test and Provisions – Value Engineering. We identified six projects that were required to have a Value Engineering analysis performed. INDOT did not provide supporting documentation to show the analysis was performed for one project that was started in 2008. The project had an estimated cost at that time in excess of \$51.5 million. According to the INDOT financial records, a total of \$273,603 of federal funds were used for the project.

OMB Circular A-133, Subpart C, section .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."

23 CFR 627.5 states in part:

"(a) A VE analysis shall be conducted prior to the completion of final design on each applicable project that utilizes Federal-aid highway funding, and all approved recommendations shall be included in the project's plans, specifications and estimates.

(b) Applicable projects shall include the following:

- (1) Each project located on the National Highway System (NHS) (as specified in 23 U.S.C. 103) where the estimated total project cost is \$50 million or more that utilizes Federal-aid highway funding; . . ."

The failure to establish internal controls resulted in noncompliance to the compliance requirement. Noncompliance of the grant agreement or the compliance requirement could result in the loss of federal funds.

We recommended that INDOT's management establish and implement effective internal controls and comply with Special Tests and Provisions - Value Engineering compliance requirement.

***FINDING 2015-013 - ACTIVITIES ALLOWED OR UNALLOWED,
ALLOWABLE COSTS/COST PRINCIPLES, ELIGIBILITY***

Federal Agency: U.S. Department of Health and Human Services

Federal Program: Adoption Assistance

CFDA Number: 93.659

Federal Award Number and Year (or Other Identifying Number): 1301IN1407, 1401IN1407, 1501INADPT

Management of the Department of Child Services (DCS) did not establish an effective internal control system related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility.

Controls were not in place to ensure the required documents are maintained in the case files. Prior to 2009, all cases were handled by the individual counties and were required to be signed and dated by the County Director. Based upon a sample of all adoption assistance cases that had payments during the audit period, 4 of the 40 tested had Adoption Assistance Agreements that either were not signed, signed but didn't have a subsidy rate listed, or no agreement was presented to for audit. All 4 were cases that were initiated prior to 2009. Additionally, we sampled 71 cases to ensure the adoption assistance subsidy payment did not exceed the foster care maintenance payment. For 8 of the cases, there was no documentation to ensure the adoption assistance subsidy payment did not exceed the foster care maintenance payment.

Without the required documents, we could not determine if eligibility was properly determined. Compliance with Activities Allowed or Unallowed and Allowable Costs/Cost Principles requirements is dependent on the payment being made to adoptive parents in connection with an eligible child. Since we could not determine if the recipient was eligible, we could not determine if the payment was for an Allowable Activity or made in accordance with Allowable Costs/Cost Principles.

A finding related to these compliance requirements was reported during the Fiscal Year 2014 audit of Federal Awards as Finding 2014-031.

OMB Circular A-133, Subpart C, section .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."

45 CFR 1356.40(b) states:

"(b) The adoption assistance agreement for payments pursuant to section 473(a)(2) must meet the requirements of section 475(3) of the Act and must:

- (1) Be signed and in effect at the time of or prior to the final decree of adoption. A copy of the signed agreement must be given to each party; and
- (2) Specify its duration; and
- (3) Specify the nature and amount of any payment, services and assistance to be provided under such agreement and, for purposes of eligibility under title XIX of the Act, specify that the child is eligible for Medicaid services; and
- (4) Specify, with respect to agreements entered into on or after October 1, 1983, that the agreement shall remain in effect regardless of the place of residence of the adoptive parents at any given time."

42 USC 673 states in part:

"(1)(A) Each State having a plan approved under this part shall enter into adoption assistance agreements (as defined in section 675(3) of this title) with the adoptive parents of children with special needs.

(B) Under any adoption assistance agreement entered into by a State with parents who adopt a child with special needs, the State—

- (i) shall make payments of nonrecurring adoption expenses incurred by or on behalf of such parents in connection with the adoption of such child, directly through the State agency or through another public or nonprofit private agency, in amounts determined under paragraph (3), and
- (ii) in any case where the child meets the requirements of paragraph (2), may make adoption assistance payments to such parents, directly through the State agency or through another public or nonprofit private agency, in amounts so determined.

(2)(A) For purposes of paragraph (1)(B)(ii), a child meets the requirements of this paragraph if—

- (i) in the case of a child who is not an applicable child for the fiscal year (as defined in subsection (e)), the child—

- (I)(aa)(AA) was removed from the home of a relative specified in section 606(a) of this title (as in effect on July 16, 1996) and placed in foster care in accordance with a voluntary placement agreement with respect to which Federal payments are provided under section 674 of this title (or section 603 of this title, as such section was in effect on July 16, 1996), or in accordance with a judicial determination to the effect that continuation in the home would be contrary to the welfare of the child; and

- (BB) met the requirements of section 672(a)(3) of this title with respect to the home referred to in sub item (AA) of this item;

- (bb) meets all of the requirements of subchapter XVI with respect to eligibility for supplemental security income benefits; or

- (cc) is a child whose costs in a foster family home or child-care institution are covered by the foster care maintenance payments being made with respect to the minor parent of the child as provided in section 675(4)(B) of this title; and

- (II) has been determined by the State, pursuant to subsection (c)(1) of this section, to be a child with special needs; or

- (ii) in the case of a child who is an applicable child for the fiscal year (as so defined), the child—

- (I)(aa)at the time of initiation of adoption proceedings was in the care of a public or licensed private child placement agency or Indian tribal organization pursuant to—

- (AA) an involuntary removal of the child from the home in accordance with a judicial determination to the effect that continuation in the home would be contrary to the welfare of the child; or

- (BB) a voluntary placement agreement or voluntary relinquishment;

- (bb) meets all medical or disability requirements of subchapter XVI with respect to eligibility for supplemental security income benefits; or

- (cc) was residing in a foster family home or child care institution with the child's minor parent, and the child's minor parent was in such foster family home or child care institution pursuant to—

- (AA) an involuntary removal of the child from the home in accordance with a judicial determination to the effect that continuation in the home would be contrary to the welfare of the child; or

- (BB) a voluntary placement agreement or voluntary relinquishment; and

(II) has been determined by the State, pursuant to subsection (c)(2), to be a child with special needs. . . .

(3) The amount of the payments to be made in any case under clauses (i) and (ii) of paragraph (1)(B) shall be determined through agreement between the adoptive parents and the State or local agency administering the program under this section, which shall take into consideration the circumstances of the adopting parents and the needs of the child being adopted, and may be readjusted periodically, with the concurrence of the adopting parents (which may be specified in the adoption assistance agreement), depending upon changes in such circumstances. However, in no case may the amount of the adoption assistance payment made under clause (ii) of paragraph (1)(B) exceed the foster care maintenance payment which would have been paid during the period if the child with respect to whom the adoption assistance payment is made had been in a foster family home. . . ."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds.

We recommended that DCS's management establish policies and procedures to ensure all documents used to determine eligibility is properly maintained in the case file and available for audit.

FINDING 2015-014 - SUBRECIPIENT MONITORING

Federal Agency: U.S. Department of Health and Human Services

Federal Program: Child Support Enforcement

CFDA Number: 93.563

Federal Award Number and Year (or Other Identifying Number): 1204IN4005, 1304IN4005,
1404IN4005, 1504INCES

Management of the Indiana Department of Child Services (DCS) did not establish an effective internal control system over the Subrecipient Monitoring compliance requirement. DCS could not provide documentation that sufficient monitoring activities were performed to ensure the subrecipients complied with all applicable federal requirements. Additionally, DCS is required to monitor subrecipients to ensure the subrecipient obtained an audit in accordance with OMB Circular A-133. DCS maintained a monitoring schedule to document when these audits were required to be completed; however, there were not any controls in place to ensure that the schedule was properly maintained and that compliance with the requirements were met.

This finding was originally reported during the Fiscal Year 2014 audit of Federal Awards as Finding 2014-029.

OMB Circular A-133, Subpart C, section .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."

OMB Circular A-133, Subpart D, section.400 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."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds.

We recommended that DCS's management establish policies, procedures, and controls to ensure proper monitoring of subrecipients activities and required audits.

FINDING 2015-015 - CASH MANAGEMENT

Federal Agency: U.S. Department of Health and Human Services

Federal Program: Child Support Enforcement

CFDA Number: 93.563

Federal Award Number and Year (or Other Identifying Number): 1204IN4005, 1304IN4005,
1404IN4005, 1504INCES

Management of the Department of Child Services (DCS) has not established an effective internal control system over the Cash Management compliance requirement. Policies and procedures were not in place to monitor subrecipients for Cash Management compliance requirements; therefore, no monitoring was performed to ensure subrecipients minimized the time elapsing between the transfer of federal funds from DCS and the disbursement of funds by the subrecipient for program purposes.

OMB Circular A-133, Subpart C, section .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."

45 CFR 92.37(a) states:

"*States.* States shall follow state law and procedures when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local and Indian tribal governments. States shall:

- (1) Ensure that every subgrant includes any clauses required by Federal statute and executive orders and their implementing regulations;
- (2) Ensure that subgrantees are aware of requirements imposed upon them by Federal statute and regulation;
- (3) Ensure that a provision for compliance with §18.42 is placed in every cost reimbursement subgrant; and

- (4) 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."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds.

We recommended that DCS's management establish controls and ensure subrecipients are following Cash Management requirements.

FINDING 2015-016 - SUBRECIPIENT MONITORING

Federal Agency: U.S. Department of Labor

Federal Program: WIA/WIOA Adult Program, WIA/WIOA Youth Activities,
WIA/WIOA Dislocated Worker Formula Grants

CFDA Number: 17.258, 17.259, 17.278

Federal Award Number and Year (or Other Identifying Number): AA-22934-12-55-A-18,
AA-24091-13-55-A-18,
AA-25352-14-55-A-18,
AA-21394-11-55-A-18

Management of the Department of Workforce Development (DWD) did not establish an effective internal control system, which would include segregation of duties, related to the grant agreement and the Subrecipient Monitoring compliance requirement. Controls were not in place to ensure all subrecipients obtained the required audits in accordance with OMB Circular A-133. An employee of DWD maintains a tracking spreadsheet for each subrecipient and is also responsible for contacting and following up with any subrecipients that receive a federal audit; however, there were not any controls in place to ensure the spreadsheet was properly maintained and that compliance was being met.

OMB Circular A-133, Subpart C, section .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."

The failure to establish internal controls could enable noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements could result in the loss of federal funds.

We recommended that DWD's management establish controls, including segregation of duties, related to the grant agreement and the Subrecipient Monitoring compliance requirement.

FINDING 2015-017 - SPECIAL TESTS AND PROVISIONS - UI PROGRAM INTEGRITY - OVERPAYMENTS

Federal Agency: U.S. Department of Labor

Federal Program: Unemployment Insurance

CFDA Number: 17.225

Federal Award Number and Year (or Other Identifying Number): Estimate

The Indiana Department of Workforce Development (DWD) enacted Indiana Code 22-4-11-1.5 to meet the requirements of 26 USC 3303 subsection (a)(1). This law went into effect July 1, 2013.

Indiana Code 22-4-11-1.5 states:

"(a) As used in this section, 'erroneous payment' means a payment that would not have been made but for the failure by an employer or a person acting on behalf of the employer with respect to a claim for unemployment benefits to which the payment relates.

(b) As used in this section, 'pattern of failure' means a repeated and documented failure by an employer or a person acting on behalf of an employer to respond to requests for information made by the department, taking into consideration the number of failures in relation to the total number of requests received by the employer or the person acting on behalf of an employer.

(c) The experience account of an employer may not be relieved of charges for a benefit overpayment from the state's unemployment insurance benefit fund established by IC 22-4-26-1, if the department determines that:

- (1) the erroneous payment was made because the employer or a person acting on behalf of the employer was at fault in failing to respond in a timely or adequate manner to the department's written request for information relating to the claim for unemployment benefits; and
- (2) the employer or a person acting on behalf of the employer has established a pattern of failure to respond in a timely or adequate manner to department requests described in subdivision (1)."

DWD's management is in the process of developing policies and procedures to determine and track a "pattern of failure" for employers in order to implement this law; however, during our audit period, and as of the date of this report, this has not been implemented.

This finding was originally reported during the Fiscal Year 2014 audit of Federal Awards as Finding 2014-011.

26 USC 3303, as amended by Public Law 112-40, title II, §252, Oct. 21, 2011, 125 Stat. 421, 422 states in part:

"(f) Prohibition on noncharging due to employer fault

(1) In general A State law shall be treated as meeting the requirements of subsection (a)(1) only if such law provides that an employer's account shall not be relieved of charges relating to a payment from the State unemployment fund if the State agency determines that—

(A) the payment was made because the employer, or an agent of the employer, was at fault for failing to respond timely or adequately to the request of the agency for information relating to the claim for compensation; and

(B) the employer or agent has established a pattern of failing to respond timely or adequately to such requests.

(2) State authority to impose stricter standards

Nothing in paragraph (1) shall limit the authority of a State to provide that an employer's account not be relieved of charges relating to a payment from the State unemployment fund for reasons other than the reasons described in subparagraphs (A) and (B) of such paragraph, such as after the first instance of a failure to respond timely or adequately to requests described in paragraph (1)(A)."

Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds.

We recommended that DWD's management establish a system that can track employers' responses for timeliness and accuracy to establish a pattern of failure to ensure that an employer, who is determined to be untimely in their response or does not provide accurate information, is not relieved of the Unemployment Insurance benefit charges.

FINDING 2015-018 - SUBRECIPIENT MONITORING

Federal Agency: U.S. Department of Health and Human Services

Federal Program: Block Grants for Prevention and Treatment of Substance Abuse

CFDA Number: 93.959

Federal Award Number and Year (or Other Identifying Number): 2B08T1010019-14, 3B08T1010019-13

Management of the Indiana Family and Social Services Administration (FSSA) did not establish an effective internal control system related to the grant agreement and the Subrecipient Monitoring compliance requirement. Controls were not in place to ensure proper monitoring of subrecipients.

Prior to July 1, 2015, FSSA contracted out the monitoring of its subrecipients that provided treatment services. After July 1, 2015, FSSA began monitoring these subrecipients in-house. There were 63 subrecipients for the treatment portion of the program, only 33 of those were monitored during the audit period. Of those monitored, we sampled 12 to test to ensure proper monitoring took place, and identified 1 that did not have supporting documentation of the monitoring. We identified an additional 7 that were monitored with noncompliance identified, but no corrective action or follow up was taken with the subrecipient.

Additionally, FSSA did not have controls in place to ensure all subrecipients obtained the required audits in accordance with OMB Circular A-133. FSSA requested a copy of the audit reports of subrecipients that qualified for an audit based solely on the amount of Federal awards received from FSSA; however, for those subrecipients that received less than \$500,000 from FSSA, no action was taken to ensure the subrecipient did not receive Federal awards from another State agency, pass-through entity, or as a direct grant.

OMB Circular A-133, Subpart C, section .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."

OMB Circular A-133, Subpart D, section .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. . . ."

Failure to establish internal controls resulted in noncompliance to the compliance requirement. Non-compliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds.

We recommended that the FSSA's management establish policies and procedures to ensure compliance with the grant agreement and the Subrecipient Monitoring compliance requirements.

FINDING 2015-019 - REPORTING

Federal Agency: Social Security Administration

Federal Program: Social Security - Disability Insurance

CFDA Numbers: 96.001

Federal Award Numbers and Year (or Other Identifying Numbers): 1304INDI00, 1404IND100, 1504IND100

Management of the Indiana Family and Social Services Administration (FSSA) did not implement an effective internal control system over the Reporting compliance requirement to ensure that documentation to support the full-time personnel section of the report was retained for audit. FSSA prepared the required quarterly SSA-4514, Time Reports of Personnel Services for Disability Determination Services, from information generated by the Auditor of State payroll system for the quarters ending September 30, 2014, December 31, 2014, and March 31, 2015. FSSA did not maintain the documents that supported the 3 reports and the documents could not be reproduced. We could not test the full-time personnel section of the reports to ensure compliance with the Reporting requirements.

This finding was originally reported during the Fiscal Year 2014 audit of Federal Awards as Finding 2014-024.

OMB Circular A-133, Subpart C, section .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."

2 CFR 200.302(a) states:

"Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds.

We recommended that FSSA's management establish controls to ensure the reports filed have the proper supporting documentation to support amounts reported and that the supporting documentation be available for audit.

FINDING 2015-020 - PERIOD OF PERFORMANCE

Federal Agency: Social Security Administration

Federal Program: Social Security - Disability Insurance

CFDA Numbers: 96.001

Federal Award Numbers and Year (or Other Identifying Numbers): 1504IND100

Management of the Indiana Family and Social Services Administration (FSSA) did not implement an effective internal control system over the Period of Performance compliance requirement to ensure that expenses were charged to the proper federal fiscal year (FFY) grant award. An incorrect parameter file in the Indiana Real Case Tracking System (AS-400 System) was not detected and corrected by management; thus, allowing expenses obligated prior to October 1, 2014, to be charged to the FFY 2015 grant award. After management discovered that the expenses were incorrectly charged to the FFY 2015 grant award while reviewing monthly financial information, FSSA Accounting Operations prepared adjusting journal entries to correct the errors. However, our testing of invoices revealed that a total of \$11,264 was obligated prior to October 1, 2014, for Medical Evidence Record (MER) and Consultative Examinations (CE) expenses and charged to the FFY 2015 grant award and was not included in the adjusting journal entries. We consider the \$11,264 to be questioned costs. Additional audit analysis revealed that an additional \$235,798 in MER and CE expenses were likely obligated prior to October 1, 2014, and charged to the FFY 2015 grant award. FSSA did not receive authorization from the Social Security Administration to obligate the funds prior to October 1, 2014, and charge the expenses to the FFY 2015 grant award.

Program Operations Manual System (POMS) Disability Insurance (DI) 39506.100 states:

"The SSA-872 notifies the State agencies of the funding that may be obligated or expended by the State and the dates covered by the funding."

The initial and subsequent SSA-872 Forms, State Agency Obligational Authorization for SSA Disability Programs, state that the beginning date covered by FFY 2015 grant award funding is October 1, 2014.

OMB Circular A-133, Subpart C, section .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."

2 CFR 200.309 states:

"A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance (except as described in §200.461 Publication and printing costs) and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds.

We recommended that FSSA's management establish policies and procedures and ensure compliance with the Period of Performance requirements.

FINDING 2015-021 - ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, ELIGIBILITY

Federal Agency: U.S. Department of Health and Human Services

Federal Program: Temporary Assistance for Needy Families

CFDA Number: 93.558

Federal Award Number and Year (or Other Identifying Number): 1402INTANF, 1502INTANF,
1102INTANF, 1202INTANF, 1302INTANF,
1402INTANF, 1502INTANF, G-1002INTANF,
49-14-SZ-1181-02, 49-15-SZ-1181-01

Management of the Family and Social Services Administration (FSSA) did not establish an effective internal control system over the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility compliance requirements. Controls were not in place to ensure all required documentation to support eligibility determinations was available for audit. In order to be allowable, the recipient must be eligible to receive benefits.

During our testing of cash assistance payments, 8 of the 53 cases did not have sufficient supporting documentation to establish eligibility. Specifically, the eight separate cases did not have copies of birth certificates or two alternative forms of verification of relationships included within the supporting documentation. Due to the lack of supporting documentation, the relationships between the eligible child and the adult cash assistant applicant cannot be verified.

A finding related to this compliance requirement was reported during the Fiscal Year 2014 audit of Federal Awards as Finding 2014-025.

OMB Circular A-133, Subpart C, section .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."

45 CFR 205.60 states in part:

"A State plan under title I, IV—A, X, XIV, or XVI (AABD) of the Social Security Act must provide that:

(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."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds to FSSA.

We recommended that FSSA's management establish controls procedures to protect the retention and accessibility of case files.

FINDING 2015-022 - ELIGIBILITY

Federal Agency: U.S. Department of Education

Federal Program: Rehabilitation Services_Vocational Rehabilitation Grants to States

CFDA Number: 84.126

Federal Award Number and Year: H126A130019-13C, H126A140019

Management of the Family and Social Services Administration (FSSA) did not establish an effective internal control system over the Eligibility compliance requirement. Eligibility for Vocational Rehabilitation (VR) services is determined by VR counselors after initial application. FSSA was unable to provide evidence of a control in place over these eligibility determinations that ensures federal funds are expended on behalf of eligible individuals.

OMB Circular A-133, Subpart C, section .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."

The failure to establish internal controls could enable noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements could result in the loss of federal funds.

We recommended that FSSA's management establish policies and procedures to ensure documentation that the control in place was being conducted.

FINDING 2015-023 - SPECIAL TESTS AND PROVISIONS - COMPLETION OF IPES

Federal Agency: U.S. Department of Education

Federal Program: Rehabilitation Services_Vocational Rehabilitation Grants to States

CFDA Number: 84.126

Federal Award Number and Year: H126A130019-13C, H126A140019

Management of the Family and Social Services Administration (FSSA) did not establish an effective internal control system over the Special Tests and Provision - Completion of IPES compliance requirement. Vocational Rehabilitation (VR) Counselors utilize reports from the IRIS system to aid in identifying Individualized Plans for Employment (IPEs) that are due or past due in accordance with the timeframes outlined in the agency's policies and procedures. Additionally, VR Supervisors review at least 75 percent of the IPEs prepared by the Counselors to determine timeliness, among other things.

Although FSSA utilizes the internal controls above to determine the timeliness of IPE development, FSSA's process failed to identify the appropriate Federal implementation date of the new IPE 90-day timeline, and for the period July 22, 2014 through May 28, 2015, FSSA maintained policies and procedures allowing for completion of the IPEs within 120 days after the eligibility determination date, unless otherwise extended. Accordingly, there were no internal controls designed and implemented to ensure compliance with the shorter 90-day provision for a majority of the audit period, which resulted in VR services being delayed up to 30 days for eligible individuals during that timeframe.

OMB Circular A-133, Subpart C, section .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."

29 USC 722(b)(3)(F) states:

"The individualized plan for employment shall be developed as soon as possible, but not later than a deadline of 90 days after the date of the determination of eligibility described in paragraph (1), unless the designated State unit and the eligible individual agree to an extension of that deadline to a specific date by which the individualized plan for employment shall be completed."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds.

We recommended that FSSA's management establish effective controls to timely identify and implement changes in applicable Federal program requirements and ensure continued compliance with those requirements.

FINDING 2015-024 - EARMARKING

Federal Agency: U.S. Department of Education

Federal Program: Rehabilitation Services_Vocational Rehabilitation Grants to States

CFDA Number: 84.126

Federal Award Number and Year (or Other Identifying Number): H126A130019-13C, H126A140019

Management of the Indiana Family and Social Services Administration (FSSA) has not established an effective internal control system related to the grant agreement and the Earmarking compliance requirement. FSSA is required to reserve at least 15 percent of its Vocational Rehabilitation (VR) allotment for pre-employment services. FSSA has not identified a way to track the pre-employment services and, therefore, 15 percent of the allotment was not reserved for the provision of pre-employment transition services during the audit period.

OMB Circular A-133, Subpart C, section .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.

29 USC 730(d) states:

"Funds for pre-employment transition services

- (1) From any State allotment under subsection (a) for a fiscal year, the State shall reserve not less than 15 percent of the allotted funds for the provision of pre-employment transition services.
- (2) Such reserved funds shall not be used to pay for the administrative costs of providing pre-employment transition services."

The failure to establish internal controls resulted in noncompliance. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds.

We recommended that FSSA's management establish controls and comply with the Earmarking compliance requirement.

FINDING 2015-025 - PERIOD OF PERFORMANCE

Federal Agency: U.S. Department of Education

Federal Program: Rehabilitation Services_Vocational Rehabilitation Grants to States

CFDA Number: 84.126

Federal Award Number and Year (or Other Identifying Number): H126A130019-13C, H126A140019

Management of the Indiana Family and Social Services Administration (FSSA) did not establish an effective internal control system related to the grant agreement and the Period of Performance compliance requirement.

Our testing of a sample of 26 transactions identified 3 transactions, for a total of \$28,403, which was obligated prior to the period of performance. We consider the \$28,403 to be questioned costs.

OMB Circular A-133, Subpart C, section .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."

34 CFR 80.23(a) states:

"Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover or unobligated balance is permitted, in which case the carryover balance may be charged for costs resulting from obligations of the subsequent funding period."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds.

We recommended that FSSA's management establish controls to ensure allowable expenditures are charged to the appropriate open grant year based on when the underlying obligation occurred.

FINDING 2015-026 - CASH MANAGEMENT

Federal Agency: U.S. Department of Education

Federal Program: Title I Grants to Local Educational Agencies, Improving Teacher Quality State Grants, School Improvement Grants, ARRA - School Improvement Grants, Recovery Act

CFDA Number: 84.010, 84.367, 84.377, 84.388

Federal Award Number and Year (or Other Identifying Number): S010A110014, S010A120014,
S010A130014, S010A140014,
S367A120013, S367A130013,
S367A140013, S377A110015,
S377A120015, S388A090015

Management of the Indiana Department of Education (IDOE) has not established an effective internal control system over Cash Management compliance requirements. Policies and procedures were not in place to monitor subrecipients for Cash Management compliance requirements; therefore, no monitoring was performed to ensure subrecipients minimized the time elapsing between the transfer of federal funds from IDOE to the disbursement of funds by the subrecipient for program purposes.

OMB Circular A-133, Subpart C, section .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."

34 CFR 80.37(a) states:

"*States.* States shall follow state law and procedures when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local and Indian tribal governments. States shall:

- (1) Ensure that every subgrant includes any clauses required by Federal statute and executive orders and their implementing regulations;
- (2) Ensure that subgrantees are aware of requirements imposed upon them by Federal statute and regulation;
- (3) Ensure that a provision for compliance with §80.42 is placed in every cost reimbursement subgrant; and
- (4) 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."

34 CFR 80.26(b) states in part:

"*Subgrantees.* State or local governments, as those terms are defined for purposes of the Single Audit Act Amendments of 1996, that provide Federal awards to a subgrantee, which expends \$300,000 or more (or other amount as specified by OMB) in Federal awards in a fiscal year, shall:

- (2) Determine whether the subgrantee spent Federal assistance funds provided in accordance with applicable laws and regulations. This may be accomplished by reviewing an audit of the subgrantee made in accordance with the Act, Circular A-110, or through other means (e.g., program reviews) if the subgrantee has not had such an audit; . . ."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds.

We recommended that IDOE's management establish policies and procedures to monitor subrecipients for Cash Management requirements.

FINDING 2015-027 - SPECIAL TESTS AND PROVISIONS - SCHOOLWIDE PROGRAMS

Federal Agency: U.S. Department of Education

Federal Program: Title I Grants to Local Educational Agencies; Improving Teacher Quality State Grants; School Improvement Grants, ARRA - School Improvement Grants, Recovery Act

CFDA Number: 84.010, 84.367, 84.377, 84.388

Federal Award Number and Year (or Other Identifying Number): S010A110014, S010A120014,
S010A130014, S010A140014,
S367A120013, S367A130013,
S367A140013, S377A110015,
S377A120015, S388A090015

Management of the Indiana Department of Education (IDOE) did not establish an effective internal control system, which would include segregation of duties, related to the grant agreement and the Special Tests and Provisions - Schoolwide Programs compliance requirement.

The IDOE *Title I Handbook 2014-2015* contained the following language: "Though school-wide programs have the option to consolidate funds, Indiana does not consolidate funds. This is an SEA decision." This language was evidence that a barrier exists, preventing Local Education Agencies (LEAs) from easily consolidating funds from other Federal, State, and local sources in their schoolwide programs.

OMB Circular A-133, Subpart C, section .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."

34 CFR section 200.29(e) states:

"Each state must--

- (1) Encourage schools to consolidate funds from other Federal, State, and local sources in their schoolwide programs; and
- (2) Modify or eliminate State fiscal and accounting barriers so that schools can easily consolidate funds from other Federal, State, and local sources in their schoolwide programs."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds.

We recommended that IDOE's management establish policies and procedures to eliminate barriers that would prevent LEAs from easily consolidating funds from other federal, state, and local sources in their schoolwide programs.

FINDING 2015-028 - SUBRECIPIENT MONITORING

Federal Agency: U.S. Department of Education

Federal Program: Title I Grants to Local Education Agencies, Improving Teacher Quality State Grants

CFDA Number: 84.010; 84.367

Federal Award Number and Year (or Other Identifying Number): S010A110014, S010A120014,
S010A130014, S010A140014,
S367A120013, S367A130013,
S367A140013

Management of the Indiana Department of Education (IDOE) did not establish an effective internal control system, which would include segregation of duties, related to the grant agreement and the Subrecipient Monitoring compliance requirements. Subrecipient Monitoring for Title I Grants to Local Education Agencies and Improving Teacher Quality State Grants are performed simultaneously by an IDOE Grant Specialist. During our testing of subrecipients, we noted the following noncompliance with the Subrecipient Monitoring compliance requirements:

- *Identification of Award Information:* Notification of the Federal award CFDA title and number, award name and number, award year, if the award is Research & Development, and name of the Federal agency was not provided to subrecipients in an organized manner prior to the beginning of grant activity.
- *During the Award Monitoring:* Desktop, fiscal, and on-site reviews were conducted for subrecipients. Subrecipients determined to have deficiencies were required to submit corrective action plans to DOE. Of the 44 subrecipients that had findings and were selected for testing, we noted 5 that did not have appropriate reviews and follow up procedures conducted on the corrective action plans.
- *Monitoring of Subrecipient Audits:* The Federal financial activity of subrecipients was not monitored adequately to determine which schools expended more than \$500,000 and were eligible for a Federal audit. Additionally, procedures were not in place to locate and review audit reports issued for all eligible subrecipients.

OMB Circular A-133, Subpart C, section .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."

OMB Circular A-133, Subpart D, section .400(d) states:

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

- (1) 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. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- (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.
- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds.

We recommended that the IDOE's management establish controls and ensure the Subrecipient Monitoring compliance requirements have been met.

FINDING 2015-029 - SUSPENSION AND DEBARMENT

Federal Agency: U.S. Department of Education

Federal Program: School Improvement Grants, ARRA - School Improvement Grants, Recovery Act

CFDA Number: 84.377, 84.388

Federal Award Number and Year (or Other Identifying Number): S377A110015, S377A120015,
S388A090015

Management of the Indiana Department of Education (IDOE) did not design and implement an effective internal control system over the Suspension and Debarment compliance requirement. IDOE awards subgrants to Local Educational Agencies (LEAs); however, IDOE does not verify that the LEAs are not suspended or debarred from doing business with the Federal government.

This finding was originally reported during the Fiscal Year 2014 audit of Federal Awards as Finding 2014-018.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reason-able 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."

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.'"

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."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds.

We recommended that IDOE's management establish policies and procedures and ensure the Suspension and Debarment compliance requirement has been met.

FINDING 2015-030 - ELIGIBILITY, EARMARKING

Federal Agency: U.S. Department of Education

Federal Program: School Improvement Grants, ARRA - School Improvement Grants, Recovery Act

CFDA Number: 84.377, 84.388

Federal Award Number and Year (or Other Identifying Number): S377A110015, S377A120015,
S388A090015

Management of the Indiana Department of Education (IDOE) has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and both Eligibility and Earmarking compliance requirements. Controls are not in place that would prevent, or detect and correct, material noncompliance.

There was no segregation of duties over these requirements; one person is responsible for ensuring compliance with each requirement. There were not any controls identified which would ensure that any errors or noncompliance with these requirements would be detected.

A finding related to these compliance requirements was reported during the Fiscal Year 2014 audit of Federal Awards as Finding 2014-019.

OMB Circular A-133, Subpart C, section .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."

The failure to establish internal controls could enable noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds.

We recommended that IDOE's management establish controls, including segregation of duties, related to the grant agreement and both Eligibility and Earmarking compliance requirements.

FINDING 2015-031 - SUBRECIPIENT MONITORING

Federal Agency: U.S. Department of Education

Federal Program: School Improvement Grants, ARRA - School Improvement Grants, Recovery Act

CFDA Number: 84.377, 84.388

Federal Award Number and Year (or Other Identifying Number): S377A110015, S377A120015,
S388A090015

Management of the Indiana Department of Education (IDOE) did not establish an effective internal control system, which would include segregation of duties, related to the grant agreement and the Subrecipient Monitoring compliance requirements. The IDOE did not provide documentation of adequate monitoring in the following areas:

- *Identification of Award Information:* Notification of the Federal award CFDA title and number, award name and number, award year, if the award is Research & Development, and name of the Federal agency was not provided to subrecipients in an organized manner prior to the beginning of grant activity.
- *During the Award Monitoring:* Fiscal monitoring was not conducted for the 2014-2015 school year. Reimbursement requests submitted by subrecipients did not contain detailed information about expenditures. Consequently, there is not adequate monitoring to ensure that Federal awards are used for authorized purposes.
- *Monitoring of Subrecipient Audits:* The Federal financial activity of subrecipients was not monitored adequately to determine which schools expended more than \$500,000 and were eligible for a Federal audit. Additionally, procedures were not in place to locate and review audit reports issued for all eligible subrecipients.
- *ARRA Subawards:* Subrecipients receiving ARRA funding were not monitored to ensure that the school corporation had a current registration in the System for Award Management.

A finding related to this compliance requirement was reported during the Fiscal Year 2014 audit of Federal Awards as Finding 2014-020.

OMB Circular A-133, Subpart C, section .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."

OMB Circular A-133, Subpart D, section .400(d) states:

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

- (1) 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. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- (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.
- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part."

34 CFR 80.40(a) states in part:

"Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds.

We recommended that IDOE's management establish controls and ensure the Subrecipient Monitoring compliance requirements have been met.

FINDING 2015-032 - ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: U.S. Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Number and Year (or Other Identifying Number): S010A110014, S010A120014,
S010130014, S010140014

Management of the Indiana Department of Education (IDOE) has not established an effective internal control system over Allowable Costs/Cost Principles compliance requirements. IDOE allocated costs for agency wide expenditures to the Title I program based on a cost allocation plan that had not been approved for use by the Federal Government. Costs of the agency wide services were allocated to the Title I program based on the proportion of total IDOE employees working on the Title I program. Expenditures charged to the Title I program based on the unapproved cost allocation plan totaled \$41,773, which are considered questioned costs.

OMB Circular A-133, Subpart C, section .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."

OMB Circular A-87, Attachment A, Part H, states in part:

"Each cost allocation plan or indirect cost rate proposal required by Attachments C and E must comply with the following:

1. No proposal to establish a cost allocation plan or an indirect cost rate, whether submitted to a Federal cognizant agency or maintained on file by the governmental unit, shall be acceptable unless such costs have been certified by the governmental unit using the Certificate of Cost Allocation Plan or Certificate of Indirect Costs as set forth in Attachments C and E. The certificate must be signed on behalf of the governmental unit by an individual at a level no lower than chief financial officer of the governmental unit that submits the proposal or component covered by the proposal.
2. No cost allocation plan or indirect cost rate shall be approved by the Federal Government unless the plan or rate proposal has been certified. Where it is necessary to establish a cost allocation plan or an indirect cost rate and the governmental unit has not submitted a certified proposal for establishing such a plan or rate in accordance with the requirements, the Federal Government may either disallow all indirect costs or unilaterally establish such a plan or rate. Such a plan or rate may be based upon audited historical data or such other data that have been furnished to the cognizant Federal agency and for which it can be demonstrated that all unallowable costs have been excluded. When a cost allocation plan or indirect cost rate is unilaterally established by the Federal Government because of failure of the governmental unit to submit a certified proposal, the plan or rate established will be set to ensure that potentially unallowable costs will not be reimbursed."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds.

We recommended that the IDOE's management establish controls and ensure the Allowable Costs/Cost Principles compliance requirements have been met.

FINDING 2015-033 - ALLOWABLE COSTS/COSTS PRINCIPLES

Federal Agency: U.S. Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Number and Year (or Other Identifying Number): S010A110014; S010A120014,
S010A130014, S010A140014

Management of the Indiana Department of Education (IDOE) has not established an effective internal control system over Allowable Costs/Cost Principles compliance requirements. IDOE was recently informed by the U.S. Department of Education (ED) that Title I allocations for the State of Indiana were calculated incorrectly for State fiscal years 2011 through 2015. IDOE officials have indicated that the agency is working in conjunction with ED to review prior year Title I allocations. IDOE has concluded the recalculation of the 2011 Title I allocations and have begun recalculation of the 2012 allocations.

OMB Circular A-133, Subpart C, section .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."

34 CFR 200.70 states:

"(a) The Secretary allocates basic grants, concentration grants, targeted grants, and education finance incentive grants, through SEAs, to each eligible LEA for which the Bureau of the Census has provided data on the number of children from low-income families residing in the school attendance areas of the LEA (hereinafter referred to as the 'Census list').

(b) In establishing eligibility and allocating funds under paragraph (a) of this section, the Secretary counts children ages 5 to 17, inclusive (hereinafter referred to as 'formula children')—

- (1) From families below the poverty level based on the most recent satisfactory data available from the Bureau of the Census;
- (2) From families above the poverty level receiving assistance under the Temporary Assistance for Needy Families program under Title IV of the Social Security Act;
- (3) Being supported in foster homes with public funds; and
- (4) Residing in local institutions for neglected children.

(c) Except as provided in §§ 200.72, 200.75, and 200.100, an SEA may not change the Secretary's allocation to any LEA that serves an area with a total census population of at least 20,000 persons.

(d) In accordance with § 200.74, an SEA may use an alternative method, approved by the Secretary, to distribute the State's share of basic grants, concentration grants, targeted grants, and education finance incentive grants to LEAs that serve an area with a total census population of less than 20,000 persons."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal.

We recommended that IDOE's management develop and implement procedures and controls and ensure that allocations are made in accordance with the Federal guidelines.

FINDING 2015-034 - REPORTING

Federal Agency: U.S. Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Number and Year (or Other Identifying Number): S010A110014; S010A120014,
S010A130014, S010A140014

Management of the Indiana Department of Education (IDOE) has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Reporting compliance requirements.

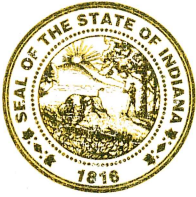
DOE is required to submit Per Pupil Enrollment data as part of the National Public Education Finance Survey (NPEFS). Data uploaded for the NPEFS is derived from a combined file of Indiana School Corporations' Form 9 biannual financial information. There is no evidence to support a review by an IDOE employee separate from the submitter prior to submission of the survey. There were no controls identified which would ensure that any errors or noncompliance with these requirements would be detected.

OMB Circular A-133, Subpart C, section .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."

The failure to establish internal controls could enable noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements could result in the loss of federal funds.

We recommended that IDOE's management establish controls, including segregation of duties, related to the grant agreement and the Reporting compliance requirements.



Suzanne Crouch
Auditor of State

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March 23, 2016

Mr. Paul D. Joyce, CPA, State Examiner
Indiana State Board of Accounts (SBOA)
302 W. Washington Street
Indiana Government Center South, Suite E418
Indianapolis, IN 46204

Dear Mr. Joyce:

This letter provides the corrective action plans to the financial statement findings for inclusion in the State's Single Audit Report for the fiscal year ended June 30, 2015.

FINDING 2015-001, MEDICAID ACCRUALS

Adequate controls were not in place to ensure that the Public Welfare-Medicaid Assistance Fund (Medicaid Fund) accruals were properly reported. The Family and Social Services Agency (FSSA) compiles year end Medicaid Fund accrual entries which the Auditor of State manually posts as adjustments to the financial statements. The accounts payable accrual for medical claims incurred, but not yet paid, is determined using a query of Medicaid claims data. The associated grants receivable is calculated by applying the federal matching rate to the Medicaid accounts payable calculation. In 2014, errors were identified in the query which resulted in an immaterial overstatement of the modified accounts payable and grant receivable. The Auditor of State declined to make the immaterial adjustments to the statements in 2014, but instructed FSSA to use corrected queries in 2015 for both the modified and full accrual adjustments. In 2015, FSSA again used the old query which resulted in material overstatements of accounts payable and grants receivable. For the modified accrual, FSSA overstated accounts payable and grants receivable in the Medicaid Fund by \$54,272,926 and \$36,113,207 respectively. For the full accrual, FSSA overstated the incremental accounts payable and grants receivable adjustments by \$1,073,608,470 and \$714,189,480 for a total overstatement of accounts payable and receivables (net) in the Government Wide Statement of Net position of \$1,127,881,396 and \$750,302,687 respectively.

FSSA posted a prior period adjustment based on the corrected accounts payable query results. The full accrual accounts payable is an average of the most recent 3 years of data for claims paid in a fiscal year with a date of service from a prior fiscal year. In the calculation of the prior period adjustment, FSSA neglected to re-run the 2012 calculation using the new criteria. FSSA instead used the previously reported number for 2012, creating an overstatement in the prior period accounts payable adjustment of \$96 million and an associated overstatement of grants receivable of \$64 million for a net understatement of restated net position of \$32 million.

FSSA had a review process in place; however the review process did not prevent, detect and correct the errors in the current year accrual or prior period adjusting entries.

Following our communication of the above noted errors, adjustments were recorded to correct the financial statements.

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--General Guidelines and Policy, Section IV)

Corrective Action Plan:

FSSA will evaluate the query of Medicaid claims paid after the end of the state fiscal year (SFY) with dates of service in or before that SFY which is used to prepare the Medicaid modified and full accruals. After the initial accruals have been compiled by FSSA for the CAFR they will be distributed for review to the Office of Medicaid Policy and Planning (OMPP) then approved by the FSSA Agency Controller. This will help ensure that the Medicaid accruals provided to the Auditor of State for inclusion in the CAFR include appropriate adjustments and that they are accurate.

In addition, FSSA's controller and CFO will meet with the staff of the SBOA and AOS in the Spring of 2016 to ensure that the actions being taken to address this finding are progressing as needed.

Contact Person:

David Nelson, Agency Controller, Family and Social Services Administration, 317-233-3045,
David.Nelson@fssa.in.gov

Anticipated Completion Date:

October 5, 2016

FINDING 2015-002, INVESTMENT NOTE DISCLOSURE ERRORS

Adequate controls were not in place to ensure that the information presented in the investment note disclosures were accurate. The Treasurer of State compiles the investment note disclosures and provides them to the Auditor of State for inclusion in the State's Comprehensive Annual Financial Report (CAFR). Our audit identified the following errors in the investment note disclosures presented for audit:

- Concentration of Credit Risk – Federal Home Loan Bank (FHLB) was shown as \$451,161,334. This is the FHLB General Fund amount and should have also included the FHLB Trust Fund amount of \$330,411,631, for a combined total of \$781,572,965.
- Major Moves & Next Generation – Credit quality rating for investments in debt securities table documented \$26,582,863 in Government Collateralized Mortgage Obligations (CMO's) rated as "NR" or Not Rated. The rating should be "AA" based on the Interest Rate Risk spreadsheet.
- Major Moves & Next Generation – Credit quality rating for investments in debt securities table documented \$130,623 as Non US Govt/Corp Bonds rated as "AA". This amount should be rated as "AAA" based on the "5 – 10 year" tab on the Interest Rate Risk spreadsheet.
- Major Moves & Next Generation – Credit quality rating for investments in debt securities table documented \$83 (expressed in thousands) with a rating of "NR" and nothing rated as "B" for Municipal Bonds. Based on the Interest Rate Risk spreadsheet, it should show Municipal Bonds at \$81 (expressed in thousands) with a rating of "B" and 3 (expressed in thousands) with a rating of "NR".

- Major Moves & Next Generation – Credit quality rating for investments in debt securities table documented \$3 (expressed in thousands) with a rating of “CCC & Below” for Municipal Bonds. Based on the Interest Rate Risk spreadsheet, none of the Municipal Bonds should be rated at CCC & Below.

Following our communication of the above noted errors, adjustments were recorded to correct the note disclosures.

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--General Guidelines and Policy, Section IV)

Corrective Action Plan:

The Treasurer of State has many good internal controls in place to ensure the accuracy of financial information and would like to stress that the above noted errors did not result in any misstatement of the State’s financial statements. The above noted errors were only in the note disclosures themselves. The Concentration of Credit Risk error was a result of incorrectly manually transferring accurate data from an EXCEL spreadsheet to a WORD document for inclusion in the CAFR. The percentage of FHLB investments was correctly presented as 11.81%. The other errors were a result of formatting issues. Regardless, the Treasurer of State’s office does not minimize these errors, because accuracy is considered very important.

The recent addition of a new staff position, Assistant Portfolio Manager, in the Treasurer’s office, will allow for added controls to be put into place. The Assistant Portfolio Manager will prepare the investment notes, which will then be reviewed by the Portfolio Manager prior to submitting the investment notes to the Auditor of State for inclusion in the State’s CAFR.

Additionally, and of even further significance, the Treasurer’s Office is proposing to use the GASB 40 tables electronically produced by the Treasurer Office’s custodian bank which will eliminate virtually all of the manual entry into the current tables that are presented in the investment notes. As a result of this, the possibility of transposition and formatting errors as noted above will be mostly eliminated.

These changes will help significantly in creating the proper controls and reduce the potential for errors needed to ensure that the information presented is accurate.

Contact Person:

Mike Frick, Deputy Treasurer/Investment Manager, Office of Treasurer of State, 317-232-0140,
mfrick@tos.in.gov

Anticipated Completion Date:

December 23, 2015

FINDING 2015-003, INTERNAL CONTROLS OVER TAX REVENUES

During our audit of tax revenues administered by the Indiana Department of Revenue (DOR), we identified the following deficiencies in internal control:

1. DOR utilizes stand-alone custom taxpayer account systems, spreadsheets, and databases that were developed over time to support the core tax processes at DOR. DOR's Revenue Processing System (RPS) processes the majority of tax returns collected, refunds issued, and adjustments to taxpayer accounts, but other stand-alone taxpayer account systems and databases are used by DOR to support tax types not maintained in the RPS.

DOR did not perform timely reconciliations between the State's ENCOMPASS accounting records and its stand-alone custom taxpayer account systems, spreadsheets, and databases. DOR performed one comprehensive reconciliation encompassing the state fiscal year as of June 30, 2015, which was not completed until late August 2015; therefore, inhibiting DOR from detecting and correcting errors or omissions in a timely manner.

Our testing identified errors in the reconciliation and multiple revisions to both the reconciliation and supporting population transaction files were needed. After working with DOR to make the necessary revisions, DOR presented the final reconciliation to us in mid-October 2015. The reconciliation indicated the following differences between DOR's population transaction files and the State's ENCOMPASS financial accounting records:

Opinion Unit	Amount per the State's ENCOMPASS Accounting Records	Amount per DOR's Transaction Population Files	Difference
General Fund	\$13,983,882,654	\$13,953,241,472	\$30,641,182 or 0.22%
Aggregate Remaining Fund Information	1,646,421,876	1,650,496,365	(4,074,489) or -0.25%

Additionally, as a result of our testing of General Fund and Aggregate Remaining Fund Information tax revenues transactions, we identified specific variances between the transaction files and ENCOMPASS. Based on our audit procedures, we projected variances of \$12,583,871 and \$2,125,609 for the General Fund and Aggregate Remaining Fund Information opinion units, respectively. The projected variances identified less activity in the aforementioned detailed transactions than in ENCOMPASS. DOR did not present additional transactions or provide additional information to account for these differences. The projected variances, alone or in combination with the above noted respective variances, were not considered material to either of these opinion units in the financial statements.

2. Each day, when hardcopy tax return information is automatically posted to RPS from the originating system, a Recap Discrepancy Report is generated listing the batches of tax returns, which includes the following information for each batch: batch identification number, tax type, total count of items, total dollar amount, and problems identified by the system. Our inquiry of DOR management and staff revealed that the Recap Discrepancy Report does not consider the tax type when verifying the recap data to the batches in RPS, which could result in a misclassification of tax revenues. DOR management did not design and implement adequate controls to sufficiently compensate for this deficiency.

3. DOR's internal controls over changes to taxpayer account systems were not adequate to ensure compliance was being maintained. Deficiencies in internal controls increase the risk that discrepancies or fraud could be undetected. We issued a management letter to DOR management dated April 16, 2014, concerning this matter. On August 26, 2015, we received a status update from DOR stating that DOR was unable to implement wholesale security changes within RPS to eliminate internal control deficiencies; however, the status update indicated that improvements and progress had been made.

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-- General Guidelines and Policy, Section IV)

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-- General Guidelines and Policy, Section IV)

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-- General Guidelines and Policy, Section IV)

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from the original source of entry into the system, through all system processing, through various levels of summarizations, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing and summarizations, and to the original source of entry into the system. Audit trails must also identify the user that processed the transaction or updated the information. These audit trails must be protected from modification and deletion. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 14.3.5)

Corrective Action Plan:

1) Timely taxpayer system to accounting system reconciliations

The Indiana Department of Revenue (IDOR) has developed and documented a three step reconciliation process and template to reconcile PeopleSoft General Ledger detail to the Trial Balance and to the taxpayer source system at the lowest level of detail. The complex reconciliation process involves gathering data from multiple sources and building/accumulating monthly the historical detail into a year to date file for each fiscal year. We are current with the reconciliations for FY2016.

2) Verification of classification of the tax revenues

Subsequent to the compliance period under review by State Board of Accounts, the Agency transitioned to a new imaging vendor. This system conversion resulted in discontinuance of the Recap Discrepancy

Report referenced in this finding. However, the essence of the finding that tax type classification verification is required in addition to the verifications performed by the Agency, has been addressed in FY2016. The Agency verifies on a daily basis the RPS generated Report of Collections / Receipts Report G that summarizes each deposit by tax type against the Finance Hub tax type breakdown for each deposit.

3) Changes to taxpayer account systems

IDOR has made significant improvements to security/change management since June 2013. 62% of the 13 specific State Board of Accounts findings have been completely resolved, 31% were partially corrected and we will continue to make significant progress on these findings over the next twelve months, and 7% will not be corrected in the current RPS system. More substantial changes are not expected until the replacement of RPS. The need to and the intent to replace RPS altogether is expected in the near term. The 2015 Indiana General Assembly appropriated \$2M in FY2016 and FY2017 to conduct a broader integrated tax system feasibility study and to continue the system modernization efforts for all of the tax types administered by IDOR. Having effective internal controls over changes to the taxpayer account systems is a priority requirement for the new integrated tax system that the Agency implements, which will take multiple years.

Contact Person:

Valerie Hunt, Chief Financial Officer, Indiana Department of Revenue, 317-232-2177, vhunt@dor.in.gov

Anticipated Completion Date:

See dates, as applicable, included in the Corrective Action Plan.

FINDING 2015-004, RECONCILIATIONS BETWEEN KIDTRAKS AND ENCOMPASS

The Indiana Department of Child Services (DCS) maintains a subsidiary system, KidTraks. DCS did not perform a comprehensive reconciliation between expenses recorded in KidTraks and expenses posted to the State's accounting system, ENCOMPASS. Management of DCS did not design and implement adequate controls to sufficiently compensate for this deficiency.

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-- General Guidelines and Policy, Section IV)

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-- General Guidelines and Policy, Section IV)

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-- General Guidelines and Policy, Section IV)

Corrective Action Plan:

The Department of Child Services concurs that the need for a comprehensive reconciliation exists and will be undertaking efforts to accomplish this task. While we have been performing several moment-in-time, silo-based confirmations of data and transactions between the Encompass System and our Child specific system (Kid Traks), we recognize how this does not seem to fulfill the internal control concept as outlined in the Finding.

Development of a comprehensive reconciliation of the KT-to- Encompass records will be defined and presented to the Application Development team for determining timeline and requirement actions/owners. It is anticipated that this will also require a redesign for the legacy (pre State administration of payments) records and data cleansing for broken/orphaned records due to enhancements/growth introduced when responsibilities of administering and fully funding care for Indiana's Child Welfare clients shifted to the State from the counties in January of 2010.

Contact Person:

Rick Peterson, Chief Financial Officer, Department of Child Services, Telephone 317-234-6910,
rick.peterson@dcs.in.gov

Anticipated Completion Date:

Department of Child Services anticipates that documentation of the Reconciliation functional requirements and critical intersections can be completed by June 30, 2016. Development and system modifications are tentatively projected for completion by June 2017. We would be comfortable in projecting that the first execution of the established reconciliation process as occurring with the State's closure of the July 2017 General Ledger. The agency will take all opportunities to deliver earlier where possible.

FINDING 2015-005, INTERNAL CONTROLS OVER ENCOMPASS ACCOUNTING SYSTEM

Our audit testing identified internal control and security issues in the State's Encompass Accounting system. The issues identified include deficiencies in the following areas:

- approval processes
- segregation of duties
- password controls
- system access
- system monitoring controls

It is critical that an agency approver, whether it be approval of a deposit, payment, journal entry or asset entry, be cognizant of the various funds, accounts, departments and programs of his/her agency in order that incorrect entries be returned to the entry staff for correction prior to approval. It is not the responsibility of the AOS staff to be aware of all operations within an agency and how they should be recorded. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 2.4)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Segregation of duties and safeguarding controls over cash, all other assets, and all forms of information processing are necessary for proper internal control.

Segregation of duties is the concept of having different people do different tasks within the organization. It provides the foundation of good internal control by assuring that no one individual has the capability to perpetuate and conceal errors or irregularities in the normal course of their authorized duties. Segregation of duties is achieved within information technology systems by appropriate assignment of security profiles that define the data the users can access and the functions that they can perform. Access must be restricted to the minimum required for the user to perform their job function. Access rights must be periodically reviewed and approved by management. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 14.2)

Reporting of user access rights to system functional capabilities and information, as well as reporting of security definitions such as configuration parameters, workflow approval hierarchy, thresholds, and override capabilities must be available to, and easily understood by, management and State Board of Accounts' Field Examiners during the course of a regularly scheduled audit. These security definitions and user access rights must enforce adequate segregation of duties for the accounting system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 14.3.4)

Corrective Action Plan:

We appreciate and take seriously the issues related to ENCOMPASS, the State's accounting system since September 2009, from the 2015 Comprehensive Annual Financial Report and information technology audits. We are in the process of developing a plan with specific actions to be undertaken to address these issues as applicable. This plan, when readied, will be shared with the Enterprise Governance Review Board and Steering Committee which is responsible for overseeing ENCOMPASS and that includes representatives of the Auditor of State, Treasurer of State, State Budget Agency, State Personnel Department, Department of Administration, State Board of Accounts, and Office of Technology.

Contact Persons:

Courtney Everett, Deputy Auditor of Operations, Auditor of State's Office, 317-233-9817, ceverett@auditor.in.gov

Tracy Barnes, Information Technology Director, Auditor of State's Office, 317-234-1916, tbarnes@auditor.in.gov

Tad Stahl, Chief Information Officer, Indiana Office of Technology, 317-234-3434, tstahl@iot.in.gov

Paul Jasheway, Deputy/Assistant IT Director, Indiana Office of Technology, Government Management Information Systems, 317-232-6752, pjasheway@iot.in.gov

Anticipated Completion Date:

June 30, 2016

FINDING 2015-006, PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Adequate controls were not in place to ensure that the Schedule of Expenditures of Federal Awards (SEFA) was reported accurately. The State did not have a proper system of internal control in place to prevent, or detect and correct, errors on the SEFA.

During the audit of the SEFA, we identified the amount reported for the Foster Care program was underreported by \$45,186,693. This error was not detected by the control processes put into place at the State to ensure that the SEFA is materially accurate.

An audit adjustment was proposed, accepted by the State, and made to the SEFA presented in this report.

The State should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

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)

Corrective Action Plan:

DCS has been reviewing its grant processes to determine what procedures are appropriate and what changes need to be made to the process. We have started reviewing monthly queries for negative revenues, expenses on federal projects not in the federal fund and Over Distribution Limit "ODL" rows in project resources. We plan to compare monthly our project expenses and revenues collected and Year to Date comparison of the same information. Additionally, we will compare on a quarterly basis our reports with the federal reporting requirements (CB-496, CB-396, etc.) that are required by our federal partners. We have also started to include new verbiage in our journals that deal with prior year changes so they can be reviewed separately from our normal business.

Once the SEFA report is created, it will be approved the grant department, then by the Assistant Deputy Director for Special Projects and finally made available to the CFO for final review. These controls and reviews will correct the deficiencies stated above.

Contact Person:

Clinton A. Bohm, Assistant Deputy Director for Special Projects, 317-234-5768, Clinton.Bohm@dcs.in.gov

Anticipated Completion Date:

July 1, 2016

SBOA CAFR Audit Corrective Action Plans, June 30, 2015
March 23, 2016
Page 10

If you have any questions or require further information, please contact Courtney Everett, Deputy Auditor of Operations, at 233-9817 or via email at ceverett@auditor.in.gov.

Sincerely,



Suzanne Crouch
Auditor of State
State of Indiana



Kelly Mitchell
Treasurer of State
State of Indiana



Micah Vincent
Director
Office of Management and Budget



**OFFICE OF THE LT. GOVERNOR
STATE HOUSE
INDIANAPOLIS, INDIANA 46204-2797**

2015-007 Subrecipient Monitoring

Contact Person(s): Aletha Dunston, Mitzi Moss

Anticipated Completion Date: 9/30/15

Corrective Action

The State CDBG program manager will now review the sub-recipient A-133 spreadsheet for completion no less than quarterly. The program manager will document via email when the review is complete.



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Brandye L. Hendrickson,
Commissioner

FINDING 2015-008 – SUSPENSION AND DEBARMENT

Contact Person(s): Kathy Eaton-McKalip

Anticipated Completion Date: Controls are in place as of February 11, 2016.

Corrective Action:

The Suspension and Debarment wording was added to the INDOT-LPA (Local Public Agency) Agreement boilerplate. The wording was reviewed and approved by the INDOT Legal Division and the updated INDOT-LPA Agreement boilerplate was added to the INDOT LPA website. The updated boilerplate is utilized for all newly processed contracts. Further, the sam.gov website is utilized by the LPA Program Section to review for LPA's with noted exclusions. In the event a LPA is identified with a noted exclusion, INDOT Management will be notified for further action.



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FINDING 2015-009 - SUBRECIPIENT MONITORING

Contact Person(s): Kathy Eaton-McKalip

Anticipated Completion Date: December 2016 Controls are in place with additional steps underway to include the process in the Professional Services Contracting System (PSCS) and INDOT Project Closeout (PCO) System.

Corrective Action:

On June 4, 2015 the LPA Program Section initiated a review of the section’s procedures regarding Subrecipient Monitoring to ensure compliance with the applicable policies. Review of the pertinent documentation and discussion with key personnel disclosed action was taken on several key points in the action plan and other points within the action plan were in the process of correction as of the date of the review. The documented corrective actions and the review of these actions by the LPA Funding and Contract Manager are noted below.

STATUS OF CORRECTION

1. The following procedures were implemented early in fiscal year 2016:
 - a) Per the Contracts Program Director, a review is performed at the time of the contract implementation. This review is of the available A133 audits (Single Audit Act) located on the internet at <http://www.in.gov/sboa/resources/reports/audit/Default.aspx> or from the LPA Section’s file of audits provided by the LPA for the applicable LPA to ensure the LPA was audited if the sub recipient expended \$750,000.00 or more in Federal awards in a fiscal year. The Contracts Program Director prepares a spreadsheet entitled “FA-133 AUDIT FINDING TRACKING SPREADSHEET” where the information from these reviews is summarized. This spreadsheet is located on the Y: drive for review at Y:/Scans/LPA/LPA Contract Documents/FA-133 AUDIT FINDINGS TRACKING SPREADSHEET. An example of the format of this spreadsheet is noted below.

FA-133 Verification Spreadsheet

LPA Name	Date of LPA Audit	Year Audited	Any Cash Mgmt. or Trans. Findings (Y/N)	Corrective Action for Finding Attached (Y/N)	Date of Last Verification	Compliance Follow-up Date (if applicable)	Comments

During these reviews the Funding and Contracts Manager will assist the Contracts Program Director if the reviews of the LPA audits indicate audit citations that need additional scrutiny and/or follow-up prior to the implementation of the contract. All correspondence and corrective action will be filed for ready reference. The routing slip for the new contracts was updated on 06/10/15 to reflect this process. This process was included in the Draft - INDOT Standard Operating Manual for Processing Local Public Agency Federal-Aid Projects (SOP). A spreadsheet (Review of FA-133 Audits maintained on file at Y:/Scans/LPA/Audit Follow-up) is prepared by the Contracts Program Director and/or the LPA Funding and Contracts Manager highlighting the citations in the SBOA audit reports and the LPA corrective action plans. This spreadsheet is routed with the contract to ensure key personnel reviewing the contract are aware of the relevant LPA citations (and therefore level of risk associated with the LPA) and whether or not the citations were addressed by the LPA. Upon conversation with the State Board of Accounts Auditors it is understood that LPA's that have documented "Going Concern" issues should be forwarded to appropriate Management for further action/monitoring and are considered "High Risk" LPA's.

The A133 audit also needs to be checked when the Purchase Order (PO) is issued and payments are made from the PO which could be substantially later than the actual contract implementation date prompting potential excessive lag times. Discussions with the Director of Project Accounting, Budget, & Procurement and the Fiscal Analysis & Reporting Manager confirmed the audit reports are to be reviewed by Central Office LPA Section prior to awarding funds/entering into a new contract which was being performed. Further, according to the Fiscal Analysis & Reporting Manager the audit reports are also to be reviewed when the Purchase Order (PO) is issued.

The following procedure was implemented and requires the assistance of the Fiscal Analysis & Reporting Manager with INDOT's Finance Division. This procedure was discussed and agreed upon on 06/10/15.

1. On a quarterly basis (July, Oct, Jan, April) the Fiscal Analysis & Reporting Manager will provide the Contracts Program Director with a report of all payment activity for the various LPAs. A comparison is performed by the Contracts Program Director similar to the review performed at contract implementation to determine if an applicable audit report was available and if any audit findings need to be addressed. In order to avoid duplicate efforts, the FA-133 AUDIT FINDING TRACKING SPREADSHEET may be utilized as a resource when possible. This review will be maintained on the Y: drive for ready reference at Y:\Scans\LPA\LPA Contract Documents\Quarterly Audit Reviews.

2. A “Review of FA-133 Audit” spreadsheet is prepared and maintained on file as noted above for any LPA’s with payments within the review periods that do not have a current “Review of FA-133 Audit” spreadsheet on file.
 3. District personnel, such as the District Consulting Services Coordinator, District Program Director, or District Project Manager may be a source for information when assurance is needed that an audit citation has been corrected by the LPA. The District Program Directors and District Project Managers attend quarterly meetings with the LPAs with active contracts and monitor the progress of the projects.
 4. This process was included in the Draft - INDOT Standard Operating Manual for Processing Local Public Agency Federal-Aid Projects (SOP). Further, the requirement of the submission of the LPAs Federal Financial Reports was outlined in the INDOT Local Public Agency Project Development Process Guidance Document for Local Federal-Aid Projects (LPA Guidance Document). Submission is verified using the following SBOA internet address <http://www.in.gov/sboa/resources/reports/audit/Default.aspx> as well as the document files of submitted audit reports maintained by the LPA Section.
- b) LPA invoices for reimbursement are reviewed when received at the District level first by the District Finance Program Coordinator 3 for form completion and recalculation of totals and comparison with prior Vouchers from the PO then by the Project Manager to ensure the included expenses were allowable per the contract. The invoices are then approved by the Project Managers once the review for allowable expenses is performed. This process was included in the Draft - INDOT Standard Operating Manual for Processing Local Public Agency Federal-Aid Projects (SOP).
- c) The LPA Section’s review to ensure that the sub-recipient’s have an accounting system in place to allow for accurate reporting is addressed in point a. above through the review of the LPA audit reports.



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FINDING 2015-010 - SPECIAL TESTS AND PROVISIONS – QUALITY ASSURANCE

Contact Person(s): John Leckie, Matthew Beeson, Mark Miller

Anticipate Completion Date: May 2016

Corrective Action

The QUALIFIED LABORATORY AND TECHNICIAN PROGRAM (Directive No. 106) will be revised to include the following clarification:

Qualification Required for Personnel Conducting Acceptance Sampling or Testing

The Project Engineer/Supervisor will ensure that all project sampling/testing is done by personnel who meet the requirements of the Qualified Technician Program. In the rare case that the testing is conducted by someone not current qualified, the test results will not be used for acceptance.

If tests are done by an employee or non-department employee that is not currently qualified, both the District Construction Director and the District Testing Engineer will be notified within 5 business days. Additional testing may be required based on the guidance of the District Testing Engineer.



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2014-011 SPECIAL TESTS AND PROVISION - WAGE RATE

Contact Person(s): David Alyea, Mark Miller

Anticipate Completion Date: March 2016

Corrective Action

Within the Site Manager construction software program there is a report feature that can generate a listing of all contractors and subcontractors with staff numbers that worked in a week. Instruction was provided to field staff through Construction Memo 15-12 on how to correctly enter data and generate this report. This memo was issued on August 3, 2015. Daily reports completed prior to this date may not have been completed in a manner that would capture all the information correctly. This report provides a convenient check that all payrolls have been received. The Project Engineer/Supervisor could also maintain a hard copy or spreadsheet log of subcontractor & contractor employees working on site each week. There may be discrepancies in the number of employees in each classification on daily reports and weekly payrolls. This occurs when a contractor has employees working partial days on a contract. For example, the project staff may record the number of employees at the beginning of the day. Additional employees may arrive to work a partial day on the site at a later time. Project staff may not be aware the additional employees are on the site. There may also be discrepancies if supervisors are counted in a different job classification. Supervisors should not be reported on the weekly payroll report. This topic has been discussed in the Winter 2016 construction conferences to emphasize the importance of maintaining accurate information on the number of weekly payrolls needed for each contract.



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2014-012 SPECIAL TEST AND PROVISIONS - VALUE ENGINEERING

Contact Person(s): Trevor Mills

Anticipate Completion Date: Complete

Corrective Action

INDOT's Value Engineering policy has been added to Chapter 50 of the Indiana Design Manual. The policy has been reviewed and approved by Joiner Lagpacan of FHWA, and Elizabeth Phillips, the INDOT Standards and Policy Director.

The Value Engineering (VE) study will be uploaded into INDOT's Electronic Records Management System as part of the Final Tracings submittal. I will send an annual report to Eryn Fletcher of FHWA that details each VE study completed in the Capital Program. The policy from the Indiana Design Manual is provided below:

50-3.01 General [Rev. Feb. 2016]

Value engineering is not merely a method of cost cutting but a methodology to review alternatives and to suggest choices that still provide a reasonable product without reducing its quality. Value engineering is a proven effective tool for both product improvement and design enhancement. VE can substantially improve design and cost-effectiveness of projects, facilities, operations, procedures and other areas of the transportation program.

The Department must comply with the US Code of Federal Regulations, 23 CFR Part 627, regarding value engineering for each project that utilizes Federal-aid highway funding. A Value Engineering (VE) analysis should be conducted prior to the completion of final design on each applicable State and Local Public Agency (LPA) project. Failure to comply with the VE requirements by PS&E will preclude the use of federal funds and delay the project letting. Projects that require a VE analysis include the following:

1. Road projects on the National Highway System (NHS) receiving federal assistance with an estimated total cost of \$50 million or more. The total cost includes the sum of all engineering, environmental, right of way, Utility, Railroad, and construction costs attributable to the project.
2. Bridge projects on the NHS receiving federal assistance with an estimated total cost of \$40 million or more. The total cost includes the sum of all engineering, environmental, right of way, Utility, Railroad, and construction costs attributable to the project.
3. Any major projects, located on or off of the NHS that utilizes Federal-aid highway funding in any contract or phase comprising the major project. A major project is defined as a project with an estimated total cost of \$500 million or more.

4. Any project where a VE analysis has not been conducted and a change is made to the project's scope or design between the final design and the construction letting which results in an increase in the project's total cost exceeding the thresholds identified above for road and bridge projects.
5. A project determined to be appropriate by FHWA that utilizes Federal-aid highway program funding.

50-3.02 Value Engineering Analysis [Rev. Feb. 2016]

The VE analysis may be completed anytime during the planning, environmental, or design phases of a project as long as there is enough project information available to conduct an effective VE analysis. However, the VE analysis should be completed as early as practical in development of a project to maximize the opportunities for savings.

In accordance with 23 CFR 630.205, all approved VE recommendations must be included in the project's plans, specifications and estimates (PS&E) prior to authorizing the project for construction. VE analyses are not required for non-NHS bridge projects or for projects delivered using the design/build method of procurement.

If after conducting a VE analysis the project is subsequently split into smaller projects, now under the thresholds shown above, in the design phase or the project is programmed to be completed by the letting of multiple construction projects, an additional VE analysis is not required. However, the project manager may not avoid the requirement to conduct a VE analysis on an applicable project by splitting the project into smaller projects, or programming multiple design or construction projects.

50-3.02(01) Value Engineering Team [Rev. Feb. 2016]

It is the responsibility of the project manager assigned to deliver the project to assemble a multi-disciplinary team to complete the VE analysis and provide recommendations. The team may not include individuals who were directly involved in the planning and development phases of the project, e.g. project manager or designer. The team should be comprised of 3-5 people and led by a different project manager within the Capital Program Management Division. The VE project manager will be responsible for completing the VE analysis in accordance with the Value Engineering Workbook.

50-3.02(02) Value Engineering Workbook [Rev. Feb. 2016]

The Value Engineering Workbook should be completed as soon as possible after Stage 1 review is complete. The project manager will provide the recommendations to the designer for review. The designer should provide comments to the project manager within 15 days. Value Engineering Workbook instructions are available from the Department's Project Management website.

50-3.02(03) Value Engineering Recommendation and Implementation [Rev. Feb. 2016]

The Value Engineering Recommendation Memo is completed by the VE project manager and should be presented to the Capital Program Management Deputy Commissioner within 15 days of receiving and reconciling the comments from the designer.

The final direction to implement the recommendations will be given by the Deputy Commissioner of Capital Program Management. The Deputy Commissioner will sign off on each recommendation from the memo and include a justification.

The project manager should include the signed VE Recommendation Memo as part of the VE workbook and upload it into ERMS. The following naming convention should be used:
FT ValEngStudy DesNumber for Contract Services.

A hard copy of the workbook and recommendations should be distributed to the Project Support Division Director. The changes recommended for implementation are compiled by project and reported to FHWA as part of the annual Value Engineering report.

50-3.03 References [Rev. Feb. 2016]

The following references are available for more detailed information on value engineering techniques and procedures.

1. FHWA Value Engineering Policy, FHWA Order 1311.1B, August 28, 2013.
2. *AASHTO Guidelines for Value Engineering*, 2010, AASHTO.
3. *Value Engineering Workshop*, National Highway Institute, Course Number 134005.



Michael R. Pence, Governor
Mary Beth Bonaventura, Director

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Child Support Hotline: 800-840-8757
Child Abuse and Neglect Hotline: 800-800-5556

March 14, 2016

DCS 2015 Findings Corrective Action Plan

2015-013 - ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST

PRINCIPLES, ELIGIBILITY

Contact Person(s): Rick Peterson, Chief Financial Officer

Anticipated Completion Date: June 30, 2017

Corrective Action

The Department of Child Services (DCS) centralized eligibility determination and payment processing for adoption assistance in 2009. Documentation of Title IV-E eligibility for adoptions finalized since 2009 is maintained in central office. The majority of adoption assistance cases currently in payment status were finalized after centralization in 2009.

Corrective action is focused on adoptions finalized since 2009. A file review and record retention initiative is currently underway in DCS' local offices. This is improving access to Title IV-E eligibility documents for adoptions finalized prior to 2009. DCS plans to complete file reviews and record retention activities in local offices by June 30, 2017.

2015-014 SUBRECIPIENT MONITORING

Contact Person(s): Adam Norman, Assist. Deputy Director, DCS CSB Financial Quality Assurance

Anticipated Completion Date: Status will be provided in next DCS A-133 Review

Corrective Action

CSB will continue to perform the following activities:

- 1) Specific protocols and procedures have been implemented to review and monitor the monthly expense claims of sub-recipients and also the quarterly incentive expenditures and incentive balances of sub-recipients. This includes a review for reasonableness of the expenditures by the CSB Financial Quality Assurance (FQA) Department, and also for variances of these expenditures. If needed, the CSB FQA Department contacts the sub-

recipient for additional information, explanation of expenditures, and potential corrections.

2) The CSB FQA Department also monitors and performs a detailed review of county Cost Allocation Plans (CAP). All of these reviews are tracked in detailed spreadsheets that accompany written review procedures, and are also checked by the supervisors of the CSB FQA Department.

Additionally, for SFY 2016 CSB has implemented the Financial Quality Assurance Reviews of sub-recipients. This involves a detailed review of a county's ledgers, budgets, claims and supporting documentation plus an on-site visit which is subsequently conducted with the county Auditor, Clerk, Prosecuting Attorney, and IV-D court as applicable. After the on-site review, specific recommendations will be given to each office as needed for compliance with federal rules. For these reviews, a detailed spreadsheet is maintained by the CSB FQA Department which records all Review action taken with each county office plus the detailed recommendations given to each county office. The Supervisor and Assistant Deputy Director of the FQA Department review the entire spreadsheet to ensure the Reviews have been conducted and recommendations created. Further, the Deputy Director receives and responds to status reports from the Assistant Deputy Director to ensure the reviews are conducted in a timely manner and to also review the recommendations sent to county offices.

In SFY 2015 and SFY 2016, CSB has issued several guidance documents to all sub-recipients. Also, self-guided, interactive PowerPoint presentations have been issued to assist sub-recipients with proper claiming procedures, and improvement of supporting documentation. Several supporting documentation forms were developed by CSB and sent to sub-recipients as options for them to utilize. Additionally, for SFY 2016, the IV-D Online Expenditure Online Forms tool is being enhanced to better assist counties to properly submit claims and report incentive expenditures and balances, and the IV-D Expense Reporting Guide is being updated to make it easier for the reader to locate information.

Finally, the CSB FQA Department reviews all SBOA audit findings of sub-recipients as well as their responses and corrective action plans. Sub-recipients are contacted to ensure compliance with the corrective action plan and also proof of compliance is required by CSB. A detailed spreadsheet was developed to manage these activities and resolutions. CSB has accessed Gateway to determine if a county was required to have a single audit based on the federal threshold and ensured those counties all have had an audit completed. This information is also captured on the spreadsheet. Secondary reviews of the spreadsheet are conducted by the Supervisor and the Assistant Deputy Director of the CSB FQA Department. The Supervisor and the Assistant Deputy Director of the FQA Department also conduct periodic overall reviews of the entire spreadsheet and set review meetings with staff to ensure proper monitoring and action on the SBOA audit findings.

2015-015 CASH MANAGEMENT

Contact Person(s): Adam Norman, Assist. Deputy Director, DCS CSB Financial Quality Assurance

Anticipated Completion Date: Status will be provided in next DCS A-133 Review

Corrective Action

Specific rules have been communicated, and protocols and procedures have been implemented to monitor the cash management (cash basis accounting) procedures of sub-recipients by the CSB Financial Quality Assurance (FQA) Department.

CSB has clearly set rules, which are included in the IV-D Expense Reporting Guide and reinforced to all county sub-recipient offices during trainings and presentations, which dictate that expenditures must be paid prior to submitting for reimbursement. This is based on the idea of cash based accounting principles, which is communicated to all county offices utilizing federal IV-D funds.

Within the Self-Guided Title IV-D Monthly Expense Claiming and Quarterly Incentive Expenditure Reporting PowerPoint (PPT), this concept is clearly defined. This PPT was distributed via webmail to all county sub-recipient offices in 2015, plus it is currently available for viewing and review on the CSR (the CSB's website accessible by all county sub-recipient offices). Further, the IV-D Expense Reporting Guide also outlines these principles and internal control methods in Section 3, County Claims and Incentive Reporting.

Monitoring occurs both during the review of monthly expense claims/quarterly incentive balances, and during the FQA Reviews. For the former, if needed, the CSB FQA Department contacts the sub-recipient for additional information, explanation of expenditures, and potential corrections of their utilization of proper cash management procedures.

During the FQA Reviews, the concept of only reporting actual expenditures is discussed in detail with each county sub-recipient office. CSB obtains the ledgers of actual expenditures from the County Auditor's Office and compares those ledger figures to the reported monthly claimed amounts for reimbursement and the reported quarterly incentive expenditures, as submitted by each county sub-recipient office. Additionally, CSB's Financial Quality Assurance Plan and the on-site Financial Quality Assurance Questionnaire includes specific questions for review with each county sub-recipient office to ensure cash basis accounting principles are being followed.



INDIANA
WORKFORCE
DEVELOPMENT
AND ITS **WorkOne** CENTERS

FINDING 2015-016 - SUBRECIPIENT MONITORING

Contact Person(s): Connie Berry, Counsel/Director Regulatory Oversight & Compliance Division
Anticipate Completion Date: February 29, 2016

DWD Response

Following the audit, DWD's Regulatory Oversight and Compliance (ROC) Division immediately enacted stronger internal control methods regarding subrecipient federal audit oversight. ROC Division staff continues to maintain the tracking spreadsheet, but now incorporates the added step of notifying the Supervisor via email regarding the status of each region's audit (i.e., which have been submitted, which are outstanding, and the deadline for submission). The Supervisor then confirms receipt of the email, acknowledging review. In addition, the ROC Division staff emails a copy of each audit to the Supervisor upon receipt. The Supervisor has access to the spreadsheet and can review at any time. Once all audits are received, the spreadsheet will be reviewed a final time by Supervisor and signed, once again acknowledging review and showing segregation of duties.

2015-017 SPECIAL TESTS AND PROVISIONS – UI PROGRAM INTEGRITY - OVERPAYMENTS

Contact Person(s): Kate Shelby, Unemployment Insurance Director
Anticipate Completion Date: June 30, 2017

DWD Response

Indiana State Law requires that an employer not be relieved of benefit charges if an overpayment was the result of a "pattern of failure" by an employer to appropriately respond to department information requests. (See Indiana Code § 22-4-11-1.5). The finding in this case suggests that DWD has not begun developing policies and procedures for tracking a "pattern of failure" by employers. However, DWD has implemented a process for developing policies and procedures to regarding tracking a "pattern of failure." DWD employees are working to define a "pattern of failure" so that further procedures can be developed and tracking can begin. Once a sufficient time passes such that DWD can properly define a "pattern of failure," DWD will begin work on changes to its computerized operating system to track employer "patterns of failure." Work on the computerized operating system will take a substantial amount of time and resources to complete. Because Indiana Code § 22-4-11-1.5 has only been in place for since July 2013, enough time has not passed to determine when an employer has established a "pattern of failure" or to implement a system to track "patterns of failure" once a proper definition is found. DWD will continue in its process of defining a "pattern of failure" so that further development can take place.



Michael R. Pence, Governor
State of Indiana

Indiana Family and Social Services Administration
402 W. WASHINGTON STREET, P.O. BOX 7083
INDIANAPOLIS, IN 46207-7083

2015-018 Subrecipient Monitoring

Contact Person(s): Erin Quiring, & Roger Booth

Anticipate Completion Date: April 1, 2016 & June 30, 2016

Corrective Action

Block Grant for Prevention and Treatment of Substance Abuse (SAPT)

The Division of Mental Health and Addiction is in the process of finalizing policies and procedures to ensure compliance with the Block Grant for Prevention and Treatment of Substance Abuse subrecipient monitoring, including, when necessary, the need for written corrective action plans and follow-up with the subrecipient. The anticipated completion date is April 1, 2016.

Ensure all Subrecipients Obtained Required Audits

FSSA Audit Services will expand its methodology to include all SAPT providers by requesting audit reports from every provider for 2014 and going forward to ensure 100% monitoring and compliance. Our research finds we did not request 5 providers (8% non-compliance) for audit reports that may/may not have a single audit.

As further information, FSSA provided SAPT funding to 63 providers in 2014 in the amount of about \$28.3 million. Upon the state examiner's inquiries, Audit Services researched whether our selection methodology was adequate to identify providers subject to the Single Audit Act. Our research found that Audit Services' selection methodology was generally adequate.

Audit Services received 45 single audit reports for 2014. The remaining 18 providers were not required to provide single audits since IRS Form 990s indicated they were not subject to the requirement (7 providers), were profit-making (1 provider), were municipalities (2 providers), were out of business (1 provider), were an Indiana state agency covered by the CAFR (1 agency), were a state university with a single audit (1 university), and were not found in the State Board of Accounts' database of its required audit reports (5 providers).

In sum, our inquiries find that \$27.3 million or 96% of SAPT funding was monitored or otherwise accounted for. But we are unsure of total compliance because of 5 providers that were not in the SBOA database. SBOA examiners inform us that they are behind several years in posting reports to its database. We conclude that relying on the absence of audit reports in SBOA's database is not possible to ensure compliance. We conclude that there are 8% of providers (that's 6 providers out of 63 SAPT providers) for which we do not have conclusive evidence that a single audit report was/was not required.



2015-019 Reporting**Contact Person(s):** David Nelson**Anticipate Completion Date:** July 2015**Corrective Action**

FSSA reviewed the process for compiling the SSA-4514 report for personal service hours. Modification to the report compilation was made as necessary and documentation of data sources were included in reporting instructions. FSSA paralleled a new report process in April 2015 for the Quarter Ending 3/31/15 SSA-4514 report with the replacement process went into effect July 2015.

2015-020 Period of Performance**Contact Person(s):** Scott Krumwied**Anticipate Completion Date:** April 1, 2016**Corrective Action**

1. Corrective Action taken for the parameter file changes include a review of a second screen on input. Once the required input is completed, an email indicating as such will be sent to the Systems Supervisor, who will then verify that the needed input were input into the system and are correct. The systems Supervisor will then forward that email to the Administrative Services Director (ASD) of DDB to indicate that the input are verified and correct. The email will then be shared with FSSA Fiscal. The required input has been placed on our SSD intranet page.
2. Corrective action regarding the missed vouchers. DDB realized the issue in the first quarter of FFY15. A list of involved vouchers was created through the DDB system. During the first quarter of FFY16 DDB realized there was an issue with FY15 CE/MER costs, when the end of year costs were too high. While DDB/FSSA fiscal were determining the issue, SBOA found vouchers that still needed to be transferred from FFY15 to FFY14. FSSA fiscal shared their journal entries and we were able to determine those vouchers that still needed to be transferred from FY14 from FFY15. Journal entries should be complete by the end of third quarter FFY16.
3. Correction action 1 should eliminate the need for further corrective action as stated in number 2. If future concerns arise regarding correct years journal entries, inquires will be made through reviewing journal entries.

2015-021 Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility

Contact Person(s): David Smalley

Anticipate Completion Date: June 15, 2016

Corrective Action

FSSA/Division of Family Resources would like to note the following policy item that is already in place to assist our eligibility staff in correct processing of TANF eligibility in particular with relationship verification.

Indiana Program Policy Manual

2420.05.05 Verification Of Relationship (C)

Within the C category, the policy stated in this section only applies to ADCU and ADCR.

It is the responsibility of the applicant/recipient to assist the eligibility worker to verify the degree of relationship between a child and a specified relative.

The relationship of a child to a relative listed in the previous section, except for an alleged father, is verified when the eligibility worker either:

Sees the child's birth certificate; or

Obtains verification from two of the sources listed below, when the birth certificate is not seen:

- Hospital records established at the time of birth (including a hospital issued birth certificate);
- Physician's records;
- Marriage records;
- Court records, including adoption records;
- Social Security Administration records;
- Church documents, such as baptismal certificates;
- Passport;- Immigration records;
- Naturalization records;
- School records;
- Records of social agencies (including the Local Office); or
- Signed statement from an unrelated reliable person having specific knowledge about the relationship of the child to the specified relative.

FSSA will develop a training session devoted specifically to relationships and required verifications/documentation in order to support the eligibility decision. Included in this training will be a review of the above noted section in the policy manual as a requirement as well as the necessary documentation that is required to be present in the case record information. This training is currently in development by TANF policy staff and once completed, will be loaded into our Learning Management System (LMS). All eligibility staff will be required to take this training and the advantage of loading this training into LMS is that we can track completion. Our goal is that all eligibility staff will take this training and LMS reporting will verify 100% completion by June 15, 2016.

2015-022 Eligibility

Contact Person(s): Theresa Koleszar

Anticipate Completion Date: July 1, 2016

Corrective Action

BRS will develop an internal written procedure to ensure documentation of review of delegated VR Counselor determinations (i.e. IPE, eligibility, severity determination), based on type of Counselor (i.e. probationary or new), appropriate sample size, etc.

Additionally, VR is in the process of collecting program requirements to develop a new case management system. During this process, VR will explore integration of this review process into the new system to replace the current use of the quality assurance tool which happens outside of the current VR case management system.

2015-023 Special Tests & Provisions: Completion of IPES

Contact Person(s): Theresa Koleszar

Anticipate Completion Date: May 2015

Corrective Action

The Workforce Innovation and Opportunity Act (WIOA) was signed into law July 22, 2014, which resulted in significant changes to the Rehabilitation Act. While the law took effect in July 2014, federal regulations are expected to be released June of 2016. Prior to WIOA, Indiana's VR policy and procedures manual stipulated a timeline of 120 days to complete the IPE after eligibility determination. The Bureau of Rehabilitation Services (BRS) implemented the new requirement of completing the IPE within 90 days after eligibility determination in May 2015. Additionally, VR's newly promulgated rules stipulating the 90-day timeframe for IPE development. The rules were effective October of 2015. No further corrective action is needed.

BRS has just recently begun to receive technical assistance from the Workforce Innovation Technical Assistance Center (WINTAC) on implementation of several new federal requirements. Once federal regulations are released, staffing resources will be dedicated to perform a thorough review of the regulations in order to identify necessary changes to policy, practice, federal reporting, and other business areas. Nearly all changes resulting from WIOA will have an impact on the VR Case Management System, IRIS. Therefore, as BRS is in process of amending the contract with the vendor who maintains IRIS (Fahrenheit IT) to ensure additional resources to specifically address WIOA changes are budgeted in the contract amendment.

2015-024 Earmarking**Contact Person(s): Theresa Koleszar****Anticipate Completion Date: Ongoing****Corrective Action**

The Bureau of Rehabilitation Services (BRS) is awaiting release of the federal regulations which are anticipated to more clearly define allowable and unallowable activity and services for the 15% PETS requirement. In the interim, VR has been reporting PETS expenditures and began reporting these expenditures in May 2015 as a required data element on the SF-425 report. BRS has identified VR service categories that appear to align with PETS based on language in the Workforce Innovation and Opportunity Act (WIOA), and reports these expenditures on the SF-425 report, which is due semi-annually. BRS reviews the identified service categories prior to each reporting period to address any necessary modification to the services identified as PETS based on ongoing guidance received from RSA. The BRS contractor, Fahrenheit, completes an extract using IRIS data that calculates total PETS spend based on select services (identified by BRS) that were provided to individuals identified as students at the time of VR application. BRS then reviews the extract and provides the total PETS expenditures to FSSA for federal reporting, using the SF-425 report. BRS reviews and approves the complete SF-425 report prior to submission.

BRS is not currently meeting the 15% requirement. However, additional strategies are in development to increase PETS expenditures including collaboration with providers, schools, DWD and other appropriate partners to expand service provision of PETS to potentially eligible students with disabilities across the state. BRS is just beginning to receive technical assistance from the Workforce Innovation Technical Assistance Center (WINTAC), which is a technical assistance entity funded by the U.S. Department of Education. BRS anticipates expanding the provision of PETS within the next 6-9 months, resulting in a substantial increase in PETS expenses in 2017 and 2018. This aligns with the anticipated release of the federal regulations which will be needed to define allowable services and activities aligned with PETS.

2015-025 Period of Performance

Contact Person(s): Theresa Koleszar

Anticipate Completion Date: Partially Complete by July 1, 2016

Corrective Action

VR will be procuring an entity to develop a vendor payment portal over the next few months. This is expected to reduce issues with late and lost claims, as it will eliminate paper invoices from vendors, and require vendors to submit claims electronically. We will be conducting requirements gathering for this portal over the next few months, with hopes of implementing a portal within one year.

One of the other items in question resulted as part of a journal transfer of funds process. The VR program has 3 separate funding sources: The VR Basic Grant, the Supported Employment Grant, and Program Income. All client services are initially charged to the VR Basic Grant, the largest funding source. A transfer of expenditures from the VR Basic Grant to either the Supported Employment Grant or Program Income is needed a handful of times throughout the year to appropriately utilize these funding sources in line with federal requirements. An extract is developed with appropriately identified transactions for these transfers of funds, based on federal requirements for these funding sources. Ensuring that only appropriate transactions are included in each of these transfers can be better ensured by adding another layer of review prior to fund transfers being processed. The DDRS Controller will review in detail all individual transactions identified in each transfer to ensure each transaction aligns with the appropriate federal fiscal year. If inappropriate transactions are identified, they will be removed and as needed replaced with other transactions prior to processing any transfer of funds. This corrective action will be completed by July 1, 2016.

The remaining item was for a payment on an activity that occurred in a prior federal fiscal year; however the payment was not processed until after the federal fiscal year closed. Therefore, the activity was charged to the open federal grant. Once a grant is closed, charges may not be made to that grant. In the future, BRS will consider using state funds as an alternative to paying for these exceptional circumstances. This corrective action will be completed by July 1, 2016.



2015-026 – Cash Management

Contact Person(s): Jeff Barber, Title 1 and Title II-A
Nathan Williamson, SIG

Anticipate Completion Date: *Title 1 Grants to Local Education Agencies (Title 1, Part A) and Improving Teacher Quality State Grants (Title II-A):* April 2016; School Year 2016-2017

School Improvement Grants (SIG): March 11, 2016

Corrective Action

Title 1, Part A and Title II-A: The Federal Title Grant Programs and Support (FTGPS) division is in the process of hiring (candidate has been selected) a Fiscal/Reporting Specialist who will assume the duties of conducting the fiscal monitoring for Title I, Part A; Title II-A and Title III. That work is currently being conducted by a third party vendor via contract. We anticipate that the new hire will be on staff within the next two to three weeks.

In conjunction with the creation and development of this position, FTGPS will be reviewing and updating the fiscal monitoring processes and procedures. This review and update will include adding a test for compliance with subrecipient cash management requirements. To conduct this test during the on-site visit, the Fiscal/Reporting Specialist will pull reimbursement requests for Title I, Part A and Title II-A from the fiscal year period subject to the monitoring visit. The specialist will then request the supporting documentation to determine that the reimbursement were for expenses approved within the application; that the activities occurred within the allowable activity period; and that those expenses were incurred prior to the submission of the reimbursement request. It should be noted that the reimbursement request process used for the distribution of federal fund requires expenses approved in the grant application to be incurred prior to the request for payment. With that being the case, there should be no lapse in time between transfer of funds from the Indiana Department of Education (IDOE) and the disbursement of funds by the subrecipient for program purposes. As stated previously, the test will be used to determine that all requests are in fact for reimbursement of incurred expenses.

FTGPS will address the update of the fiscal monitoring document and process to add the cash management compliant test beginning April 1, 2016. Because the current school year's fiscal monitoring process is coming to a close in the next week, the implementation of this test will begin with the on-site fiscal monitoring schedule for 2016-17. This process will begin in the Fall of 2016.

School Improvement Grants: IDOE has developed a process to monitor the reimbursement requests by SIG LEAs and schools on a quarterly basis.

1. The Title I Finance team will send a reimbursement update monthly to the SIG program staff for review.
2. The SIG team will review the spreadsheet and take action, depending upon the time of review during the project period:



Quarter 1: SIG team will send email communication to LEA and school regarding the availability of funds, offer technical assistance on how to submit reimbursement or other fiscal procedures.

Quarters 2 – 3: SIG team will embed fiscal monitoring into onsite and virtual visits to ensure that LEA and school are on track to expend funds before the end of the project period.

Quarter 4: SIG team will notify LEAs and schools individually regarding reimbursement. Action steps may be taken to ensure reimbursement before end of project period.

Communication between IDOE and LEA or school will be tracked through a Fiscal Monitoring Log and/or through onsite or virtual visit reports.



2015-027 – Special Tests and Provisions: Schoolwide Programs

Contact Person(s): Nathan Williamson

Anticipate Completion Date: *Title 1 Grants to Local Educational Agencies (Title 1, Part A), Improving Teacher Quality State Grants (Title II-A), and School Improvement Grants (SIG):* January 1, 2016

Corrective Action

The *Title I Fiscal Handbook* has been updated for school year (SY) 2015-2016. The sentence regarding consolidation has been removed.

Link to *Title I Fiscal Handbook*: <http://www.doe.in.gov/sites/default/files/titlei/title-i-fiscal-handbook-2015-2016.pdf>.



2015-028 – Subrecipient Monitoring

Contact Person(s): Brenda Martz

Anticipate Completion Date: *Identification of Award Information:* Completed for Improving Teacher Quality State Grants (Title II-A) in August 2015 and included on all federal fiscal year (FFY) 2015 application approval notifications. No later than April 1, 2016 all Title I Grants to Local Education Agencies (Title 1, Part A) approval notifications.

During the Award Monitoring: Current processes already in place to correct 2012-13 identified deficiency.

Monitoring of Subrecipient Audits: Beginning July 1, 2016.

Corrective Action

Identification of Award Information: As noted in the provision of the document request during the audit, the Title II-A application approval notifications include federal award CFDA title and number, award name and number, award year and name of the Federal agency beginning with FFY 2015. This information will be added immediately to the Title I, Part A approval notifications that are generated by the Title I, Part A application system. This will provide a notification for any approval notices going forward, including amendments to the current year's application.

During the Award Monitoring: The Federal Title Grant Programs and Support (FTGPS) division conducts desktop, fiscal and on-site reviews for Title I, Part A, Title II-A and Title III-A for subrecipients. Subrecipients determined to have deficiencies are required to submit corrective actions to the Indiana Department of Education (IDOE) for review. Since school year (SY) 2012-2013 when it was determined that 5 subrecipients did not have appropriate follow up procedures conducted on their corrective actions, measures have been put in place to ensure that internal monitoring processes are thorough and complete.

Two coordinator positions within the division were created in the summer of 2015 to provide second reviews on all reporting documents that are sent to the subrecipients during desktop, fiscal and on-site monitoring. The coordinators also provide ongoing training and oversight for all specialists on the processes for monitoring so that there is consistency within the division on how to provide appropriate reviews during monitoring. A tracking system has been developed over the last three years to track the dates for when all monitoring documents are received from the subrecipient and for when all correspondence is sent to the subrecipient from IDOE, including dates for final approvals. The coordinators also monitor the trackers for consistency and to be sure due dates are being met.

The specialists maintain subrecipient folders on the division's shared drive and keep all documentation related to desktop, fiscal and on-site monitoring saved in the folders. Emails that are sent to the subrecipients are now saved on the shared drive in the subrecipient's folder, including the final approval email.



Indiana Department of Education

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Indiana Superintendent of Public Instruction

Monitoring of Subrecipient Audits: The Department will add an assurance to the application for Title I, Part A and Title II-A requesting that the subrecipient indicate if they have expended more than \$750,000 in federal funds to determine eligibility for a federal audit. The corrective action will be implemented on the Title I, Part A and Title II-A applications for the 2016 federal fiscal year. A central agency-level tracking spreadsheet will be developed and maintained to track all subrecipients in order to identify those that meet the new \$750,000 threshold that begins with the July 1, 2016 fiscal year as outlined in 2 CFR Part 200.



2015-029 – Suspension and Debarment

Contact Person(s): Nathan Williamson

Anticipate Completion Date: September 1, 2015

Corrective Action

IDOE revised school improvement grant (SIG) assurances for school year (SY) 2015-2016. All existing SIG subgrantees have signed assurances that contain language regarding Suspension and Debarment requirements.

Renewal applications for Cohorts 4 & 5 are available on the website, <http://www.doe.in.gov/sig>.

All newly funded SIG schools signed assurances that specifically included language on suspension and debarment.

Newly awarded application for Cohort 6 are available on the website, <http://www.doe.in.gov/sig>.



2015-030 – Eligibility and Earmarking

Contact Person(s): Nathan Williamson

Anticipate Completion Date: *School Improvement Grants: September 1, 2015*

Corrective Action

The Indiana Department of Education (IDOE) has developed a process for eligibility and earmarking for the most current year of School Improvement Grants (SIG), school year (SY) 2015-2016. This process ensures that there are segregation of duties related to all compliance requirements.

During the newest round of applications, all applications are reviewed multiple times by multiple reviewers. This includes:

- A first review by an individual utilizing the evaluation rubric to ensure that proposed expenditures are reasonable, allocable, and necessary and fit the purpose and intent of the SIG award.
- A second review by a SIG team member
- A phone call with school, LEA, and other stakeholders by an IDOE committee
- A final review by SIG team and SEA leadership, which includes a review of the final budgets and total dollars awarded according to Federal guidance.

Renewal applications, including final budgets and amounts awarded, are reviewed by at least two SIG team members. Award letters are drafted by a Coordinator and signed by a Director.

Amendments are reviewed by two members of the SIG team. A specialist conducts the initial review and prepares the approval packet. The Coordinator conducts the second review and signs off for approval. All approved documents are shared with the IDOE Fiscal team and posted publicly on the IDOE – SIG website. An amendment tracker tools tracks the progress and current status of amendments to ensure that compliance of all steps of the process.

A final review and budgets ensure that at least 95% of funds are awarded directly to schools. This final review is conducted by an internal SIG committee that includes, at a minimum, the Coordinator and Director. Final approved budget amounts are shared with the SIG Fiscal team.



2015-031 – Subrecipient Monitoring

Contact Person(s): Nathan Williamson

Anticipate Completion Date: *ID Award Notification:* March 11, 2016; *During the Award Monitoring:* May 27, 2016; *Monitoring of Subrecipient Audits:* April 1, 2016; *ARRA Subawards:* April 1, 2016

Corrective Action

ID of Award Information: The Indiana Department of Education (IDOE) will re-issue award letters for all grantees for the current school year with all required information included by March 11, 2016. For subsequent school years, this information will be shared with schools prior to the beginning of the grant activity, through preliminary renewal letters and final approval letters.

During the award monitoring: IDOE conducted fiscal monitoring in school year (SY) 2014-2015 and is ongoing. Grantees with findings or incomplete data are asked to provide information during onsite and virtual visits. Fiscal monitoring is embedded in the protocols for both visits for all current grantees. Desktop monitoring has been added. Findings are being addressed through current onsite and virtual visits, to be completed by May 27, 2016.

Additionally, the School Improvement Grant (SIG) budget was revised for SY 2015-2016 to more accurately identify expenditures by using the Title I, Part A budget that identifies Object and Expenditure account codes that align with the reimbursement forms and Final Expenditure Reports.

Monitoring of Subrecipient Audits: The Department will add an assurance to the application for SIG that will request that the subrecipient indicate if they have expended more than \$750,000 in federal funds in their fiscal year to determine eligibility for a federal audit. The corrective action will be implemented on the SIG applications for 2016 federal fiscal year. A central agency-level tracking spreadsheet will be developed and maintained to track all subrecipients in order to identify those that meet the new \$750,000 threshold that begins with the July 1, 2016 fiscal year as outlined in 2 CFR Part 200.

ARRA Subawards: The Department will monitor subrecipients who received ARRA subawards in FY 2014 to ensure that they are registered in the System for Award Management (SAM). The Department will add an assurance to the application for future School Improvement ARRA funding, if applicable, that will require the subrecipient to indicate they have registered in SAM.



2015-032 – Allowable Costs/Cost Principles

Contact Person(s): Beverly S. Flanagan
Tracy Brown

Anticipate Completion Date: *Allocated Agency-wide Cost: March 4, 2016; Submission of Cost Allocation Plan: December 30, 2016*

Corrective Action

Since 2009 the Indiana Department of Education (IDOE) has allocated agency-wide cost to state, dedicated and federal programs based on the number of full-time filled positions in a program. These cost were allocated monthly. Effective March 4, 2016, the IDOE will no longer allocate agency-wide cost to the Title 1 program.

By December 30, 2016, the IDOE must submit to the U.S. Department of Education its indirect cost proposal. As a part of that proposal, IDOE will submit a Cost Allocation Plan (CAP) to allow for the allocation of agency-wide cost to state, dedicated and federal programs. The submitted indirect cost proposal and CAP should be approved no later than June 30, 2017 as that is the date IDOE's current approved rate proposal expires.



2015-033 – Allowable Costs/Cost Principles

Contact Person(s): Jeff Barber
Hazel Beasley
Tracy Brown

Anticipate Completion Date: May 31, 2016

Corrective Action

The Indiana Department of Education (IDOE) has been and is currently working with the U.S. Department of Education regarding a 5 year reset on Title I allocations. IDOE will continue working hand in hand with federal officials until this process is complete. The anticipated completion date is May 31, 2016.



2015-034 – Reporting

Contact Person(s): Melissa K. Ambre

Anticipate Completion Date: *Internal Control – Accounting Drive:* February 24, 2016; *Internal Control – NPEFS Inbox:* March 8, 2016; and *NPEFS Report Data Gathering and Preliminary Review:* May 1, 2016

Corrective Action

NPEFS submission period on or before the first Tuesday after Labor Day.

1. Internal Control

- a. Create a NPEFS folder in the Accounting Drive accessible by staff working on NPEFS (*Completed February 24, 2016*)
 - i. Folder will contain all files related to preparation and submission of the NPEFS report. (organized by year)
 1. Guidance from the US Department of Commerce (Census Bureau)
 2. Webinar materials
 3. Accounting handbook
 4. Applicable FY NPEFS data file submitted by IDOE
 5. IDOE comments in response to data file submission
 6. Designation letters
 7. Other information applicable to NPEFS
- b. Create a NPEFS inbox in MS Office (*completed March 8, 2016*)
 - i. Accessible for communications between IDOE and US Department of Commerce (Census Bureau).
- c. Receipt of US Department of Commerce information concerning FY NPEFS (in process for FY2015 submission)
 - i. Director and Assistant Director, Office of School Finance, to review information
 1. Determine changes
 2. Identify any new fund, object, revenue and expenditure accounts from last reporting cycle to current reporting cycle
 3. Seek clarification from staff at US Census Bureau, if needed, on accounting for Chart of Account changes
 - ii. Assistant Director and Fiscal Analyst, Office of School Finance, pull data file
 1. Review information against FY Form 9 data
 2. Discuss and review draft data file with Director, Office of School Finance
 - a. Discuss any discrepancies or notable changes in revenues and expenditures from prior to current FY



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Indiana Superintendent of Public Instruction

- iii. Add-ons
 - 1. Request from the State Budget Agency information on Teacher COLA, PSF, base pension and lottery transfer
 - 2. Request from IDOE Application Developer - TRF, IN School for the Blind and IN School for the Deaf data
 - 3. Request ADA be calculated for applicable fiscal year
 - a. Request supporting data file for NPEFS folder
 - d. Submission of NPEFS data file (to be done as part of FY2015 submission)
 - i. Prior to submission, schedule a meeting with CFO to discuss report
 - 1. Discuss changes in Chart of Accounts from last submission period to current submission period
 - ii. Submit NPEFS data file
 - 1. Request CFO sign-off on submission
 - 2. Print hard copy for IDOE records
 - e. Response to US Department of Commerce/Census Bureau questions (to be done as part of FY2015 submission)
 - i. Assistant Director, Office of School Finance meets with Director, Office of School Finance to discuss questions
 - ii. Respond to questions; save comments in file
 - iii. For any changes in data, add a column on the NPEFS file that identifies any line items that changed along with a notation of the reason for the change.
 - iv. Prior to resubmission, discuss with CFO report changes/clarifications
 - v. Maintain all email communications in inbox
2. Other
- a. Discussing participation in crosswalk process with Census Bureau staff
 - i. Year long process
 - ii. Advised that it does not always work for every state.

FY 16 – STATUS OF CAFR AND SUPPLEMENTAL AUDIT OF FEDERAL AWARDS

CAFR

- There are 9 field examiners currently working on the audit of the FY 16 CAFR.
- Assigned Hours for the audit of the CAFR is 5,820 hours. As of 8-27-16, actual hours of 925 have been spent on the audit of the CAFR, which is approximately 16% of the total hours.
- The audit opinion for the CAFR will be provided no later than 12-31-16.
- At this time, we have not concluded on any possible findings for the FY 2016 financial audit of the CAFR.

SUPPLEMENTAL AUDIT OF FEDERAL AWARDS

- We will be auditing 19 major programs for the FY 2016 supplemental audit of federal awards.
- We have started the audit of 5 of those major programs.
- There are 21 field examiners dedicated to the audit of federal awards.
- The opinion and findings for the federal audit will be filed no later than 3-31-17.
- As of the date of this report, we have not concluded on any findings related to federal awards.
- Provided in your handouts is a summary of the federal programs we are auditing, the amount of time assigned to each, and the actual time spent as of the date of this presentation.

DETAIL OF FEDERAL AUDIT PROGRAM STATUS

FEDERAL PROGRAM/AREA	Started	Hours Assigned	Actual time Through 8-27-16	% Completion
MEDICAID CLUSTER		1,875.00	-	0%
SNAP		337.50	-	0%
HIGHWAY PLANNING AND CONSTRUCTION		1,500.00	-	0%
SPECIAL EDUCATION CLUSTER	Yes	412.50	28.00	7%
STATE CHILDREN'S INSURANCE PROGRAM		750.00	-	0%
TANF CLUSTER		937.50	-	0%
CHILD SUPPORT ENFORCEMENT		412.50	-	0%
CDBG/STATE'S PROGRAM		337.50	-	0%
ADOPTION ASSISTANCE		412.50	-	0%
DISABILITY INSURANCE/SSI CLUSTER		337.50	-	0%
SCHOOL IMPROVEMENT GRANT	Yes	412.50	26.00	6%
SOCIAL SERVICES BLOCK GRANT	Yes	412.50	5.00	0%
TITLE I	Yes	337.50	42.00	12%
IMPROVING TEACHER QUALITY		337.50	-	%
WIA/WIOA CLUSTER	Yes	750.00	9.00	0%
NAT'L GUARD MIL. OPERAT. & MAINT. PROJECTS		337.50	-	%
VOCATIONAL REHAB. GRANTS TO STATES		600.00	-	%
WOMEN, INFANTS, AND CHILDREN (WIC)		337.50	-	%
SUBSTANCE ABUSE BLOCK GRANT		<u>412.50</u>	-	<u>0%</u>
		<u>11,250.00</u>	<u>110.00</u>	<u>0%</u>

FY 2015 Universities' Financial and Federal Audits

University	Actual Hours*
Ball State	1987.5
Indiana State	1734.0
Indiana	2280.0
Ivy Tech	1306.5
Purdue	1918.5
Southern Indiana	1816.5
Vincennes	1955.2

*Actual hours are combined financial and federal audit

Update of FY 2015 Universities' Financial Audits

University	Financial Statement Opinion Date	Type of Opinion
Ball State	October 23, 2015	Unmodified
Indiana State	October 23, 2015	Unmodified
Indiana	October 22, 2015	Unmodified
Ivy Tech	October 23, 2015	Unmodified
Purdue	October 20, 2015	Unmodified
Southern Indiana	November 5, 2015	Unmodified
Vincennes	October 23, 2015	Unmodified

- There were no findings related to the financial statements.

Update of FY 2015 Supplemental Audit of Federal Awards

University	Federal A-133 Opinion Date	Type of Opinion
Ball State	February 22, 2016	Unmodified
Indiana State	March 9, 2016	Unmodified
Indiana	March 1, 2016	Unmodified
Ivy Tech	March 1, 2016	Unmodified
Purdue	January 27, 2016	Unmodified
Southern Indiana	February 24, 2016	Unmodified
Vincennes	March 21, 2016	Unmodified

Federal Programs Audited in FY 2015

CFDA #	Title	Major Program
84.007, 84.033, 84.038, 84.063, 84.268, 84.377, 84.408, 93.264, 93.342, 93.364, 93.925	Student Financial Aid Cluster	All Universities
	Research and Development Cluster	Ball State
19.415	Professional and Cultural Exchange Program – Citizens Exchange	Ball State
84.042, 84.044, 84.047, 84.066, 84.217	TRIO Cluster	Indiana State, Vincennes
84.027, 84.173	Special Education Cluster	Indiana State
93.621	Affordable Care Act Initiative to Reduce Avoidable Hospitalization Among Nursing Facility Residents	Indiana
10.551, 10.561	SNAP Cluster	Purdue
93.247	Advanced Nursing Education Graduate Program	Southern Indiana
17.258, 17.259, 17.278	WIA Cluster	Vincennes
84.002A	Adult Education – Basic Grants to States	Vincennes

We reported a total of 9 federal findings in 4 of the 8 Universities audited for FY 2015 Supplemental Audit of Federal Awards, those findings, and the corrective action plan prepared by the universities to address the findings, are included in your handout. We have summarized the findings by University below:

Detail of Findings By University and Major Program

Ball State			
Major Program and Finding #	Requirement	Related Finding Reported in Fiscal Year 2014	Internal Control Non Compliance UnModified
Student Financial Aid Cluster 2015-001	Special Tests and Provisions – Return of Title IV Funds		X
Indiana State			
Major Program and Finding #	Requirement	Related Finding Reported in Fiscal Year 2014	Internal Control Non Compliance UnModified
TRIO Cluster 2015-001	Eligibility		X
Student Financial Aid Cluster 2015-002	Special Tests and Provision – Enrollment Reporting		X
Student Financial Aid Cluster 2015-002	Special Tests and Provision – Disbursements To or On Behalf of Students		X
Southern Indiana			
Major Program and Finding #	Requirement	Related Finding Reported in Fiscal Year 2014	Internal Control Non Compliance UnModified
Student Financial Aid Cluster 2015-001	Special Tests and Provision – Disbursements To or On Behalf of Students		X

Vincennes			
Major Program and Finding #	Requirement	Related Finding Reported in Fiscal Year 2014	Internal Control Non Compliance UnModified
Adult Education - Basic Grants to States 2015-001	Suspension and Debarment		X
Student Financial Aid Cluster 2015-002	Special Tests and Provision – Enrollment Reporting	X	X
TRIO Cluster 2015-003	Eligibility		X
TRIO Cluster 2015-004	Reporting		X

BALL STATE UNIVERSITY

FINDING 2015-001 - SPECIAL TESTS AND PROVISIONS - RETURN OF TITLE IV FUNDS

Federal Agency: U.S. Department of Education

Federal Program: Federal Supplemental Educational Opportunity Grants, Federal Perkins Loan Program, Federal Capital Contributions, Federal Pell Grant Program, Federal Direct Student Loans, and Teacher Education Assistance for College and Higher Education Grants

CFDA Number: 84.007, 84.038, 84.063, 84.268, and 84.379

Adequate procedures did not exist to ensure that the proper number of calendar days was used when calculating the return of Title IV funds for students who officially withdrew. Based on testing performed, nine students who officially withdrew during the fall 2014 semester had the incorrect total number of calendar days used in their calculation. The total number of calendar days in the period is calculated, entered into the computer system, and is used to calculate the proper amount of title IV funds to be refunded. The University did not exclude five days of Thanksgiving break when determining the total number of calendar days in the period. This resulted in the amount of title IV funds refunded to be incorrect for seven students. The remaining two students earned all aid for the term and were not eligible for a refund.

Failure to establish an effective internal control system places the University at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

34 CFR 668.22(f)(2)(i) states:

"The total number of calendar days in a payment period or period of enrollment includes all days within the period that the student was scheduled to complete, except that scheduled breaks of at least five consecutive days are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period."

OMB Circular A-133, Subpart C, section .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."

Failure to determine the amount of title IV grants or loan assistance that a student earns could lead to students receiving improper amounts of aid.

Failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the University.

We recommended that management of the University develop procedures to accurately calculate the number of calendar days in the period in order to properly calculate the amount of student aid to be refunded to comply with the Return of Title IV Funds compliance requirement.

INDIANA STATE UNIVERSITY

FINDING 2015-001 - SPECIAL TESTS AND PROVISIONS - DISBURSEMENTS TO OR ON BEHALF OF STUDENTS

Federal Agency: U.S. Department of Education

Federal Program: Federal Supplemental Educational Opportunity Grants, Federal Pell Grant Program, and Federal Direct Student Loans

CFDA Number: 84.007, 84.063, and 84.268

Federal Award Number and Year (or Other Identifying Number): FY15

Management of the University has not established an effective internal control system, which would include segregation of duties, related to the following compliance requirement: Special Tests and Provisions - Disbursements to or on Behalf of Students.

Adequate procedures did not exist to ensure that the credit balances caused by the application of Title IV, HEA program funds, in excess of allowable charges, were paid to the student or parent within 14 days of the credit balance occurring. Based on testing performed, there were 154 student accounts that had a credit balance after the application of Title IV, HEA program funds, that were not refunded within the allowable time frame. The Bursar had removed these accounts from the automated refund processing system for further review. Refunds were made up to 123 days after the credit balance occurred.

Failure to establish an effective internal control system places the University at risk of noncompliance with the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and that there is a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

34 CFR 668.164(e) states:

"Credit balances. Whenever an institution disburses title IV, HEA program funds by crediting a student's account and the total amount of all title IV, HEA program funds credited exceeds the amount of tuition and fees, room and board, and other authorized charges the institution assessed the student, the institution must pay the resulting credit balance directly to the student or parent as soon as possible but— (1) No later than 14 days after the balance occurred if the credit balance occurred after the first day of class of a payment period; or (2) No later than 14 days after the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period."

OMB Circular A-133, Subpart C, section .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."

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance of the compliance requirement could result in the loss of federal funds to the University.

UNIVERSITY OF SOUTHERN INDIANA

**FINDING 2015-001 - SPECIAL TESTS AND PROVISIONS -
DISBURSEMENTS TO OR ON BEHALF OF STUDENTS**

Federal Agency: U.S. Department of Education
Federal Program: Federal Supplemental Educational Opportunity Grants, Federal Pell Grant
Program, and Federal Direct Student Loans
CFDA Number: 84.007, 84.063, and 84.268
Federal Award Number and Year (or Other Identifying Number): FY15

Management of the University has not established an effective internal control system, which would include segregation of duties, related to the following compliance requirement: Special Tests and Provisions - Disbursements to or on Behalf of Students.

Adequate procedures did not exist to ensure that the credit balances caused by the application of Title IV, HEA program funds, in excess of allowable charges, were paid to the student or parent within 14 days of the credit balance occurring. Based on testing performed, there were 154 student accounts that had a credit balance after the application of Title IV, HEA program funds, that were not refunded within the allowable time frame. The Bursar had removed these accounts from the automated refund processing system for further review. Refunds were made up to 123 days after the credit balance occurred.

Failure to establish an effective internal control system places the University at risk of noncompliance with the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and that there is a separation of functions over certain activities related to the programs. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

34 CFR 668.164(e) states:

"Credit balances. Whenever an institution disburses title IV, HEA program funds by crediting a student's account and the total amount of all title IV, HEA program funds credited exceeds the amount of tuition and fees, room and board, and other authorized charges the institution assessed the student, the institution must pay the resulting credit balance directly to the student or parent as soon as possible but—

- (1) No later than 14 days after the balance occurred if the credit balance occurred after the first day of class of a payment period; or
- (2) No later than 14 days after the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period."

OMB Circular A-133, Subpart C, section .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."

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance of the compliance requirement could result in the loss of federal funds to the University.

We recommended that the University's management establish controls, including segregation of duties, and comply with the compliance requirement listed above.

VINCENNES UNIVERSITY

FINDING 2015-001 - SUSPENSION AND DEBARMENT

Federal Agency: U.S. Department of Education
Federal Program: Adult Education - Basic Grants to States
CFDA Number: 84.002
Federal Award Number and Year (or Other Identifying Number): C1-5-AE-4-68-A and C1-5-AE-4-68-B FY2015
Pass-Through Entity: Indiana Department of Workforce Development

Management of the University has not established an effective internal control system related to the grant agreement and the Suspension and Debarment compliance requirement. The failure to establish an effective internal control system places the University at risk of noncompliance with the grant agreement and the compliance requirement.

The University has a policy for verifying that a vendor has not been suspended or debarred, which details the documentation that is to be maintained to show the verification was performed. The University, however, failed to provide documentation that the verification was performed. Acceptable verification would include evidence that a search of the Excluded Parties List Systems through the System of Award Manager Center at www.sam.gov was conducted; a certification collected from the entity; or a clause or condition added to the contract.

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis.

24 CFR 85.35 states in part:

"Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party that is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs...."

OMB Circular A-133, Subpart C, section .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."

The failure to establish internal controls could enabled a material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirement could result in the loss of federal funds to the University.

We recommended that the University's management establish controls to ensure compliance and comply with the Suspension and Debarment requirements of the program.

FINDING 2015-002 - SPECIAL TESTS AND PROVISIONS - ENROLLMENT REPORTING

Federal Agency: U.S. Department of Education
Federal Program: Federal Direct Student Loans
CFDA Number: 84.268
Federal Award Number and Year (or Other Identifying Number): FY15

Vincennes University uses the services of the National Student Clearinghouse (NSC) to report status changes to the National Student Loan Data System (NSLDS). Under this arrangement, the University reports all students enrolled and their status to NSC. NSC then identifies any changes in status and reports those changes when required to the respective lender and guarantors. Additionally, NSC completes the roster file on the University's behalf and communicates status changes to NSLDS as applicable. Although the University uses the services of NSC, it is still ultimately the University's responsibility to submit timely, accurate and complete responses to roster files and to maintain proper documentation (NSLDS Enrollment Reporting Guide, Chapter 1).

We selected a sample of 25 students who either withdrew (officially or unofficially) or graduated from Vincennes University to determine whether enrollment changes were being properly reported to the National Student Loan Data System (NSLDS). The following errors were noted:

- 1) One of the three students with an unofficial withdrawal, did not have their status change reported within 60 days to NSLDS.
- 2) Two of the eight students who graduated were reported to NSLDS but not within the 60 day time limit.

34 CFR 685.309(b) states in part:

"Enrollment reporting process.

- (1) Upon receipt of an enrollment report from the Secretary, a school must update all information included in the report...
- (2) Unless it expects to submit its next updated enrollment report to the Secretary within the next 60 days, a school must notify the Secretary within 30 days after the date the school discovers that
 - (i) a loan under title IV of the Act was made to or on behalf of a student who was enrolled or accepted for enrollment at the school, and the student has ceased to be enrolled on at least a half-time basis or failed to enroll on at least a half-time basis for the period for which the loan was intended."

The University has established controls over Enrollment Reporting. However, those controls were not effective to ensure that enrollment data is submitted timely and accurately for all students.

OMB Circular A-133, Subpart C, Section .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."

Inaccurate and delayed submission of information affects the determinations that lenders and servicers of student loans make related to in-school status, deferments, grace periods, and repayment schedules, as well as the federal government's payment of interest subsidies.

We recommended that the University strengthen its controls to help ensure that the enrollment files submitted to NSC are complete and accurate. Procedures should be implemented to ensure that the University accurately reports student status change dates and types to NSLDS in a timely manner.

FINDING 2015-003 - ELIGIBILITY

Federal Agency: U.S. DEPARTMENT OF EDUCATION

Federal Program: VETERAN'S UPWARD BOUND

CFDA Number: 84.047V

Federal Award Number and Year (or Other Identifying Number): FY15

The Veteran's Upward Bound program is required by OMB Circular A-133 Compliance Supplement to verify a participant's eligibility. Specifically an eligible participant is to be a citizen, national, or permanent resident of the United States, or is to be in the United States for other than a temporary purpose. We selected a sample of 7 participants to determine if eligibility was verified prior to admission to the Veteran's Upward Bound program. During testing, it was noted that the Veteran's Upward Bound program did not verify the participant's eligibility status. Therefore, it was determined that all participants in the Veteran's Upward Bound program had not been verified for eligibility.

34 CFR 645.3 states, in part:

"An individual is eligible to participate in a Regular, Veterans, or a Math and Science Upward Bound project if the individual meets all of the following requirements:

(a)(1) Is a citizen or national of the United States.

(2) Is a permanent resident of the United States.

(3) Is in the United States for other than a temporary purpose and provides evidence from the Immigration and Naturalization Service of his or her intent to become a permanent resident.

(4) Is a permanent resident of Guam, the Northern Mariana Islands, or the Trust Territory of the Pacific Islands.

(5) Is a resident of the Freely Associated States - the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau..."

Additionally, we tested all participants who received stipends during the audit period to determine if stipends for participation were paid accurately. Testing noted that two prior year participants received stipends in 2014-2015 and were not active participants during the period in which they were paid.

34 CFR 645.42 states, in part:

"(a) An Upward Bound project may provide stipends for all participants who participate on a full-time basis.... (d)(2) For Veterans Upward Bound projects, the stipend may not exceed \$40 per month."

Management of the University has not established an effective internal control system, relating to the eligibility requirement.

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis.

OMB Circular A-133, Subpart C, section .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."

The failure to establish internal controls enabled a material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the University.

We recommended that the University's management establish controls relating to the grant agreement and compliance requirements listed above.

FINDING 2015-004 - REPORTING

Federal Agency: U.S. Department of Education

Federal Program: Veteran's Upward Bound

CFDA Number: 84.047V

Federal Award Number and Year (or Other Identifying Number): FY15

The Veteran's Upward Bound program is required by OMB Circular A-133 Compliance Supplement to submit an annual performance report (APR) to the Department of Education each year of the project period. The annual performance report includes the Record Structure for Participant List for Upward Bound and Upward Bound Math-Science Projects (participant database). The participant database consists of 125 participants with 50 field codes which describe the participant's eligibility, need for education support, services provided to participant, and educational progress in the Veteran's Upward Bound program.

We selected a sample of 13 participants and traced information from the participants' files to the participant database to determine if the codes were properly reported. The following errors were noted:

1. One participant was coded incorrectly in field number 34 - Short Term Remedial or Refresher Courses, for reporting year (2014-15).
2. One participant was coded incorrectly in field number 16 - Eligibility (at time of initial selection).
3. One participant was coded incorrectly in field number 36 - Special Services for Transition to Post-Secondary Education (PSE), for reporting year (2014-15).

34 CFR 645.43(c) states in part:

" Recordkeeping. For each participant, a grantee shall maintain a record of -

(1) The basis for the grantee's determination that the participant is eligible to participate in the project under sec. 645.3;

(2) The basis for the grantee's determination that the participant has a need for academic support in order to pursue successfully a program of education beyond secondary school;

(3) The services that are provided to the participant;

(4) The educational progress of the participant ... during the participant's pursuit of a postsecondary education program..."

Management of the University has not established effective internal controls relating to the reporting compliance requirement.

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis.

OMB Circular A-133, Subpart C, section .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.”

The failure to establish internal controls enabled a material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the University.

We recommended that the University's management establish controls related to the grant agreement and compliance requirements listed above.

CORRECTIVE ACTION PLAN

FINDING 2015-001

Federal Program: Federal Supplemental Educational Opportunity Grants, Federal Perkins Loan Program, Federal Capital Contributions, Federal Pell Grant Program, Federal Direct Student Loans, and Teacher Education Assistance for College and Higher Education Grants

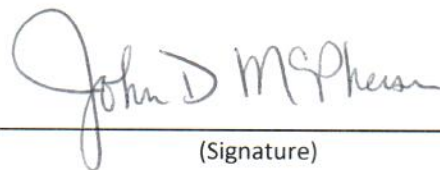
Contact Person Responsible for Corrective Action: John D. McPherson
Contact Phone Number: (765) 285-8894

Description of Corrective Action Plan:

The Problem: A staff member new to the Return to Title IV (R2T4) funds process improperly entered the Thanksgiving break as a three-day break and not a five-day break. For the R2T4 process, any consecutive five-day break is excluded from the total number of days in a semester. Therefore, the R2T4 calculation module in the financial aid system used a total of 117 days in the 2014 fall semester instead of 112 in calculating the amount of aid the students earned in that semester.

Corrective Action: All students who withdrew during the 2014 fall semester have been reviewed and a manual calculation of each withdrawal has been completed to ensure proper calculation. The result of the error is a total of \$3,483 (The Office of Financial Aid and Scholarships disbursed a total of \$140 million in Title IV aid in the 2014-15 award year). The staff member involved in the incorrect entry has been retrained on the process and the requirements. In addition, the system is pre-populated with the total number of days in the term. This will be verified by a senior staff member each term prior to any calculations being performed.

Anticipated Completion Date: Corrective Action Already Taken



(Signature)

Assistant Vice President of Enrollment Services and
Executive Director of Financial Aid and Scholarships

(Title)

February 22, 2016

(Date)

CORRECTIVE ACTION PLAN**FINDING 2015-001**

Contact Person Responsible for Corrective Action: Crystal Baker, Rita Worrall
Contact Phone Number: (812) 237-7615 / (812) 237-2301

34 CFR 646.30 (D) states the following eligibility criteria for TRIO Grants:

(1) Are in their first two years of postsecondary education and who are receiving Federal Pell Grants under subpart 1 of part A of title IV of the Act; or (2) Have completed their first two years of postsecondary education and who are receiving Federal Pell Grants under subpart 1 of part A of title IV of the Act if the institution demonstrates to the satisfaction of the Secretary that—

(i) These students are at high risk of dropping out; and (ii) It will first meet the needs of all its eligible first- and second-year students for services under this paragraph.

Description of Corrective Action Plan:

ISU did not satisfactorily ensure internal controls over TRIO Grant awarding for the 2014-2015 academic year. For 2015-2016 forward, ISU has developed the following steps for awarding TRIO Grants:

- Create a disburseable item type within the Financial Aid Banner module that requires unmet need in the student's Cost of Attendance;
- Write Banner disbursement rules using RORRULE that will not allow payment unless the student has earned fewer than 60 credit hours and has received a Pell Grant during that same year; and
- Adequate consultation will occur between the Director of Student Support Services and the Director of Student Financial Aid prior to making awards in order to ensure compliance.

Anticipated Completion Date:

We implemented these actions on March 1, 2016. In addition, \$4,500 has been returned to the US Department of Education for the 2014-2015 year for the 3 students deemed ineligible.



(Signature)



(Signature)

Director of Financial Aid

(Title)

Director, Student Support Services

(Title)

3/3/16

(Date)

3/3/16

(Date)

CORRECTIVE ACTION PLAN***FINDING 2015-002***

Contact Person Responsible for Corrective Action: April Hay
Contact Phone Number: (812) 237-2020

34 CFR 685.309(b) states in part...

"Enrollment reporting process. (1) Upon receipt of an enrollment report from the Secretary, a school must update all information included in the report...(2) Unless it expects to submit its next updated enrollment report to the Secretary within the next 60 days, a school must notify the Secretary within 30 days after the date the school discovers that – (i) a loan under title IV of the Act was made to or on behalf of a student who was enrolled on at least a half-time basis or failed to enroll on at least a half-time basis for the period for which the loan was intended;..."

The University is required to confirm and report to the NSLDS the enrollment status of students who receive Federal student loans. ISU failed to timely report enrollment status within 60 days from the date that the University determined the status change of the student.

The following errors were noted:

1. The withdrawal status of four students was not reported to NSLDS within 60 days.
2. The graduation status of one student was not reported to NSLDS.

Description of Corrective Action Plan:

With regard to untimely submission of data to the NSLDS, the University is working with the National Student Clearinghouse (NSC) to review current findings and coordinate with the NSC to ensure the timely exchange of data among agencies. We are investigating process changes and an enhanced reporting timeline that allows for the mass transmission of graduation and enrollment status changes from ISU to the NSC and, in turn, for the submission of the Student Status Confirmation Report (SSCR) submitted by NCS to NSLDS.

The Office of Registration and Records is continuing to work with the Office of Student Financial Aid and the Controller's Office to allow our students the ability to drop their last class on-line, therefore allowing withdrawals to be processed in a timelier manner. In the meantime, we are including enhanced staff training between the Office of Registration and Records and the Office of Student Financial Aid to ensure understanding of the 30 day window for reporting to the NSC, thus meeting the NSLDS 60 day timeline. Effective March 1, 2016, until students have the ability to drop their last class on-line, each student withdrawal is being reported to the NSC within 7 business days of the withdrawal being processed, in addition to the regularly scheduled monthly mass transmissions.

The identified graduation status failure to report was due to human error, as it is currently part of the graduation process to submit this information manually once the mass degree report had been submitted to the NSC. We are incorporating enhanced staff training between the Office of Registration and Records and the Office of Student Financial Aid to ensure understanding and importance of graduation reporting. We are also currently working with the NSC to see if there is a way to reconcile data between ISU's student information system and the NSC data.

Anticipated Completion Date: Summer 2016

April Haly

(Signature)

Registrar

(Title)

3/3/2016

(Date)

CORRECTIVE ACTION PLAN**FINDING 2015- 003**

Contact Person Responsible for Corrective Action: Crystal Baker
Contact Phone Number: (812) 237-7615

34 CFR 668.165(a) states in part:

“(2) Except in the case of a post-withdrawal disbursement made in accordance with §668.22(a)(5), if an institution credits a student's account at the institution with Direct Loan, FFEL, Federal Perkins Loan, or TEACH Grant Program funds, the institution must notify the student or parent of—

- (i) The anticipated date and amount of the disbursement;*
- (ii) The student's right or parent's right to cancel all or a portion of that loan, loan disbursement TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan, the TEACH Grant proceeds returned to the Secretary. However, if the institution releases a check provided by a lender under the FFEL Program, the institution is not required to provide this information; and*
- (iii) The procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan, loan disbursement...*

Description of Corrective Action Plan:

We acknowledge ISU's failure to provide documentation about the process to notify students and parents of loan disbursements and the right to cancel all or a portion of those disbursements. ISU is committed to providing timely information to borrowers about disbursements and their ability to cancel all or part of such disbursements. To meet this obligation, ISU has implemented an automated notification system through Ellucian Banner that will provide an email notification to the student or parent borrower within 7 days after the loan disbursement and credit to the student's account. The substance of the email notification, along with date sent and proof of receipt, will be captured in Banner for audit purposes. The notification email will provide students with an easy-to-utilize link to the student's ISU portal, which will provide specific information about the time and method of disbursement, the loan specifics (including subsidized and unsubsidized loan amounts), and cancellation procedures.

Anticipated Completion Date:

ISU has implemented these revisions to the process of notification for the 2014-2015 award year beginning with Spring 2015.



(Signature)

Director of Financial Aid

(Title)

3/3/16

(Date)



CORRECTIVE ACTION PLAN

FINDING 2015-001

Contact Person Responsible for Corrective Action: Suzanne Devine

Contact Phone Number: 812-465-7055

Description of Corrective Action Plan:

While management concurs with the conclusions and recommendations of the audit, some additional context may be helpful to establish the scope of the issue. The University processed over 9,600 student refunds during the audit period. A portion of the refunds included Title IV funds, and the audit found 154 refunds which did not meet the federal requirements.

Management has initiated some immediate corrective actions already, and it will take several additional steps during the next eight months to ensure compliance. Foremost, the associate bursar will become the primary refund processor with the special payment accountant serving as the backup beginning with the spring 2016 semester. This change will allow the bursar to monitor the refund process to ensure that it conforms with federal requirements and internal guidelines, and it will enhance internal controls and establish an appropriate separation of duties within the Bursar's Office.

The controller and the bursar met with the principal software developer/analyst in Information Technology in December 2015 to discuss the development of a new report to track the number of days which a credit balance has existed on a student account as a way to track compliance and identify exceptions. The report was developed and tested in less than one month, and it was used to successfully identify and correct refund exceptions during a trial period in December. The reports will be archived to document their review and to demonstrate compliance with the federal requirements.

Furthermore, the bursar has documented the new procedure for student account refunds in detail for Bursar's Office staff, specifying roles, steps, and processing timelines. Additionally, the bursar will develop a checklist of essential tasks in the refund process to promote their timely and accurate completion.

Finally, the bursar will work with the principal software developer/analyst in Information Technology to investigate opportunities for automating some of the refund process as a way to enhance accuracy and to gain efficiencies.

Business Office

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University of Southern Indiana
Finding 2015-001
Corrective Action Plan
Page 2

Anticipated Completion Date:

Action	Anticipated Completion Date	Status
Develop report to track credit balances	December 2015	Completed
Document process for student account refunds	January 2016	Completed
Transfer primary responsibility for refund processing to associate bursar	January 2016	In progress
Review credit balances report daily	January 2016	In progress
Develop checklist of essential refund process tasks	March 2016	Not started
Investigate further automation of refund process	August 2016	Not started


Signature

Controller
Title

1/18/2016
Date



Finding Number 2015-001

Contact Person Responsible for Corrective Action: David Tucker

Title of Contact Person: VP of Workforce Development

Description of Corrective Action Plan:

Vincennes University acknowledges the finding related to Suspension and Debarment. Payments were made to Indiana public school corporations and print screens were not properly secured from the sam.gov website. The University has written policies and procedures for the Suspension and Debarment compliance requirement that is now being followed.

Anticipated Completion Date: Correction Action has been taken.

David A Tucker
(Signature)
David A Tucker
VP Workforce Development/Community Services
(Title)
3-21-16
(Date)



Finding Number 2015-002

Contact Person Responsible for Corrective Action: Rebecca Little
Title of Contact Person: Registrar

Description of Corrective Action Plan:

Vincennes University had changed its reporting tool during the 14-15 fiscal year to ensure timely and accurate reporting for graduates. The previous reporting tool had release changes which caused their program not to be compliant with the federal reporting requirements for graduates. The University discovered this problem and instantly took the corrective measures to obtain a new tool to properly report graduates. The University understands the importance of timely and accurate reporting.

Anticipated Completion Date: Corrective Action had been taken.

Rebecca Little
(Signature)

Registrar
(Title)

3-17-2016
(Date)



Finding Number 2015-003

Contact Person Responsible for Corrective Action: David Tucker

Title of Contact Person: VP of Workforce Development

Description of Corrective Action Plan:

The citizenship status of potential Veterans Upward participants is now included in the program intake and requires a response corresponding to the applicants' status and a verifying signature. All new participants in the program since September 1, 2015 received correspondence to obtain this information.

Controls have been modified when preparing a stipend voucher. After a designated individual prepares the voucher request, the director of the program will confirm the eligibility status prior to the approval and submission of the voucher for payment.

Anticipated Completion Date: Corrective Action has been taken

David A. Tucker
(Signature)

VP Workforce Development/Community Services
(Title)

3-21-16
(Date)



Finding Number 2015-004

Contact Person Responsible for Corrective Action: David Tucker
Title of Contact Person: VP of Workforce Development

Description of Corrective Action Plan:

Vincennes University has modified its internal controls for the reporting compliance requirement. The Veterans Upward Bound Education Specialists will review the required final Department of Education (DOE) reporting data, as input into a database by the program secretary, for their assigned participants and compare it against the written records for accuracy, making any necessary corrections within both the database and the written record. The director will review the file for accuracy and follow up on all incorrect data before the final submission of the Annual Performance Report.

Anticipated Completion Date: Corrective Action has been taken

(Signature)

David A Tucker
VP Workforce Development / Community Service

(Title)

3-21-16

(Date)

FY 16 – STATUS OF FINANCIAL AND SUPPLEMENTAL AUDIT OF FEDERAL AWARDS – UNIVERISTY AUDITS

FINANCIAL AUDIT UPDATE

University	# of Assigned Field Examiners	Assigned Hours	Actual Hours To Date	Percent Complete
Ball State	3	1087.5	258.0	24%
Indiana State	3	817.5	195.0	24%
Indiana	4	1207.5	455.5	37%
Ivy Tech	3	960.0	198.0	20%
Purdue	3	1380.0	602.0	44%
Southern Indiana	3	1140.0	187.5	16%
Vincennes	3	652.5	251.0	38%

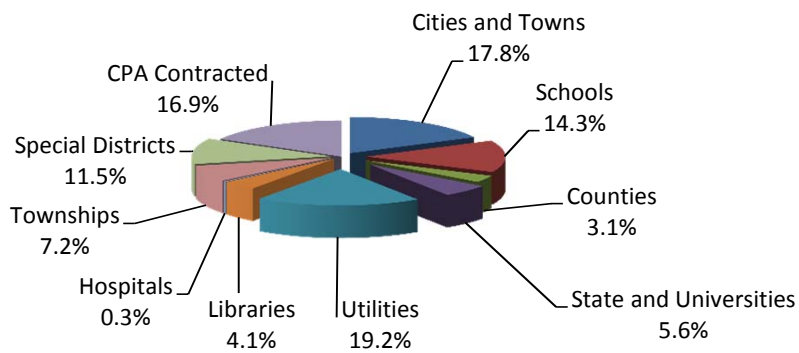
- Actual hours as of August 27, 2016
- The audit opinions for each University will be provided no later than October 26, 2016.
- At this time, we have not concluded on any possible findings for the FY 2016 financial audits.

SUPPLEMENTAL AUDIT OF FEDERAL AWARDS

University Major Program	# of Assigned Field Examiners	Assigned Hours	Actual Hours To Date	Percent Complete
Ball State Student Financial Aid Cluster	3	892.5	-	-
Indiana State Student Financial Aid Cluster	3	922.5	-	-
Indiana Student Financial Aid Cluster	3	1672.5	-	-
Ivy Tech Student Financial Aid Cluster	3	787.5	-	-
Purdue Student Financial Aid Cluster	3	1500	-	-
Southern Indiana Student Financial Aid Cluster	2	570	-	-
Vincennes Student Financial Aid Cluster	3	1245	-	-

- Major Programs other than Student Financial Aid have not been determined at this point.
- Number of field examiners assigned could fluctuate depending on the number of major programs that are determined.

Reports Issued FY 2016



	<u>Total</u>	<u>Percent</u>
Cities and Towns	313	17.8%
Schools	252	14.3%
Counties	55	3.1%
State and Universities	99	5.6%
Utilities	339	19.2%
Libraries	73	4.1%
Hospitals	5	0.3%
Townships	128	7.2%
Special Districts	204	11.5%
CPA Contracted	<u>299</u>	<u>16.9%</u>
Total	<u>1,767</u>	<u>100.0%</u>

Investigations and Schedule of Charge Reports in Excess of \$50,000

We performed many examination and investigations that were the result of irregularities our staff discovered during regular audits as well as information we receive from law enforcement agencies, officials and employees of the units we audit, and concerned citizens. Our reports are certified to the Office of the Indiana Attorney General for civil collections and to the local prosecutors when our findings involve potential criminal activity. In the last year we identified over \$5 million in misappropriated or misspent public funds.

Our field examiners work with the State Police, FBI, local law enforcement, Office of the Indiana Attorney General, US Attorney's Office, local prosecutors and other State and Federal agencies during these investigations to see that those who misappropriate or misspend public funds are held accountable. Regular meetings are held with these agencies to discuss ongoing and potential new cases, as well as any trends that are occurring.

Although our field examiners are highly trained in auditing, investigations and the accounting processes of State and local governments, no one on our staff is designated as a law enforcement officer and we are not designated as a law enforcement agency. We have historically worked well with the other agencies mentioned above during investigations, but we are often left out of the process or "not invited to the table" because we have no designated law enforcement officer and we are not specifically designated as a law enforcement agency. This has led to inefficiencies and many of our investigative reports not being properly vetted. (See Section 6)

The majority of the field examiners that work on investigations are our more experienced staff. In addition to the investigations, they also staff our resource center tables at all local government training conferences. The resource center tables offer our local officials an opportunity to ask our field examiners questions they may have on a personal one on one basis. In addition to the resource tables, these field examiners also provide guidance and technical assistance to officials in the field; especially some of the newer or newly elected officials. This helps to ensure that these officials, many of whom have no formalized training in accounting, get off on the right foot so that they may best serve their taxpayers.

We have started the process of having our investigative staff become Certified Fraud Examiners by successfully completing the 4-part exam given by the Association of Certified Fraud Examiners (ACFE). The ACFE is the world's largest anti-fraud organization and premier provider of anti-fraud training and education. A number of our investigative staff, including myself, have already received their certification and our goal is for all investigators to become certified. This certification and being associated with the ACFE will increase our ability to perform fraud audits and further ensure that public monies are being properly spent.

CHARGE REPORTS IN EXCESS OF \$50,000

<u>Unit Name</u>	<u>Report Number</u>	<u>Date Certified</u>	<u>Amount Certified</u>
PRAIRIE TWP (LAPORTE COUNTY)	B46006	03-16-2016	\$ 52,386.00
HENSLEY TWP (JOHNSON COUNTY)	B45468	11-04-2015	75,264.70
TOWN OF SPEEDWAY	B45219	07-09-2015	79,326.83
CENTER TWP (MARION COUNTY)	B45996	03-15-2016	97,702.53
TOWN OF KENNARD	B46075	04-05-2016	103,145.08
JENNINGS COUNTY	B45718	01-22-2016	122,787.46
BARTHOLOMEW CONSOLIDATED SCHOOL CORP	B45289	08-13-2015	134,354.24
MONROE COUNTY	B45441	10-22-2015	317,140.19
CITY OF BLOOMINGTON	B45791	02-11-2016	470,639.98
SCHOOL TOWN OF MUNSTER	B46414	06-08-2016	851,451.35
WARSAW COMMUNITY SCHOOLS	B45250	07-21-2015	988,917.57
CITY OF GARY	B45440	10-21-2015	1,397,559.19



PEER REVIEW REPORT
October 23, 2015

Mr. Paul Joyce, CPA
State Examiner
Indiana State Board of Accounts
302 W. Washington Street, Room E418
Indianapolis, Indiana 46204

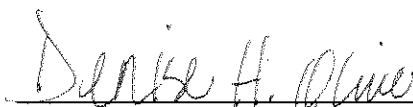
Dear Mr. Joyce:

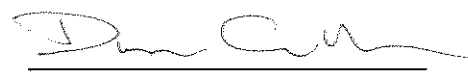
We have reviewed the system of quality control of the Indiana State Board of Accounts (the Office) in effect for the period October 1, 2014 through September 30, 2015. A system of quality control encompasses the Office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. 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 professional 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 professional 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 design matters in the system of quality control or all compliance matters with the system. 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 the Indiana State Board of Accounts in effect for the period October 1, 2014 through September 30, 2015 has been suitably designed and was complied with during the period to provide the audit organization with reasonable assurance of performing and reporting in conformity with *Government Auditing Standards* in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. The Indiana State Board of Accounts has received a peer review rating of *pass*.


Denise H. Olive, MBA, CPA
Team Leader
National State Auditors Association
External Peer Review Team


Donna Cullen, CPA, CGMA
Concurring Reviewer
National State Auditors Association
External Peer Review Team



September 23, 2015

Mr. Paul Joyce
State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, Indiana 46204-2769

Dear Mr. Joyce:

Thank you for your letter of June 23, 2015 requesting direct access to FinCEN's Bank Secrecy Act (BSA) information through a Memorandum of Understanding with your agency.

By design, FinCEN's direct electronic access program is generally available to law enforcement agencies and financial regulatory agencies. Although the Indiana State Board of Accounts (ISBA) investigates fraud and money laundering activity, the ISBA is not a financial regulatory agency or law enforcement agency.

We understand and appreciate your desire to acquire direct access to FinCEN's BSA data for your agency. However, based upon our current criteria, we cannot provide the Indiana State Board of Accounts with the access you request.

If you have any additional questions, please contact the Office of Liaison Services, Law Enforcement Liaison Program Leader, Mr. John Williams, at (703) 905-3852.

Sincerely,

Jack Cunniff
Acting Office Director
Office of Liaison Services

Financial Crimes Enforcement Network (FinCEN)

FinCEN was created in 1990 to support federal, state, local, and international law enforcement by analyzing the information required under the Bank Secrecy Act (BSA), one of the nation's most important tools in the fight against money laundering. The BSA's recordkeeping and reporting requirements establish a financial trail for investigators to follow as they track criminals, their activities, and their assets. Over the years, FinCEN staff has developed its expertise in adding value to the information collected under the BSA by uncovering leads and exposing unknown pieces of information contained in the complexities of money laundering schemes.

Dirty money can take many routes-some complex, some simple, but all increasingly inventive-the ultimate goal being to disguise its source. The money can move through banks, check cashers, money transmitters, businesses, casinos, and even be sent overseas to become clean, laundered money. The tools of the money launderer can range from complicated financial transactions, carried out through webs of wire transfers and networks of shell companies, to old-fashioned currency smuggling.

FinCEN researches and analyzes this information and other critical forms of intelligence to support financial criminal investigations. The ability to link to a variety of databases provides FinCEN with one of the largest repositories of information available to law enforcement in the country. Safeguarding the privacy of the data it collects is an overriding responsibility of the agency and its employees-a responsibility that strongly imprints all of its data management functions, and indeed, all that the agency does.

FinCEN provides a networking process designed to facilitate information sharing between agencies with shared investigative interests.

FinCEN carries out its mission by receiving and maintaining financial transactions data; analyzing and disseminating that data for law enforcement purposes; and building global cooperation with counterpart organizations in other countries and with international bodies.

FinCEN exercises regulatory functions primarily under the Currency and Financial Transactions Reporting Act of 1970, as amended by Title III of the USA PATRIOT Act of 2001 and other legislation, which legislative framework is commonly referred to as the "Bank Secrecy Act" (BSA). The BSA is the nation's first and most comprehensive Federal anti-money laundering and counter-terrorism financing (AML/CFT) statute. In brief, the BSA authorizes the Secretary of the Treasury to issue regulations requiring banks and other financial institutions to take a number of precautions against financial crime, including the establishment of AML programs and the filing of reports that have been determined to have a high degree of usefulness in criminal, tax, and regulatory investigations and proceedings, and certain intelligence and counter-terrorism matters. The Secretary of the Treasury has delegated to the Director of FinCEN the authority to implement, administer, and enforce compliance with the BSA and associated regulations.

The basic concept underlying FinCEN's core activities is "follow the money." The primary motive of criminals is financial gain, and they leave financial trails as they try to launder the proceeds of crimes or attempt to spend their ill-gotten profits. FinCEN partners with law enforcement at all levels of government and supports the nation's foreign policy and national security objectives. Law enforcement agencies successfully use similar techniques, including searching information collected by FinCEN from the financial industry, to investigate and hold accountable a broad range of criminals, including perpetrators of fraud, tax evaders, and narcotics traffickers. More recently, the techniques used to follow money trails also have been applied to investigating and disrupting terrorist groups, which often depend on financial and other support networks.

STATE OF INDIANA
EXECUTIVE DEPARTMENT
INDIANAPOLIS

13-26

EXECUTIVE ORDER _____

**FOR: PROMOTING THE INDEPENDENCE OF THE STATE BOARD OF
ACCOUNTS AND STATE EXAMINER**

TO ALL WHOM THESE PRESENTS MAY COME, GREETINGS:

WHEREAS, fiscal integrity is the foundation of a prosperous state;

WHEREAS, state agencies as defined in Ind. Code § 4-12-1-2 oversee billions of dollars in public funds;

WHEREAS, Ind. Code § 5-11-1-1 created the State Board of Accounts to consist of a State Examiner, who is the “principal officer of the board,” and two deputy examiners, all to be appointed by the Governor and to be “subject to removal by the Governor for incompetency or for misconduct of the office, after a hearing upon due notice and upon stated charges in writing”;

WHEREAS, Ind. Code § 5-11-1-2 provides that the State Board of Accounts “shall formulate, prescribe and install a system of accounting and reporting” for state agencies, and Ind. Code § 5-11-1-9 provides that the State Examiner “shall examine all financial affairs of every public office and officer, state office, state institution, and entity”;

WHEREAS, through performing these duties, the State Board of Accounts and State Examiner are fundamental to the ability of state agencies to oversee public funds, to set appropriate financial policies, to maintain effective internal controls and to ensure that financial statements are free from material misstatements;

WHEREAS, the State Examiner of the Board of Accounts is responsible for publicly attesting to the fairness of financial statements, evaluating the effectiveness of internal controls and, through the issuance of management letters, making comments and recommendations which, when implemented, may improve the design or operation of internal control systems;

WHEREAS, in December 2011 the U.S. Governmental Accountability Office issued the 2011 revision of Governmental Auditing Standards (GAGAS) effective for audits for periods ending on or after December 15, 2012;

WHEREAS, section 3.29(c) of the GAGAS standards provide that when an auditor is appointed by someone other than a legislative body, the auditor’s independence is strengthened when the appointment is confirmed by a legislative body, when removal of the auditor is subject to oversight or approval by a legislative body, and when the auditor reports the results of audits to and is accountable to a legislative body;

WHEREAS, Ind. Code § 2-5-1.1-11 provides the Legislative Council with authority to examine the accounts, financial affairs, or performance of the State Board of Accounts;

WHEREAS, in order to fully comply with the GAGAS standards, certain safeguards can be put in place to ensure the structural independence of the State Board of Accounts and State Examiner that are consistent with and surpass the requirements of Ind. Code 5-11;

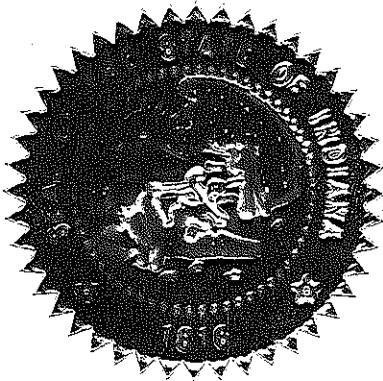
WHEREAS, such safeguards will help eliminate any real or perceived threats to the independence of the State Board of Accounts and State Examiner;

WHEREAS, the executive branch's voluntary implementation of such safeguards will ensure the independence of the State Board of Accounts and State Examiner and contribute to maintaining the State's high standards of fiscal integrity;

WHEREAS, as Governor, I have a responsibility to manage the operations of the executive branch of state government and its various agencies efficiently and effectively and in accordance with Indiana law.

NOW, THEREFORE, I, Michael R. Pence, by virtue of the authority vested in me as Governor of the State of Indiana, do hereby:

1. ORDER all state agencies as defined by Ind. Code § 4-12-1-2 to recognize and support the independence of the State Board of Accounts and State Examiner.
2. ORDER all state agencies to recognize the sole authority of the State Examiner over the assignment, appointment, compensation and promotion of assistants in accordance with Ind. Code § 5-11-1-7 and subject to the funds appropriated by the Indiana General Assembly.
3. REQUEST the Personnel Subcommittee of the Legislative Council, created by Ind. Code § 2-5-1.1-1, to confirm or oppose the appointment of the current State Examiner, which was made pursuant to Ind. Code § 5-11-1-1.
4. REQUEST the Personnel Subcommittee of the Legislative Council to approve or reject the removal of the State Examiner should I choose to remove the State Examiner pursuant to Ind. Code § 5-11-1-1. In addition to following the procedures outlined in Ind. Code § 5-11-1-1, I will not remove the State Examiner unless and until the Legislative Council approves the removal.
5. PROHIBIT any agency from enforcing or applying any policy or procedure, unless specifically authorized by Indiana law or the Personnel Subcommittee of the Legislative Council, against or in relation to the State Board of Accounts unless the State Examiner consents to comply with the policy or procedure and determines that the policy or procedure will not interfere with the independence of the State Board of Accounts, unless emergency circumstances justify extraordinary measures to protect the State's budget or fiscal reserves, or unless such policy is one of general application to all other state agencies and not intended to interfere with the State Board of Accounts' audit processes.



IN TESTIMONY WHEREOF, I,
Michael R. Pence, have hereunto set
my hand and caused to be affixed the
Great Seal of the State of Indiana on
this 23rd day of December, 2013.

Michael R. Pence
Governor of Indiana

ATTEST: Connie Lawson
Secretary of State

**LEGAL BASIS AND BRANCH OF GOVERNMENT
FOR STATE AUDITORS**

State/Agency	Legal Basis for Office (Statutory or Constitutional?)	Branch of State Government	Agency Head Directly Responsible To	How Selected	Selection Procedure
Alabama Department of Examiners of Public Accounts	Statutory	Legislative	Legislative Committee on Public Accounts	Legislative Committee on Public Accounts	Appointed by Legislative Committee on Public Accounts
Alaska Division of Legislative Audit	Both	Legislative	Legislature	Appointed by legislature	Nominated by the Legislative Budget and Audit Committee, appointed by the full legislature
Arizona Office of the Auditor General	Statutory	Legislative	The Joint Legislative Audit Committee	Joint Legislative Audit Committee	Selected by the Joint Legislative Audit Committee and approved by concurrent resolution of the legislature receiving the concurrence of a majority of the members of each house
Arkansas Division of Legislative Audit	Statutory	Legislative	The Legislative Joint Auditing Committee	The Legislative Joint Auditing Committee	The legislative auditor is appointed by a majority vote of the membership of the Legislative Joint Auditing Committee, with confirmation by both houses of the General Assembly.
California Office of State Auditor	Statutory	Quasi-executive. We report to the legislature but technically reside in the executive branch (but do not report to the governor and are independent of any agencies in the executive branch).	Joint Legislative Audit Committee	Appointed by the governor from a list of three names selected by the Joint Legislative Audit Committee.	The Joint Legislative Audit Committee selects three qualified individuals from a nationwide applicant pool. The governor appoints the state auditor but can only appoint from the list of three individuals selected by the Joint Legislative Audit Committee.
Colorado Office of the State Auditor	Both	Legislative	Legislative Audit Committee	Appointed by Legislative Audit Committee	Interviewed and selected by Legislative Audit Committee, confirmed by General Assembly
Connecticut Office of the Auditors of Public Accounts	Statutory	Legislative	Legislature	Appointed by legislature	Two auditors of public accounts, not of the same political party, are appointed by the legislature to staggered four-year terms.
Delaware Office of the Auditor of Accounts	Both	Executive	Public	Elected by citizens	The Auditor of accounts is elected every four years by the public.
Florida Office of the Auditor General	Both	Legislative	Legislature	Appointed by legislature	Appointed by the Joint Legislative Auditing Committee; confirmed by Senate and House

**LEGAL BASIS AND BRANCH OF GOVERNMENT
FOR STATE AUDITORS**

Georgia Department of Audits and Accounts	Statutory	Legislative	Legislature	Appointed by legislature	The state auditor is elected by the House of Representatives and confirmed by the Senate. The governor may appoint an interim state auditor should the office be vacated between sessions of the General Assembly.
Guam Office of the Public Auditor	Statutory	Executive	Public	Elected by citizens	Election by the people of Guam. Filing of candidacy papers are due by June 30. The primary election is held on the first Saturday in September. The top two candidates advance to the general election. The general election is held on the first Tuesday after the first Monday in November.
Hawaii * Office of the Auditor	Constitutional	Legislative	Legislature	Appointed by legislature	Appointed by legislature, majority vote of each house in joint session
Idaho Office of the Legislative Audits	Statutory	Legislative	Legislative Council	Legislative Council who delegated in part to Joint Finance Appropriations Committee	Legislative services director is appointed by the Legislative Council. Division of Audit manager is appointed by the legislative services director.
Illinois Office of the Auditor General	Both	Legislative	Legislature	Appointed by legislature	Recommendation by Legislative Audit Commission; appointment by 3/5ths majority of each chamber of General Assembly
Indiana State Board of Accounts	Statutory	Executive/legislative: the office is organized and administered under the executive branch but the Legislative Audit Committee provides some oversight of work performed.	Legislature and governor	Appointed by governor; confirmation by Legislative Council is required.	Must be a CPA with at least five years of accounting experience, including at least three years of single audit experience in the public or private sector.
Iowa Office of the Auditor of State	Both	Executive	Public	Elected by citizens	Elected on a statewide basis every four years
Kansas Legislative Division of Post Audit	Statutory	Legislative	Legislative Post Audit Committee	Legislative Post Audit Committee	Hired after a nationwide search
Kentucky Office of the Auditor of Public Accounts	Both	Executive	Public	Elected by citizens	General state-wide election same year as governor
Louisiana Legislative Auditor	Both	Legislative	Legislative Audit Advisory Council	Elected by a majority vote of the Louisiana Legislature	Elected by vote of the legislature
Maine Office of the State Auditor	Statutory	Legislative	Legislature	Appointed by legislature	Elected in joint session of the House and Senate for a four-year term on the first day of the legislative session

**LEGAL BASIS AND BRANCH OF GOVERNMENT
FOR STATE AUDITORS**

Maryland Office of Legislative Audits	Statutory	Legislative	Joint Audit Committee of the general assembly and executive director of the Department of Legislative Services	Executive director of the Department of Legislative Services, subject to approval by the speaker of the House and president of the Senate.	Appointed without a fixed term by the executive director of the Department of Legislative Services, subject to approval by the president of the Senate and speaker of the House of Delegates
Massachusetts Office of the Auditor of the Commonwealth	Both	Executive	Public	Elected by citizens	Public election every four years
Michigan Office of the Auditor General	Constitutional	Legislative	Legislature	Appointed by legislature	Nominated by a joint legislative committee, then approved by a majority vote of each chamber of the legislature
Minnesota Office of the Legislative Auditor	Statutory	Legislative	Legislative Committee on Public Accounts	Legislative Committee on Public Accounts	Appointed by Legislative Committee on Public Accounts
Minnesota Office of the State Auditor	Constitutional	Executive	Legislature	Appointed by legislature	Nominated by the Legislative Budget and Audit Committee, appointed by the full legislature
Mississippi Office of the State Auditor	Constitutional	Executive	The Joint Legislative Audit Committee	Joint Legislative Audit Committee	Selected by the Joint Legislative Audit Committee and approved by concurrent resolution of the legislature receiving the concurrence of a majority of the members of each house
Missouri Office of the State Auditor	Both	Executive	The Legislative Joint Auditing Committee	The Legislative Joint Auditing Committee	The legislative auditor is appointed by a majority vote of the membership of the Legislative Joint Auditing Committee, with confirmation by both houses of the General Assembly.
Montana Legislative Audit Division	Both	Legislative	Joint Legislative Audit Committee	Appointed by the governor from a list of three names selected by the Joint Legislative Audit Committee.	The Joint Legislative Audit Committee selects three qualified individuals from a nationwide applicant pool. The governor appoints the state auditor but can only appoint from the list of three individuals selected by the Joint Legislative Audit Committee.
Nebraska Office of the Auditor of Public Accounts	Constitutional	Executive	Legislative Audit Committee	Appointed by Legislative Audit Committee	Interviewed and selected by Legislative Audit Committee, confirmed by General Assembly
Nevada Legislative Counsel Bureau, Audit Division	Statutory	Legislative	Legislature	Appointed by legislature	Two auditors of public accounts, not of the same political party, are appointed by the legislature to staggered four-year terms.

**LEGAL BASIS AND BRANCH OF GOVERNMENT
FOR STATE AUDITORS**

State/Agency	Legal Basis for Office (Statutory or Constitutional?)	Branch of State	Agency Head Directly Responsible To	How Selected	Selection Procedure
New Hampshire * Office of Legislative Budget Assistant	Statutory	Legislative	Public	Elected by citizens	The Auditor of accounts is elected every four years by the public.
New Jersey Office of the State Auditor	Both	Legislative	Legislature	Appointed by legislature	Appointed by the Joint Legislative Auditing Committee; confirmed by Senate and House
New Jersey Office of the State Comptroller	Statutory	Executive	Legislature	Appointed by legislature	The state auditor is elected by the House of Representatives and confirmed by the Senate. The governor may appoint an interim state auditor should the office be vacated between sessions of the General Assembly.
New Mexico Office of the State Auditor	Both	Executive	Public	Elected by citizens	Election by the people of Guam. Filing of candidacy papers are due by June 30. The primary election is held on the first Saturday in September. The top two candidates advance to the general election. The general election is held on the first Tuesday after the first Monday in November.
New York Office of the State Comptroller	Both	Executive	Legislature	Appointed by legislature	Appointed by legislature, majority vote of each house in joint session
North Carolina Office of the State Auditor	Constitutional	Executive	Legislative Council	Legislative Council who delegated in part to Joint Finance Appropriations Committee	Legislative services director is appointed by the Legislative Council. Division of Audit manager is appointed by the legislative services director.
North Dakota Office of the State Auditor	Both	Executive	Legislature	Appointed by legislature	Recommendation by Legislative Audit Commission; appointment by 3/5ths majority of each chamber of General Assembly
Ohio Office of the Auditor of State	Both	Executive	Legislature and governor	Appointed by governor;	Must be a CPA with at least five years of
Oklahoma Office of the State Auditor and Inspector	Both	Executive	Public	Elected by citizens	Elected on a statewide basis every four years
Oregon Division of Audits	Both	Executive	Legislative Post Audit Committee	Legislative Post Audit Committee	Hired after a nationwide search
Pennsylvania Department of the Auditor General	Both	Executive	Public	Elected by citizens	General state-wide election same year as governor
Puerto Rico Office of the Comptroller	Both	Legislative	Legislative Audit Advisory Council	Elected by a majority vote of the Louisiana Legislature	Elected by vote of the legislature

**LEGAL BASIS AND BRANCH OF GOVERNMENT
FOR STATE AUDITORS**

Rhode Island** Office of the Auditor General	Statutory	Legislative	Legislature	Appointed by legislature	Elected in joint session of the House and Senate for a four-year term on the first day of the legislative session
South Carolina Legislative Audit Council	Statutory	Legislative	Joint Audit Committee of the general assembly and executive director of the Department of Legislative Services	Executive director of the Department of Legislative Services, subject to approval by the speaker of the House and president of the Senate.	Appointed without a fixed term by the executive director of the Department of Legislative Services, subject to approval by the president of the Senate and speaker of the House of Delegates
South Carolina Office of the State Auditor	Statutory	Executive	Public	Elected by citizens	Public election every four years
South Dakota Department of Legislative Audit	Statutory	Legislative	Legislature	Appointed by legislature	Nominated by a joint legislative committee, then approved by a majority vote of each chamber of the legislature
Tennessee Office of the Comptroller of the Treasury	Both	Legislative	Legislative Committee on Public Accounts	Legislative Committee on Public Accounts	Appointed by Legislative Committee on Public Accounts
Texas Office of the State Auditor	Statutory	Legislative	Legislature	Appointed by legislature	Nominated by the Legislative Budget and Audit Committee, appointed by the full legislature
Utah Office of the State Auditor	Both	Executive	The Joint Legislative Audit Committee	Joint Legislative Audit Committee	Selected by the Joint Legislative Audit Committee and approved by concurrent resolution of the legislature receiving the concurrence of a majority of the members of each house
Vermont Office of the State Auditor	Both	Executive	The Legislative Joint Auditing Committee	The Legislative Joint Auditing Committee	The legislative auditor is appointed by a majority vote of the membership of the Legislative Joint Auditing Committee, with confirmation by both houses of the General Assembly.
Virginia Office of the Auditor of Public Accounts	Both	Legislative	Joint Legislative Audit and Review Commission	Appointed by legislature	Joint vote of the two houses of the General Assembly (legislature)
Washington Office of the State Auditor	Both	Executive	Public	Elected by citizens	
West Virginia Legislative Auditor's Office – Performance Evaluation Research Division	Statutory	Legislative	Legislative Auditor	Appointed by legislature	
West Virginia Legislative Auditor's Office – Post Audit Division	Statutory	Legislative	Legislative Auditor	Appointed by legislature	Hired by the president of the Senate and the speaker of the House of Delegates

**LEGAL BASIS AND BRANCH OF GOVERNMENT
FOR STATE AUDITORS**

Wisconsin Legislative Audit Bureau	Statutory	Legislative	Joint Committee on Legislative Organization	Joint Committee on Legislative Organization	The Joint Legislative Audit Committee interviews prospective candidates and makes a recommendation to the Joint Committee on Legislative Organization, which is the body responsible for the appointment of all legislative service agency heads.
Wyoming Department of Audit	Statutory	Executive	Appointed by committee of governor, secretary of state, and state treasurer	Appointed by committee of governor, secretary of state, and state treasurer	Apply to the governor, secretary of state and treasurer who interview and make decision. Appointment is for a six-year term and may be removed only because of illegal actions.

* This state (Hawaii and New Hampshire) did not respond to the 2015 *Auditing in the States* survey. Information included in this table was submitted by the state in 2012.

** This state (Rhode Island) did not respond to the 2015 *Auditing in the States* survey. Information included in this table was submitted by the state in 2009.