

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

SPECIAL AUDIT REPORT
OF

OFFICE OF FAMILY AND CHILDREN -- LAGRANGE COUNTY
FAMILY AND SOCIAL SERVICES ADMINISTRATION
DEPARTMENT OF CHILD SERVICES

January 1, 1995 to January 31, 2006



FILED

08/28/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Director	David B. Judkins Janney L. Lung	01-01-95 to 07-31-03 08-01-03 to 12-31-06
Secretary, Family and Social Services Administration	Cheryl Sullivan Katherine L. Davis Venita Moore (Interim) Peter Sybinsky Katherine Humphreys John Hamilton Mary DePrez (Interim) Cheryl Sullivan Venita Moore E. Mitchell Roob, Jr.	06-23-93 to 01-12-97 01-13-97 to 08-20-98 08-21-98 to 05-16-99 05-17-99 to 07-02-00 07-03-00 to 06-30-01 07-01-01 to 09-30-03 10-01-03 to 10-19-03 10-20-03 to 12-17-04 12-18-04 to 01-09-05 01-10-05 to 01-11-09
Director, Department of Child Services	James W. Payne	01-10-05 to 01-11-09
County Auditor	Kay M. Myers	05-15-95 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF OFFICE OF FAMILY AND CHILDREN -- LAGRANGE COUNTY, FAMILY
AND SOCIAL SERVICES ADMINISTRATION, DEPARTMENT OF CHILD SERVICES

We have audited the records of the Office of Family and Children -- LaGrange County, Family and Social Services Administration; Department of Child Services, for the period from January 1, 1995 to January 31, 2006, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments. The financial transactions of this office are reflected in the Annual Financial Report of LaGrange County.

June 15, 2006

STATE BOARD OF ACCOUNTS

OFFICE OF FAMILY AND CHILDREN -- LAGRANGE COUNTY
FAMILY AND SOCIAL SERVICES ADMINISTRATION
DEPARTMENT OF CHILD SERVICES
AUDIT RESULTS AND COMMENTS

INTRODUCTION

Our audit of the Office of Family and Children in LaGrange County has disclosed significant questionable and improper expenditures from the Family and Children's fund and major internal control weaknesses in the oversight of credit cards and the process for payment of accounts payable (A/P) vouchers.

Relationship between the State and LaGrange County

Family and Social Services Administration (FSSA) is an Indiana state agency with branch offices, Office of Family and Children (OFC), in each county. Employees of the OFC are State of Indiana employees. Until January 11, 2005, FSSA had sole administrative authority over the local OFCs. On that date the Governor of the State of Indiana issued Executive Order 05-15 creating the Department of Child Services (DCS) as a separate state agency. Indiana Code 31-33-1.5-2 then established the DCS by statute, effective July 1, 2005. The new agency assumed responsibility for all child protection and support services, including foster care services. The administrative authority of the OFC is now shared between FSSA and DCS.

Family and Children's Fund

The Family and Children's Fund, established in each county in the State of Indiana, was created by Indiana Code 12-19-7-3 and includes proceeds from a special tax levy.

The Family and Children's fund is to be used for "the purpose of paying expenses and obligations set forth in the annual budget that is submitted and approved." Allowable expenditures would include:

- (a) Payments to foster parents for care of wards.
- (b) Payments to institutions for care of wards.
- (c) Payments for therapy or counseling for wards.
- (d) Payments for adoption services for wards.
- (e) Payments for miscellaneous items for wards such as clothing, furniture, and infant car seats in emergency placements.

Although this fund is a county fund, it is under the administrative control of OFC (FSSA/DCS) state employees.

Wal-Mart and K-Mart Purchasing Procedures

Employees of the OFC in LaGrange County purchased clothing for foster children at Wal-Mart and K-Mart. Prior to November 2000, the OFC Director (or caseworkers) would send clients to Wal-Mart or K-Mart with a voucher authorizing them to purchase clothing. These vouchers included the authorized client's name, the store and location, and a maximum dollar amount for the purchase approved by the OFC. Wal-Mart and K-Mart extended to the OFC a 30 day in-store credit. After making the purchase, the client submitted the receipt to the OFC, where the OFC Account Clerk would prepare an A/P voucher for payment to Wal-Mart or K-Mart. A copy of the receipt was to be placed in the client's file.

OFFICE OF FAMILY AND CHILDREN -- LAGRANGE COUNTY
FAMILY AND SOCIAL SERVICES ADMINISTRATION
DEPARTMENT OF CHILD SERVICES
AUDIT RESULTS AND COMMENTS
(Continued)

Beginning in November 2000, the OFC in LaGrange County began using Wal-Mart credit cards for these clothing purchases. Initially the OFC Director authorized the use of two Wal-Mart credit cards, which were kept in the safe in the Account Clerk's office. The client was still given a voucher to take to Wal-Mart along with the credit card. After purchasing items, the client would return the credit card and receipt to the OFC. The OFC Account Clerk would prepare an A/P voucher for payment to Wal-Mart twice a month. A copy of the receipt was to be placed in the client's file.

Neither FSSA nor DCS has issued any policy regarding the issuance and oversight of credit cards by the OFC county offices.

NOTIFICATION OF IRREGULARITIES

In a meeting with the Indiana State Police (ISP) on February 1, 2006, we were informed that Kay Davisson, LaGrange County OFC Account Clerk, had been charged with five counts of theft for allegedly using a State credit card for personal gain. Wal-Mart allegedly had video footage of Kay Davisson making purchases at one Wal-Mart location with a State credit card and then returning those same purchases at another Wal-Mart location for a cash refund. The ISP stated that the Wal-Mart Store in Angola, Indiana, had contacted the Angola Police Department about a possible fraud involving a LaGrange County OFC employee. When the Angola police determined that Kay Davisson was a State employee, they referred the case to the ISP, who contacted the State Board of Accounts for assistance in determining the amount of the theft.

AUDIT PROCEDURES

We reviewed all expenditures from the Family and Children's Fund in LaGrange County, Kay Davisson's payroll and travel vouchers, receipts for repayment of FSSA benefits by clients at the OFC, the Electronic Benefit Transfer cards (EBT), and the validity of foster care and adoption assistance payments.

Our procedures revealed no apparent problems with payroll, travel, repayments, EBT cards, foster care, or adoption assistance payments. For the years 2000 through 2006, we traced A/P vouchers paid from the Family and Children's fund to the County Auditor's Ledger. Only A/P vouchers from Wal-Mart and K-Mart appeared to be irregular when reviewed for allowability.

Payments to Wal-Mart and K-Mart not supported by an A/P voucher were considered "undocumented" and thus improper. All other A/P vouchers were reviewed to determine allowability of purchases.

IMPROPER USE OF FAMILY AND CHILDREN'S FUND

In addition to clothing for foster children Kay Davisson was authorized to purchase lice kits, child restraint seats, and infant formula and diapers at K-Mart using in-store credit. Prior to November of 2000, she purchased these items at Wal-Mart using in-store credit; after that date her purchases were made with the Wal-Mart credit card. Ms. Davisson provided K-Mart and Wal-Mart with the OFC tax exemption number and identification as an OFC employee when making purchases. After making purchases, she would prepare the A/P voucher for payment by attaching the claims to the A/P voucher. Our audit of the A/P vouchers revealed numerous purchases of improper items from the Family and Children's Fund as well as numerous A/P vouchers missing from Ms. Davisson's office.

OFFICE OF FAMILY AND CHILDREN -- LAGRANGE COUNTY
FAMILY AND SOCIAL SERVICES ADMINISTRATION
DEPARTMENT OF CHILD SERVICES
AUDIT RESULTS AND COMMENTS
(Continued)

Falsified Signatures

Numerous signatures signifying approval of the Director on the A/P vouchers did not appear to be the County Director's signature. The current Director and former Director reviewed some of the signatures on the A/P vouchers and both indicated signatures they did not believe to be theirs. Some signatures on store receipts did not appear to be the individual caseworker's signature. Two of the caseworkers reviewed store receipts and both indicated, in some cases, the signatures were not theirs.

Store Receipts

Store receipts attached to the Wal-Mart and K-Mart A/P vouchers had been manipulated in various ways. Receipts from K-Mart and Wal-Mart were usually folded and stapled numerous times. When we removed the staples and unfolded the receipts, we found holes in the receipts or writing with a black marker on the receipts where improper items were purchased. The credit card account approval portion of Wal-Mart's receipts was also cut off and the remaining portion of the receipt taped to the receipt when improper items were purchased. When the credit card was used by or for a client, the store receipt was intact.

As Account Clerk, it was Kay Davisson's responsibility to attach store receipts to the A/P voucher.

Purchase of Documented Improper Items

We noted improper purchases of specific items (See Attachment A).

Kay Davisson, as Account Clerk, was not authorized to make purchases of these items. Based on interviews with the OFC Director and caseworkers, these items, other than clothing, would not be purchased for foster children.

Kay Davisson was requested to reimburse \$176,815.69 to LaGrange County for these documented improper items. (See Summary, page 13)

Undocumented Purchases

Our audit of A/P vouchers revealed that 76% of the K-Mart and Wal-Mart A/P vouchers for the period January 1, 2000 through January 31, 2006, were missing. A/P vouchers paid to other vendors during the same time period were on file. As Account Clerk, it was Ms. Davisson's duty to maintain the A/P vouchers either in her office or in the off-site storage unit for three years after they had been audited. For the period February 14, 2004 through January 22, 2006, Wal-Mart provided us with copies of the credit card statements. These statements included a detailed listing of items that were purchased for most of the credit card transactions. Transactions that did not have a detailed listing were considered to be improper (See Attachment B).

Kay Davisson was requested to reimburse \$253,996.75 to LaGrange County for these undocumented purchases. (See Summary, page 13)

INTERNAL CONTROL WEAKNESSES

Internal control weaknesses at both the FSSA central office and the OFC in LaGrange County contributed to improper use of the fund and the irregularities not being detected. These weaknesses include separation of duties, approval of A/P vouchers, and purchasing authority.

OFFICE OF FAMILY AND CHILDREN -- LAGRANGE COUNTY
FAMILY AND SOCIAL SERVICES ADMINISTRATION
DEPARTMENT OF CHILD SERVICES
AUDIT RESULTS AND COMMENTS
(Continued)

Separation of Duties

Kay Davisson was the only employee in the business office. She was responsible for opening all mail received by the business office, including invoices from vendors. It was also her duty to attach the claims to the A/P voucher forms and prepare the A/P vouchers for the Director's approval. Ms. Davisson was also responsible for preparing the listing of awards, grants and public assistance to be paid and the certification form for the Director's approval. She had access to the claims and A/P vouchers and would have been aware that the Director did not compare the actual A/P vouchers to the listing of awards, grants, and public assistance. Since the form certifying the listing of awards, grants and public assistance as true and correct was separate from the actual listing, A/P vouchers could be added to the listing after the Director had signed the certification form.

In addition, Ms. Davisson was solely responsible for delivering the listing of A/P vouchers to the County Auditor for payment, picking up the warrants (checks) from the County Auditor, and mailing them to the vendors.

Purchasing Authority

We are not aware of any policy regarding issuance and oversight of credit cards by either FSSA or the DCS. When the Wal-Mart credit cards were initially issued by Wal-Mart the LaGrange County OFC received two credit cards. These cards were kept in the safe by Kay Davisson. She also paid the credit card bills and dealt with any problems with these accounts. With this authority and no oversight, she was able to procure and use four additional credit cards on the OFC's account without the Director's knowledge.

RECOMMENDATIONS

We have noted in five FSSA audit reports, most recently B19502, that the OFC offices are not consistent in the manner in which they implement their accounting operations. Both FSSA and DCS need to develop policies on what internal controls should be applied consistently across all OFCs. As noted in this report separation of duties was a significant internal control weakness that enabled the occurrence of these irregularities. We recommended that prior to the issuance of policies by central office separation of duties be instituted for the payment of A/P vouchers process. An employee other than the Account Clerk should open all the mail, including the invoices from vendors. That person should then attach the claims to the A/P vouchers and prepare the A/P vouchers before submitting them to the Account Clerk. The Account Clerk could then review the A/P vouchers as submitted, complete the listing of awards, grants, and public assistance, and prepare the certification form. The Account Clerk should then submit the actual A/P vouchers and the listing to the Director for approval. The Director should then submit the A/P vouchers and the listing to the County Auditor for warrants to be written. Once the warrants are written they should be mailed by the County Auditor to the vendors, not returned to the OFC. The County Auditor should then return a warrant register to the Account Clerk so the OFC ledger can be properly posted. The A/P vouchers should remain on file in the County Auditor's office with all other county A/P vouchers.

We also recommended that FSSA and/or DCS issue and enforce a policy on the process of approving A/P vouchers. We recommended that prior to the issuance of a policy by central office that once the A/P vouchers, listing of awards, grants, and public assistance, and the certification form are prepared they should be submitted together to the Director for approval. The Director should compare the vendor and amount on the actual A/P voucher to the listing of awards, grants, and public assistance. Any differences between the A/P vouchers and listing should be rectified before the Director approves payment. The certification should not be a separate form, but should be on the listing of awards, grants, and public assistance itself.

OFFICE OF FAMILY AND CHILDREN -- LAGRANGE COUNTY
FAMILY AND SOCIAL SERVICES ADMINISTRATION
DEPARTMENT OF CHILD SERVICES
AUDIT RESULTS AND COMMENTS
(Continued)

We also recommended that FSSA or DCS issue and enforce a policy regarding the issuance and oversight of credit cards by the OFCs. This policy should address custody of the cards, who authorizes card use as well as an approval process and monitoring for allowable purchases. We recommended that prior to the issuance of this policy that the credit cards should be in the custody of the OFC Director, who should approve each use of a card. When a credit card is used, the Director should issue a voucher to be used in conjunction with the credit card stating what is to be purchased with the card.

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.

Examples of control procedures include: proper authorization of transactions and activities, adequate segregation of duties; independent checks on performance; adequate documents and records; and adequate safeguards over access and use of assets and records. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

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. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over 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. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

OFFICE OF FAMILY AND CHILDREN -- LAGRANGE COUNTY
FAMILY AND SOCIAL SERVICES ADMINISTRATION
DEPARTMENT OF CHILD SERVICES
EXIT CONFERENCE

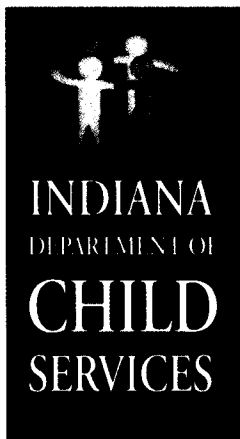
The contents of this report were discussed on June 15, 2006, with Janney L. Lung, County Director, and David B. Judkins, former County Director. The officials concurred with our audit findings.

The contents of this report were discussed on June 15, 2006, with Kay M. Myers, County Auditor.

The contents of this report were discussed on June 15, 2006, with Kay L. Davisson, Account Clerk.

The contents of this report were discussed on July 20, 2006, with E. Mitchell Roob, Jr., Secretary of the Family and Social Services Administration. His response was "Thanks for your great work."

The contents of this report were discussed on July 20, 2006, with Karen Glaser, Chief of Staff of the Department of Child Services. The official response has been made a part of this report and may be found on page 10.



Mitchell E. Daniels, Jr., Governor
James W. Payne, Director

Indiana Department of Child Services
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402 W. Washington Street
Indianapolis, Indiana 46204-2739

317-232-4705
FAX: 317-232-4490

www.in.gov/dcs

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

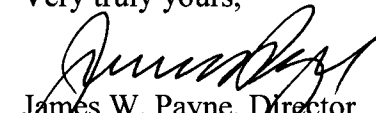
July 31, 2006

John Jacob
Indiana State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, Indiana 46204

Dear John:

Concerning the LaGrange County audit, we find the audit report to be acceptable and we commend the State Board of Accounts for its thoroughness and excellent work product.

Very truly yours,



James W. Payne, Director
Department of Child Services



Protecting our children, families and future

ATTACHMENT A
 Documented Purchases of Improper Items

Item	Number of Item Purchased	Amount Spent
Gift/Shop Cards	412	\$ 58,835.00
Graphing Calculators	85	12,850.50
Prepaid Phone Cards	132	4,280.98
Telephones	17	5,756.04
MP3/CD Players	63	7,370.50
Computer Hardware/Software/Accessories	109	10,331.61
Office 2003 Software	63	8,789.76
HD TV Receivers	6	1,192.48
Clothing	a	17,631.60
Bedding	a	4,386.52
Music CD's/Videos	a	2,062.39
Groceries/Health and Beauty/Housewares	a	32,092.71
Gift Wrap/Cards	a	569.28
Toys/Books/Games	a	2,262.84
Small Electronics/Appliances	a	7,077.65
Jewelry	a	529.88
Furniture	a	744.36
Tax	a	51.59
Total		<u>\$ 176,815.69</u>

a = purchases too numerous to detail

ATTACHMENT B
Undocumented Purchases

<u>Year</u>	<u>Amount Undocumented</u>
1996	\$ -
1997	-
1998	173.86
1999	-
2000	22,081.40
2001	44,644.01
2002	58,824.67
2003	70,639.85
2004	41,962.20
2005	10,287.19
2006	<u>5,383.57</u>
Total	<u>\$ 253,996.75</u>

OFFICE OF FAMILY AND CHILDREN -- LAGRANGE COUNTY
 FAMILY AND SOCIAL SERVICES ADMINISTRATION
 DEPARTMENT OF CHILD SERVICES
 SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Kay L. Davisson, Account Clerk:			
Documented Improper Use of Family and Children's Fund, page 6	\$ 176,815.69	\$ -	\$ 176,815.69
Undocumented Improper Use of Family and Children's Fund, page 6	<u>253,996.75</u>	<u>-</u>	<u>253,996.75</u>
Totals	<u>\$ 430,812.44</u>	<u>\$ -</u>	<u>\$ 430,812.44</u>

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AFFIDAVIT

STATE OF INDIANA)
)
LAGRANGE COUNTY)

We, Daniel A. Sorg, Susan K. Metzger, and Gregory M. Burtsfeld, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the Office of Family and Children – LaGrange County, Family and Social Services Administration; Department of Child Services, LaGrange County, Indiana, for the period from January 1, 1995 to January 31, 2006, is true and correct to the best of our knowledge and belief.

Daniel A. Sorg

Susan K. Metzger

Gregory M. Burtsfeld
Field Examiners

Subscribed and sworn to before me this 8th day of August, 2006.

Sallie J. Fougat
Notary Public - SALLIE J. FOUGAT

My Commission Expires: 4-9-07

County of Residence: Noble