

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

REVIEW REPORT
OF
EXECUTIVE AGENCIES
STATE OF INDIANA
December 31, 2015



FILED
12/21/2016

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Transmittal Letter.....	3
Summary of Procedures and Findings.....	4-7

AGENCY NAME	REVIEW PERIOD	PAGES
ADJUTANT GENERAL	January 1, 2014 to December 31, 2015	8-9
DEPARTMENT OF ADMINISTRATION	January 1, 2015 to December 31, 2015	10-15
STATE DEPARTMENT OF AGRICULTURE	January 1, 2014 to December 31, 2015	16
BOARD OF ANIMAL HEALTH	June 1, 2012 to December 31, 2015	17-18
ARCHIVES AND RECORDS ADMINISTRATION	April 1, 2012 to December 31, 2015	19
ARTS COMMISSION	January 1, 2014 to December 31, 2015	20-25
ATTORNEY GENERAL	January 1, 2014 to December 31, 2015	26-27
DEPARTMENT OF CHILD SERVICES	January 1, 2015 to December 31, 2015	28-31
CIVIL RIGHTS COMMISSION	April 1, 2012 to December 31, 2015	32-36
DEPARTMENT OF CORRECTION AND CORRECTIONAL INSTITUTIONS	January 1, 2014 to December 31, 2015	37-57
CRIMINAL JUSTICE INSTITUTE	May 1, 2012 to December 31, 2015	58-59
EDUCATION EMPLOYMENT RELATIONS BOARD	April 1, 2012 to December 31, 2015	60
DEPARTMENT OF EDUCATION	January 1, 2015 to December 31, 2015	61-63
EMPLOYEES' APPEALS COMMISSION	January 1, 2014 to December 31, 2015	64
FAMILY AND SOCIAL SERVICES ADMINISTRATION	January 1, 2015 to December 31, 2015	65-71
DEPARTMENT OF FINANCIAL INSTITUTIONS	January 1, 2014 to December 31, 2015	72
GOVERNOR'S EXECUTIVE OFFICE	January 14, 2013 to December 31, 2015	73
GOVERNOR'S COUNCIL FOR PEOPLE WITH DISABILITIES	January 1, 2014 to December 31, 2015	74-75
COMMISSION FOR HIGHER EDUCATION	January 1, 2014 to December 31, 2015	76
DEPARTMENT OF HOMELAND SECURITY	March 1, 2014 to December 31, 2015	77-81
HOMELAND SECURITY FOUNDATION	March 1, 2014 to December 31, 2015	82
HORSE RACING COMMISSION	January 1, 2014 to December 31, 2015	83
DEPARTMENT OF INSURANCE	January 1, 2014 to December 31, 2015	84-90

TABLE OF CONTENTS

(Continued)

<u>Description</u>		<u>Page</u>
DEPARTMENT OF LABOR	January 1, 2014 to December 31, 2015	91-92
LARUE D. CARTER MEMORIAL HOSPITAL	April 1, 2012 to December 31, 2015	93-99
LAW ENFORCEMENT TRAINING BOARD	April 1, 2012 to December 31, 2015	100-101
OFFICE OF THE LIEUTENANT GOVERNOR	January 1, 2014 to December 31, 2015	102
LOGANSPOUT STATE HOSPITAL	June 1, 2012 to December 31, 2015	103-104
BUREAU OF MOTOR VEHICLES AND MOTOR VEHICLES COMMISSION	January 1, 2015 to December 31, 2015	105-107
STATE PERSONNEL DEPARTMENT	January 1, 2014 to December 31, 2015	108
STATE POLICE ADMINISTRATION	January 1, 2014 to December 31, 2015	109-119
PROTECTION AND ADVOCACY SERVICES COMMISSION	January 1, 2014 to December 31, 2015	120-125
PUBLIC ACCESS COUNSELOR	January 1, 2014 to December 31, 2015	126
DEPARTMENT OF REVENUE	January 1, 2015 to December 31, 2015	127
SCHOOL FOR THE BLIND AND VISUALLY IMPAIRED	May 1, 2012 to December 31, 2015	128-133
SCHOOL FOR THE DEAF	April 1, 2012 to December 31, 2015	134-137
OFFICE OF TECHNOLOGY	January 1, 2014 to December 31, 2015	138-139
DEPARTMENT OF TOXICOLOGY	January 1, 2013 to December 31, 2015	140
DEPARTMENT OF TRANSPORTATION	January 1, 2015 to December 31, 2015	141-143
TREASURER OF STATE	January 1, 2015 to December 31, 2015	144
UTILITY REGULATORY COMMISSION	January 1, 2014 to December 31, 2015	145-146
DEPARTMENT OF VETERANS' AFFAIRS	January 1, 2014 to December 31, 2015	147-149
VETERANS' HOME	April 1, 2012 to December 31, 2015	150-154
WORKERS' COMPENSATION BOARD OF INDIANA	January 1, 2014 to December 31, 2015	155-157
DEPARTMENT OF WORKFORCE DEVELOPMENT	January 1, 2014 to December 31, 2015	158



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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TO: GOVERNANCE, MANAGEMENT, AND OFFICIALS OF THE STATE OF INDIANA


We performed procedures on the records of fifty-four executive state agencies or institutions for various periods, ending December 31, 2015, as outlined in the table of contents. We performed procedures to identify areas of noncompliance with the State's Accounting and Uniform Compliance Guidelines Manual and applicable state laws and policies. We also performed procedures to identify internal control deficiencies and noncompliance that could have a direct and material effect on the determination of financial statement amounts as a part of the annual audit of the State's Comprehensive Annual Financial Report (CAFR) and annual federal audit, conducted in accordance with 2 CFR part 200, subpart F.

Compliance procedures to ensure compliance with the Manual and applicable state laws and policies, were not designed to opine on compliance or financial activity of the Agency. Therefore, we did not follow Generally Accepted Auditing Standards, Government Auditing Standards, or 2 CFR part 200, subpart F when completing these procedures.

Procedures performed on internal control and compliance that could have a direct and material effect on the determination of financial statement amounts were performed in accordance with Generally Accepted Auditing Standards, Government Auditing Standards, and 2 CFR part 200, subpart F, as described in our Independent Auditor's Reports included in the CAFR and Supplemental Audit of Federal Awards. Any instances of noncompliance or internal control deficiencies that are required to be reported under Government Auditing Standards will be included in the Supplemental Audit of Federal Awards.

Our procedures are conducted on a test basis and do not provide absolute assurance that no additional issues exist in these areas. Our procedures are evaluated each year and conducted based on risks that we identify at the agencies and procedures that are necessary to be conducted to support the CAFR and annual federal audit opinion. During this current review period, procedures were conducted on receipts, vendor disbursements, payroll disbursements, capital asset activity, and SDO (Special Disbursing Officer) activity. The procedures and findings are summarized in the *Summary of Procedures and Findings Section* and detailed by agency in each of their respective sections, as outlined in the table of contacts. Some issues are identified during the course of the review that do not rise to the level of a written comment but are discussed with agency officials as possible areas for improvement. Those issues are not communicated in this report.

This communication is intended solely for the information and use of State Governance, Management, and agency officials and is not intended to be, and should not be, used by anyone other than these specified parties.


Paul D. Joyce, CPA
State Examiner

December 1, 2016

SUMMARY OF PROCEDURES AND FINDINGS

PROCEDURES

Receipt Procedures

We gained an understanding of the process from collection of cash and check receipts to posting in the financial records, identified key controls and tested a sample of cash and check receipts for those key controls. Additionally, we reviewed a sample of cash and check receipts, for compliance with key compliance areas for receipts, from the State Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies.

Vendor Disbursement Procedures

We performed sample testing on procurement and travel card transactions, professional service disbursements, fleet fuel card transactions, and general disbursements for compliance with key compliance areas for disbursements from the State Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, as well as compliance with the agency's policies. Additionally, we reviewed late payment penalty charges paid by the agency.

Payroll Procedures

We determined the process and controls in place for payroll disbursements. For agencies that were not on time and labor or use an outside sub system for payroll tracking or process, we determined the processes and controls in place and tested those controls, including proper approval. Additionally, we reviewed for any payroll activity that was not being appropriately reported as income to an employee. Lastly, we conducted a review of overtime and comp time earned for reasonableness.

SDO (Special Disbursing Officer) Procedures

We conducted procedures to determine if an SDO was still in use. If SDO was still in use, we determined if the transactions were proper and that the account is being properly reconciled to the financial system and to the bank account. We also tested to determine if the balance within the SDO account was reasonable based on the activity occurring within the account.

Capital Asset Procedures

We conducted procedures to gain an understanding of the capital asset activity. We verified that there was a capital asset physical inventory count in place and up to date. Additionally, we tested a sample of capital asset additions and deletions to ensure proper accounting and compliance with key compliance areas for capital assets from the State Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, as well as compliance with the agencies' own policies.

Agency Specific Procedures

In some cases, agency specific procedures were conducted based on a specific concern or risk. These agency specific procedures were done on a case by case basis.

SUMMARY OF PROCEDURES AND FINDINGS

(Continued)

ACCOUNTING RESPONSIBILITIES

The following agencies outsource all or a portion of agency accounting functions, via Memorandums of Understanding, to the State Budget Agency's Centralized Accounting department:

STATE BUDGET AGENCY CENTRALIZED ACCOUNTING

ANIMAL HEALTH, BOARD OF
ARTS COMMISSION, INDIANA
CIVIL RIGHTS COMMISSION
CRIMINAL JUSTICE INSTITUTE
EDUCATION EMPLOYMENT RELATIONS BOARD
HIGHER EDUCATION, COMMISSION FOR
TOXICOLOGY, DEPARTMENT OF
VETERANS AFFAIRS, DEPARTMENT OF
VETERANS HOME

Additionally, the accounting operations of the following institutions, received final review and approval by the institution's over sighting agency, as shown below:

FAMILY AND SOCIAL SERVICES ADMINISTRATION

LARUE D CARTER MEMORIAL HOSPITAL
LOGANSPOUR STATE HOSPITAL

DEPARTMENT OF CORRECTION

CORRECTIONAL INDUSTRIAL COMP
DIAGNOSTIC RECEPTION CENTER
INDIANAPOLIS RE-ENTRY EDUCATION FACILITY
PENDLETON CORRECTION FACILITY
PENDLETON JUVENILE CORRECTIONAL FACILITY
ROCKVILLE TRAINING CENTER
STATE FARM (PUTNAMVILLE)
WOMENS PRISON
YOUTH CENTER (PLAINFIELD)

SUMMARY OF PROCEDURES AND FINDINGS
(Continued)

FINDINGS

Of the 54 executive branch agencies and institutions reviewed, 19 of those did not have any issues identified that warranted a written finding. Those agencies are shown below:

AGRICULTURE, DEPARTMENT OF (LT GOV)
CORRECTION - DIAGNOSTIC RECEPTION CTR
CORRECTION - ROCKVILLE TRAINING CENTER
CORRECTION - STATE FARM (PUTNAMVILLE)
CORRECTION - WOMENS PRISON
EDUCATION EMPLOYMENT RELATIONS BOARD
EMPLOYEES APPEALS COMMISSION - DEPT OF PERSONNEL
FINANCIAL INSTITUTIONS, DEPARTMENT OF
GOVERNOR - EXECUTIVE OFFICE
HIGHER EDUCATION, COMMISSION FOR
HOMELAND SECURITY FOUNDATION
HORSE RACING COMMISSION
LIEUTENANT GOVERNOR - EXECUTIVE OFFICE
PERSONNEL, DEPARTMENT OF
PUBLIC ACCESS COUNSELOR
REVENUE, DEPARTMENT OF
TOXICOLOGY, DEPARTMENT OF
TREASURER OF STATE
WORKFORCE DEVELOPMENT, DEPARTMENT OF

SUMMARY OF PROCEDURES AND FINDINGS
(Continued)

The remaining 35 state agencies reviewed had issues in the following areas as shown below:

UNIT NAME	RECEIPTS	DISBURSEMENTS	SDO	PAYROLL	CAPITAL ASSETS	OTHER	TOTAL
ADJUTANT GENERAL	1	1	-	-	-	-	2
ADMINISTRATION, DEPARTMENT OF	1	-	2	-	1	-	4
ANIMAL HEALTH, BOARD OF	-	-	-	-	1	-	1
ARCHIVES AND RECORDS ADMINISTRATION	-	-	-	-	1	-	1
ARTS COMMISSION, INDIANA	1	2	-	-	-	-	3
ATTORNEY GENERAL	-	-	-	-	1	-	1
CHILD SERVICES, DEPARTMENT OF	-	-	-	-	2	2	4
CIVIL RIGHTS COMMISSION	1	1	1	-	-	-	3
DOC - CORRECTIONAL INDUSTRIAL COMP	-	-	-	-	1	-	1
DOC - INDIANAPOLIS RE-ENTRY ED FACILITY	-	-	-	-	1	-	1
DOC - PENDLETON CORRECTION FACILITY	-	-	-	-	1	-	1
DOC - PENDLETON JUVENILE CORRECTIONAL FACILITY	-	-	-	-	1	-	1
DOC - YOUTH CENTER (PLAINFIELD)	-	-	-	-	1	-	1
CORRECTION AND PEN PRODUCTS, DEPARTMENT OF	-	2	1	-	1	-	4
CRIMINAL JUSTICE INSTITUTE	-	1	-	-	-	-	1
EDUCATION, DEPARTMENT OF	1	-	-	-	-	-	1
FAMILY AND SOCIAL SERVICES ADMINISTRATION	1	2	-	-	-	2	5
GOVERNOR'S COUNCIL PEOPLE WITH DISABIL	-	1	-	-	-	-	1
HOMELAND SECURITY, DEPARTMENT OF	-	-	-	-	1	-	1
INSURANCE, DEPARTMENT OF	-	1	-	-	-	1	2
LABOR, DEPARTMENT OF	-	-	-	-	2	-	2
LARUE D CARTER MEMORIAL HOSPITAL - FSSA	-	1	-	-	1	2	4
LAW ENFORCEMENT TRAINING BOARD	-	-	-	-	1	-	1
LOGANSPORT STATE HOSPITAL - FSSA	1	-	1	-	-	-	2
MOTOR VEHICLES, BUREAU OF	-	-	1	-	1	-	2
POLICE ADMINISTRATION, STATE	1	3	3	1	1	-	9
PROTECTION & ADVOCACY SERVICES	1	1	-	-	-	1	3
SCHOOL FOR THE BLIND	1	1	-	-	1	-	3
SCHOOL FOR THE DEAF	2	2	-	-	1	-	5
TECHNOLOGY, INDIANA OFFICE OF	-	-	-	-	1	-	1
TRANSPORTATION, INDIANA DEPT OF	-	1	1	-	-	-	2
UTILITY REGULATORY COMMISSION	-	1	-	-	-	-	1
VETERANS AFFAIRS, DEPARTMENT OF	2	1	-	-	-	-	3
VETERANS HOME	1	1	-	-	1	2	5
WORKER'S COMPENSATION BOARD	1	-	-	-	-	-	1
TOTALS	16	23	10	1	23	10	83

INDIANA ADJUTANT GENERAL
January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Adjutant General	MG R. Martin Umbarger MG Courtney P. Carr	03-11-04 to 05-31-15 06-01-15 to 01-08-17

LATE PAYMENT PENALTIES

The Adjutant General's office (AGO) paid late payment penalties to vendors and charged to accounts of the AGO as a result of untimely payment of claims. This results in fees of \$14,821 for calendar year 2014, and \$25,324 for calendar year 2015. These penalties are an unnecessary use of public funds.

Indiana code 5-17-5 requires a state agency to: ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, goods and services, equipment, and travel whenever the state agency fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview - General Guidelines and Policy)

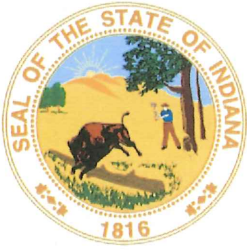
DAILY DEPOSITS

The Adjutant General's office (AGO) does not consistently deposit public funds by the business day following the receipt of the funds. A sample of 25 checks received by the AGO during the audit period contained 13 that were not deposited by the next business day. An AGO employee takes the deposits to the Treasurer of State's Office twice a week.

Indiana Code (IC) 5-13-6-1(b) states in part:

". . . all public funds collected by state officers . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state, not later than the business day following the receipt of the funds . . . Deposits does not relieve any state officer from the duty of maintaining a cashbook under IC 5-13-5-1. . . ."

Each agency is responsible for establishing procedures to attain a high level of accountability for funds collected and for ensuring that these funds are deposited with the Treasurer of State, or other approved depository, in accordance with state statute. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.4)



INDIANA
JOINT FORCES HEADQUARTERS
NATIONAL GUARD
2002 SOUTH HOLT ROAD
INDIANAPOLIS, INDIANA 46241-4839



November 9, 2016

Office of AGO State Controller

State Board of Accounts
ATTN: Beth Kelley, State Audit Director
302 W. Washington Street Rm E418
Indianapolis, IN 46204-2769

Ref: Response to State Board of Accounts Audit of AGO Appropriated funds and State Armory Board

Dear Beth;

1. The following information provides our response to the comments provided by your audit team representatives Abbigale Parker and Michael Daniely. First, I want to commend both individuals for their professionalism and courtesy displayed throughout the audit. Both represented your agency very well. We feel that we received a fair and honest audit and will be able to improve our processes with their feedback. Below is this department's response to the items discussed in the pre-exit briefing.

2. Adjutant General's Office (AGO)

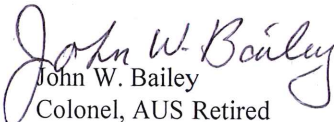
a. Late payment penalties. During the period of the audit our late fee penalties were \$25,324 for the year 2015. This office has made a marked improvement since the time frame of this audit with our late fee charges being approximately \$8,000. This is being accomplished by new AP processes (control groups and voucher uploads), and contacting the vendors and asking for an extended time period when their payment date is too short for this office to complete our payment process.

b. Daily Deposits (Not deposited daily). This office has contacted the State Treasurer's office and they have informed us that they have a means to accomplish this task.

c. Paying of State Sales Tax. All out-of-state travel arrangements are now made by an employee of this office who is keenly aware of the state policy governing travel and now provides the tax exempt form to vendors when making travel arrangements for AGO employees. We have changed the process for travel; our main office secures the hotel/rental vehicle and will direct pay or be invoiced later.

3. Questions regarding this response may be addressed to the undersigned at (317) 247-3254 or email at john.w.bailey40.nfg@mail.mil.

Sincerely,


John W. Bailey
Colonel, AUS Retired
Controller

INDIANA DEPARTMENT OF ADMINISTRATION
January 1, 2015 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commissioner	Jessica Robertson	05-08-13 to 01-08-17

SDO ADVANCE

The Indiana Department of Administration did not consistently use its Special Disbursing Officer (SDO) advance within one or two months. During the review period, the agency maintained three separate SDO accounts (LPN 3405, LPN 4651, and LPN 4655), which had the following activity:

- LPN 3405 (advance amount of \$6,000) was not used, and incurred \$144 in monthly bank service fees.
- LPN 4651 (advance amount of \$30,000) was not used.
- LPN 4655 (advance amount of \$10,000) was used once and then reimbursed. On October 14, 2015, the account was closed and the SDO funds returned to the Treasurer of State.

A similar comment appeared in the prior Report.

Whenever a SDO fund is established, money is removed from a Treasurer of State bank account, thus, not being invested. Therefore, consideration should be given to the size of the SDO fund. If an agency is not using the total SDO advance within one or two months, the SDO advance is too large and should be reduced. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

SDO FUND RECONCILIATIONS

Indiana Department of Administration (IDOA) Special Disbursing Officer (SDO) Advances had the following issues:

LPN 3405

- At December 31, 2015, the SDO ledger balance per the State's Encompass financial accounting system was less than the ledger balances per manual reconciliations by \$8.
- Monthly bank service fees in the amount of \$780 incurred for LPN 3405 over the years have not been recorded in Encompass and have not been reimbursed. The IDOA is in the process of trying to recover these service fees from the financial institution.

LPN 4651

- At December 31, 2015, the SDO ledger balance per the State's Encompass financial accounting system was less than the ledger balances per manual reconciliations by \$398.

INDIANA DEPARTMENT OF ADMINISTRATION

January 1, 2015 to December 31, 2015

(Continued)

- Expenses for LPN 4651 in the amount of \$1,598, incurred several years ago, have not been submitted for reimbursement. Outstanding checks in the amount of \$745, of which \$495 remains unreconciled by the IDOA as of the date of our report, and deposits in transit in the amount of \$636, have been carried forward as reconciling items on the agency-provided reconciliations since 2010.

LPN 4655

- Reconciliations for the months of June 2015, September 2015, and October 2015 were not maintained for audit. On October 14, 2015, the account was closed and the SDO funds returned to the Treasurer of State.

LPN 2293

- Although closed on June 13, 2013, the SDO ledger balance per Encompass for LPN 2293 is \$210 less than the amount needed to balance to the advance. The IDOA has identified the cause of the negative \$210 SDO ledger balance, and is working with the Auditor of State's office and the Indiana Office of Technology to correct Encompass.

A similar comment appeared in the prior Report.

Indiana Code 32-34-1-20(c) provides that property that is held, issued, or owed in the ordinary course of a holder's business is presumed abandoned if held by a state or other government, governmental subdivision or agency, or public corporation or other public authority one (1) year after the property becomes distributable.

Indiana Codes 32-34-1-26 and 27 require a holder of property that is presumed abandoned and that is subject to custody as unclaimed property to report in writing and pay or deliver the property to the Attorney General.

All monies in the SDO account must be accounted for at all times, both on the Encompass financial accounting system and in any manual records used. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

At least monthly, the following reconciliations must be performed for the SDO fund:

- Manually reconcile cleared checks from the monthly bank statement. If Automatic Reconciliation is used, reconcile checks cleared from imported bank file.
- Reconciliation of the Encompass check register to the bank balance.
- Reconciliation of the SDO LPN advance to the Encompass check register balance.
- If manual SDO checks are used, reconciliation of the SDO manual check register balance to the Encompass check register balance.

(Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

INDIANA DEPARTMENT OF ADMINISTRATION

January 1, 2015 to December 31, 2015

(Continued)

At all times, the unreimbursed disbursements plus any advances to the office cash plus the SDO checking account balance must equal the local purchase advance. If the reconciled SDO advance is less than the amount originally advanced, the SDO officer may be personally responsible for the amount needed to balance the advance. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

CAPITAL ASSET INVENTORY

While the Indiana Department of Administration recorded capital asset disposals within its Asset Works Fleet Focus M5 system (M5) timely during the review period, the agency did not have adequate internal controls in place to ensure that disposals were also recorded timely within the PeopleSoft Encompass Asset Management system (AM), which is the capital asset system of record for the State.

A review of all twelve M5 capital asset deletions identified the following:

- One asset disposed of during August 2015 was not updated within AM as a disposal until March 2016.
- Nine assets disposed of during the period August 2015 to November 2015 were not updated within AM as disposals until May 2016.
- One asset disposed of during October 2015 was listed within AM as in-service as of June 2016.
- One asset was disposed of in the M5 system in June 2015, but was not listed as disposed in AM until the subsequent State fiscal year, in October 2015.

A similar comment appeared in the prior Report.

Agency personnel are responsible for accountability for all assets under their control, including capital assets. Adequate asset management staff should be assigned to recording and maintaining, on the Encompass financial system, all capital assets with a cost of \$500 or more. Assets are automatically capitalized upon approval by either the BU approver or AOS approver. Controls should be in effect to assure that additions, disposals, and transfers to other departments or agencies are recorded timely. Inventories of these assets should be performed each year in each department and compared to the Encompass listing. Results of inventories should be maintained for audit purposes. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.3)

INTERNAL CONTROLS OVER REVENUES

We identified the following deficiencies in internal controls over revenues collected by the Indiana Department of Administration (IDOA):

- A sample of 25 receipts from the Finance Division Cash Book contained eight that were not deposited within one business day, as required by Indiana Code. The time between agency receipt and deposit into a Treasury of State approved bank account ranged from 2 to 6 business days.

INDIANA DEPARTMENT OF ADMINISTRATION

January 1, 2015 to December 31, 2015

(Continued)

- Of the 33 receipts in the IDOA Statehouse Rental Cash Book for the review period, 13 of the receipts were not deposited within one business day. The time between agency receipt and deposit into a Treasury of State approved bank account ranged from 2 to 11 business days.
- In addition, 9 of the 33 Statehouse Rental transactions tested were partially recorded to the wrong account. The IDOA receives deposits for rental of the Statehouse for weddings and other events up to two years in advance. When the IDOA recorded the advance payment for these events, the agency recorded part of the deposit as refunds of expenditures, using estimated amounts to cover the future costs of security required for the events. Refunds of expenditure should only occur after an expenditure has been made, and should not be based on estimates of a future expense.
- Checks submitted for the Statehouse rental fees are collected by conference center personnel and later taken to the IDOA main office, where they are restrictively endorsed. All checks for payments received should be restrictively endorsed immediately upon receipt.
- An IDOA employee reviews and reconciles revenue reports provided by the contractor who operates the garages in order to verify that revenues were deposited and recorded correctly. Because the IDOA was unable to provide us with evidence that this key control was being performed, such as initialing examined work, we were unable to verify that the control was properly implemented and performed.

A similar comment appeared in the prior Report.

Indiana Code (IC) 5-13-6-1(b) states in part:

". . . all public funds collected by state officers . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state, not later than the business day following the receipt of the funds . . . Deposits do not relieve any state officer from the duty of maintaining a cashbook under IC 5-13-5-1."

Indiana Code 5-13-4-20 defines public funds as: ". . . all fees and funds of whatever kind or character coming into the possession of any public officer by virtue of that office. . . ."

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

- Properly utilize the state accounting system as prescribed by the ENCOMPASS Steering Committee.
- Maintain an effective and accurate accounting system for necessary subsidiary and supplementary records.

(Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, IV)

Checks should be restrictively endorsed with an endorsement stamp immediately upon receipt. This would occur upon opening the mail or otherwise receiving the instrument (check). (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4)

INDIANA DEPARTMENT OF ADMINISTRATION

January 1, 2015 to December 31, 2015

(Continued)

Supervision is the ongoing oversight, management and guidance of an activity by designated employees to help ensure the results of the activity achieve the established objectives. Those with the responsibility for supervision should:

- Assign tasks and establish written procedures for completing assignments.
- Systematically review each staff member's work.
- Approve work at critical points to ensure quality and accuracy.
- Provide guidance and training when necessary.
- Provide documentation of supervision and review (for example, initialing examined work).

(Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 2)



STATE OF INDIANA

Michael R. Pence, Governor

DEPARTMENT OF ADMINISTRATION
Commissioner's Office

Indiana Government Center South
402 West Washington Street, Room W469
Indianapolis, IN 46204

October 27, 2016

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

Re: Response to Audit of Indiana Department of Administration
Review Period: January 1 – December 31, 2015

Dear Mr. Joyce,

The Indiana Department of Administration (IDOA) appreciates your staff's review of our operation. It is always beneficial to have fresh eyes review our processes.

The majority of the findings centered on ensuring the Department of Administration has proper internal control over revenue collection. The observations are noted and IDOA will reinforce the State's requirements for revenue collection and control with the all of its operations.

The Department of Administration wishes to note that although the auditors reviewed virtually all aspects and operations of our agency on a test basis, including but not limited to the Procurement and Travel card transactions and use of rebates on state contracts, no deficiencies were found nor issues noted regarding those areas.

Additionally, areas such as Parking and Cafeteria operations, and Information Retention and Access that were previously noted as deficient had no findings in this timeframe. IDOA has continued to make tremendous strides in improving the identified areas of weakness and worked closely with the audit team to move forward with refining internal processes throughout the audit period and beyond.

Thank you for your team's review of our operation and the opportunity to respond.

Sincerely,

A handwritten signature in cursive script that reads "Jessica Robertson".

Jessica Robertson, Commissioner
Indiana Department of Administration

INDIANA STATE DEPARTMENT OF AGRICULTURE

January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
ISDA Director	Ted McKinney	01-02-14 to 01-08-17
Secretary of Agriculture	Honorable Sue Ellspermann Honorable Eric Holcomb	01-14-13 to 03-02-16 03-03-16 to 01-08-17

There were no issues identified during this review that warranted written comment.

INDIANA BOARD OF ANIMAL HEALTH
June 1, 2012 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
State Veterinarian	Dr. Bret Marsh	01-01-95 to 01-08-17

CAPITAL ASSET DISPOSALS

The Indiana Board of Animal Health did not provide supporting documentation for capital asset disposals. For a sample of 15 asset disposals, 9 did not have supporting documentation to show they were properly disposed. Of the nine asset disposals that did not have supporting documentation, seven were coded as sent to State Surplus, one was coded as transferred, and the last was coded as missing due to theft. The agency was unable to provide any documentation to support these disposals.

The agency outsources accounting functions to the State Budget Agency's centralized accounting services division via a Memorandum of Understanding. Prior to retirement from the ENCOMPASS Asset Management module, asset retirement approvals from the Indiana Department of Administration must pass through both the agency and the centralized accounting staff, thus necessitating stricter procedures for ensuring proper disposal and document retention.

All transfers, sales, retirements and other disposals of capital assets must be processed through and approved by State Surplus Property division of IDOA by submitting Form 13812, Notification of Surplus State-Owned Property. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.4)



Michael R. Pence, Governor
Bret D. Marsh, DVM, State Veterinarian

INDIANA STATE BOARD OF ANIMAL HEALTH

Office of the State Veterinarian
Discovery Hall, Suite 100
1202 East 38th Street
Indianapolis, IN 46205-2898
Phone: 317/544-2400

OFFICIAL RESPONSE

July 12, 2016

State Board of Accounts
Attn: Kelson Moran
302 Washington St., Room E418
Indianapolis, Indiana 46204-2765

Regarding the review of the Indiana Board of Animal Health for the period June 1, 2012 to December 31, 2015, we file the following official response to the results and comments contained in the report:

ASSET DISPOSAL DOCUMENTATION

The Indiana State Board of Animal Health (BOAH) has worked with the Indiana State Budget Agency Centralized Accounting Services Division to review, clarify and modify procedures for recording disposition of assets and maintaining asset disposition records.

Signed:

A handwritten signature in blue ink, appearing to read 'Bret D. Marsh', is written over a horizontal line.

Bret D. Marsh, DVM

Title: State Veterinarian

INDIANA ARCHIVES AND RECORDS ADMINISTRATION

April 1, 2012 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Jim Corridan	08-15-05 to 01-08-17

INFORMATIONAL COMMENT

CREATION OF THE INDIANA ARCHIVES AND RECORDS ADMINISTRATION

Effective July 1, 2015, per Public Law 171-2015 SEC. 12, the Commission on Public Records became known as the Indiana Archives and Records Administration. The duties and powers of the Administration are noted in Indiana Code 5-15-5.1.

WRITTEN COMMENT

CAPITAL ASSET INVENTORY

The Indiana Archives and Records Administration (IARA) did not maintain documentation providing evidence that annual inventories were conducted during the review period.

Each year a physical inventory is to be taken and compared to the master listing from the ENCOMPASS Asset Management system. This helps to ensure the asset inventory is accurate and that assets have not left the agency without authorization. It also aids in identifying unused or obsolete assets. Evidence of the physical inventory must be maintained in the agency's records. (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, Chapter 8.4)

To certify the inventory has been performed, the following information will be included in the ENCOMPASS Asset Management system utilizing the Location and Custodian sections and the authorized section of the Location and Custodian tabs:

- The date of the physical inventory.
- The current location.
- The current custodian (last name, first name) of the assets in inventory.
- The person performing the inventory.
- The authorization date.

(Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, Chapter 8.4)

INDIANA ARTS COMMISSION
January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Lewis Ricci	10-02-06 to 06-30-17

PROCUREMENT CARD TRANSACTIONS

A sample of 25 procurement credit card voucher line items contained the following issues:

- Four vouchers had items that were unallowable per IDOA policy. The unallowable items totaled \$138.28 and included, office supplies purchased from Staples and employee gifts.
- One voucher included charges for an employee to park at the Circle Centre Mall, Downtown Indianapolis totaling \$8. Employee parking is available in the State parking garage two blocks west of the Circle Centre Mall. The agency was unable to provide a reasonable explanation as to why the State garage was not being used.
- Two vouchers included sales tax and were posted to the wrong account; total sales tax paid \$1.89.
- One voucher purchased snack/food items but was posted to the Library Books Account.

A similar comment appeared in the prior Report.

Prohibited items include, but are not limited to, the following:

- Travel-related expenses such as hotel charges and vehicle rentals
- Liquor
- Furs, Diamonds/Jewelry
- Escort Services
- Printing Services without proper justification. See the Streamlining Manual. (reference website: IDOA Procurement website)
- Vehicle expenses such as repair, parking, etc.
- Fuel Purchases of any kind (should use the Fuel Card)
- Commodities and services required to be purchased through current QPAs or contracts
- Capital Assets (Items with a useful life of more than one year. See Chapter 8 of the State Accounting Manual for more details)
- Personal items

INDIANA ARTS COMMISSION
January 1, 2014 to December 31, 2015
(Continued)

- Cash advances
- Gift Cards
- Gift Certificates
- Awards and Prizes
- Utility Payments (contact Auditor of State Accounts Payable for assistance)
- Travel expenses (should use the Travel Card)
- Any items specifically identified by your Agency plan

(State of Indiana Procurement Card and Travel Card Agency Program Administrator and Cardholder User Manual, Page 14)

The State of Indiana is exempt from paying tax on commodities or services paid for by government funds. The cardholder is to receive a copy of the Agency's Sales Tax exempt form when they receive their card. From that point, the cardholder should indicate to the vendor at the time of purchase and/or provide the State Sales Tax exempt document to the merchant. (State of Indiana Procurement Card and Travel Card Agency Program Administrator and Cardholder User Manual, Page 17)

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

- Operate within the confines of the established budget.
- Maintain an adequate internal control environment.
- Maintain adequate internal control procedures.
- Properly utilize the state accounting system as prescribed by the ENCOMPASS Steering Committee.
- Maintain an effective and accurate accounting system for necessary subsidiary and supplementary records.
- Maintain, and make available for audit, documentation supporting the validity and accountability of monies received or disbursed.
- Perform duties in accordance with statute, regulations, state policy, contract provisions, and federal requirements as applicable.

(Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview -- General Guidelines & Policy, Section IV)

INDIANA ARTS COMMISSION
January 1, 2014 to December 31, 2015
(Continued)

INTERNAL CONTROLS OVER REVENUES

Revenues were not entered into a Cash Book at the point of initial receipt. The Indiana Arts Commission (IAC) maintains a binder of all the Reports of Collection (ROC) with copies of the checks attached. During 2015, IAC was not copying the checks and placing them with the ROC. Since checks are not recorded in a Cash Book when received, we could not determine if deposits were being made within one business day.

The agency outsources accounting functions to the State Budget Agency's (SBA) centralized accounting services division via a Memorandum of Understanding. Prior to receipt by the Treasurer of State's office, public funds to be deposited passes through both the agency and the centralized accounting staff, thus necessitating stricter procedures for ensuring timely deposit as required by state law. In addition, to the date a check was received by the agency, the agency Cash Book should contain the date that check was given to the SBA.

Indiana Code (IC) 5-13-5-1(a) states in part:

"Every public officer who receives or distributes public funds shall:

- (1) keep a cashbook into which the public officer shall enter daily, by item, all receipts of public funds; . . ."

Indiana Code (IC) 5-13-6-1(b) states in part:

". . . all public funds collected by state officers . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state, not later than the business day following the receipt of the funds . . . Deposits do not relieve any state officer from the duty of maintaining a cashbook under IC 5-13-5-1. . . ."

Indiana Code 5-13-4-20 defines public funds as: ". . . all fees and funds of whatever kind or character coming into the possession of any public officer by virtue of that office. . . ."

If money is received on a regular basis, some type of Cash Book (paper or electronic) is required (See 4.1.2). This Cash Book must list the revenue by classification and amount in detail. Noting cash and checks separately is helpful for reconciliation to the final Report of Collection. The Cash Book may include the receipt number or daily summaries from a source document or data processing listing. The amount deposited with the Treasurer of State and the corresponding ENCOMPASS Deposit ID must also be shown on the Cash Book. The process of issuing a receipt and posting the cash receipts journal can be incorporated into one function. Only actual collections of money, whether it be cash, check or money orders, must be included in the Cash Book. This is a method of assuring that these monies reconcile with the actual deposits with the TOS. Corrections, wire transfers and other bank to bank transfers would not be necessary to include, as no one in the agency actually receives money in these cases. (Accounting and uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.4)

LATE PAYMENT PENALTIES

The Indiana Arts Commission (IAC), paid late payment penalties to vendors and charged to accounts of the IAC as a result of untimely payment of claims. This resulted in minimal fees for calendar year 2014, but \$2,159 in fees for calendar year 2015. These penalties are an unnecessary use of public funds.

INDIANA ARTS COMMISSION
January 1, 2014 to December 31, 2015
(Continued)

The agency outsources accounting functions to the State Budget Agency's centralized accounting services division via a Memorandum of Understanding. Prior to payment by the Auditor of State's office, public funds to be paid pass through both the agency and the centralized accounting staff, thus necessitating stricter procedures for ensuring timely payment as required by state law.

Indiana Code 5-17-5-1(a) requires a state agency to: ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, goods and services, equipment, and travel whenever the state agency . . . fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, Chapter 6.4)

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview -- General Guidelines and Policy, Section IV)



June 15, 2016

Kelson Moran, Field Examiner
Indiana State Board of Accounts
302 W. Washington Street, Suite E418
Indianapolis, IN 46204

Dear Mr. Moran:

Thank you for providing the Indiana Arts Commission with the opportunity to respond in writing to the Agency Review which was presented to IAC staff on May 25, 2016. Attached is our written response to agency specific comments.

Thanks to you, David and Linda for providing this opportunity. Going through the agency review process assists the Indiana Arts Commission in improving our systems of controls and reinforces our ongoing commitment to strong stewardship of public funds.

Sincerely,

Lewis Ricci
Executive Director

Michael R. Pence
Governor

Lewis C. Ricci
Executive
Director

Commissioners

Nancy Stewart
Chair
Fort Wayne

Kathy Ziliak
Anderson
Vice-Chair
Nashville

Linda S. Levell
Secretary
Vincennes

Gilberto Cárdenas
South Bend

Libby Chiu
Ogden Dunes

Ruth Ann Cowling
Jeffersonville

M. Susan Hardwick
Newburgh

Jeffrey J. Kirk, II
Carmel

Jennifer Perry
Terre Haute

Allen C. Platt, III
Floyds Knobs

J. Allan Rent
Muncie

Micah L. Smith
Indianapolis

Sherry Stark
Columbus

Yolanda Stemer
Chesterton

Indiana Arts Commission
Response to Agency Specific Comments
June 13, 2016

Unallowed Procurement Card Transactions

The agency notes reported unallowed transactions and action has been taken to ensure the ongoing adherence to procurement regulations and processes. The agency does wish to clarify that the “employee gifts” cited were greeting cards for graduating interns. The agency will also work more closely with SBA’s Centralized Accounting to ensure expenditures are posted to the proper accounts.

Internal Controls Over Revenues

The agency notes the specific requirements for a paper or electronic cashbook for the agency and has made process changes accordingly, including the addition of a written notation as to when checks or cash are given to SBA’s Centralized Accounting for deposit.

Late Payment Penalties

The agency notes that late charges were mistakenly added to voucher payments for the agency’s membership fees to two professional organizations and to three grants the agency provides to external organizations resulting in \$2099.49 being posted to late fees.

The agency has made arrangements with the vendors to recoup these overpayments to its two membership organizations by reducing its FY17 membership fee payments by the appropriate amount and reducing the final grant payments to the three grantees by the amount of the overpayment. SBA’s Centralized Accounting has reposted the late fee charges to the appropriate accounts. The agency’s current late fee balance is \$76.78 in line with previous years. The agency also notes that the attachment of late interest payments to vouchers is apparently a new policy, and the issues, although corrected, preceded the agency’s awareness of the policy change.

OFFICE OF THE INDIANA ATTORNEY GENERAL
January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Attorney General	Greg Zoeller	01-12-09 to 01-08-17

CAPITAL ASSET PHYSICAL INVENTORY

Documentation was provided to show that an inventory count had been performed for the Office of Attorney General in 2014; however, no documentation was provided to show an inventory count was performed for 2015. The agency did not verify that the capital asset master listing for the agency was complete and accurate for calendar year 2015.

Each year a physical inventory is to be taken and compared to the master listing from the ENCOMPASS Asset Management system. This helps to ensure the asset inventory is accurate and that assets have not left the agency without authorization. It also aids in identifying unused or obsolete assets. Evidence of the physical inventory must be maintained in the agency's records. (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, Chapter 8.4)

To certify the inventory has been performed, the following information will be included in the ENCOMPASS Asset Management system utilizing the Location and Custodian sections and the authorized section of the Location and Custodian tabs:

- The date of the physical inventory.
- The current location.
- The current custodian (last name, first name) of the assets in inventory.
- The person performing the inventory.
- The authorization date.

(Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, Chapter 8.4)

TO: Kelson Moran

FROM: Bill Fulton

DATE: August 22, 2016

RE: Audit Response

Dear Kelson –

Thank you for the opportunity to respond to the recent audit. Below please find the official response from the Attorney general's Office for your report. Please let me know if you have any questions.

Sincerely – Bill

william.fulton@atg.in.gov

(317) 234-4008

**OFFICE OF THE ATTORNEY GENERAL
OFFICIAL RESPONSE**

The Office of the Attorney General performed a full physical inventory at the end of the 2014 fiscal year, and continues to utilize the ENCOMPASS system for inputting new assets. During 2015, turnover of key staff prevented a standard physical review. During this interim period, ongoing policies and procedures for monitoring and oversight for appropriate use and accounting were in place and utilized. The Office has a plan to implement a full physical inventory, and continues to effectively enter all new assets within the ENCOMPASS system, remove retired assets, tag all physical assets, and maintain policies and oversight to ensure the safety of all agency property.

INDIANA DEPARTMENT OF CHILD SERVICES

January 1, 2015 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Mary Beth Bonaventura	02-01-14 to 01-08-17

CAPITAL ASSET DISPOSALS

The Department of Child Services (DCS) did not retain documentation for all asset deletions. A sample of 15 asset retirements contained eight retirements for which the DCS could not provide the State Surplus approval forms or other documentation verifying the disposition of the assets. Of the eight asset deletions, 6 were recorded as surplus and two as "missing," in the Encompass Asset Module.

A similar comment appeared in the prior Report.

All transfers, sales, retirements and other disposals of capital assets must be processed through and approved by State Surplus Property division of IDOA by submitting Form 13812, Notification of Surplus State-Owned Property. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.4)

CAPITAL ASSET ADDITIONS

The capital asset inventory of the Department of Child Services (DCS) is not accurate as to additions. Of the 17 asset expenditures made by DCS in the review period, we identified the following:

- For eight asset additions tested, the DCS did not disaggregate a quantity purchase of two or more identical assets. Instead, the DCS recorded the purchase of multiple assets as one asset, using the total invoice price as the cost for the asset. For example, 15 conference phones, each with a per item cost of \$641.70, were recorded as one conference phone with a cost of \$9,626.
- For one asset addition, the DCS disaggregated the assets, assigning them each separate asset IDs and tags, but did not disaggregate the cost. Each \$574 item was recorded as costing three times the amount, or \$1,721, overstating net assets.
- Three of the 17 assets purchased were not classified with the appropriate Asset Profile ID.

Agency personnel are responsible for accountability for all assets under their control, including capital assets. Adequate asset management staff should be assigned to recording and maintaining, on the ENCOMPASS financial system, all capital assets with a cost of \$500 or more. Assets are automatically capitalized upon approval by either the BU approver or AOS approver. Controls should be in effect to assure that additions, disposals, and transfers to other departments or agencies are recorded timely. Inventories of these assets should be performed each year in each department and compared to the ENCOMPASS listing. Results of inventories should be retained for audit purposes. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.3)

INDIANA DEPARTMENT OF CHILD SERVICES
January 1, 2015 to December 31, 2015
(Continued)

ISETS-ENCOMPASS CHILD SUPPORT BALANCE RECONCILIATION

The Department of Child Services records the detail of Child Support receipts and payments in the Indiana Support Enforcement Tracking System (ISETS). ISETS functions as a subsidiary ledger system for the State's Encompass system. Although daily reconciliations of Child Support receipts and payments between Encompass and ISETS are performed, the net cash balance of \$19,903,056 as of June 20, 2016, in Encompass is not reconciled to the detail supporting records in ISETS.

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 Manual for State and Quasi Agencies, Organizational Overview--General Guidelines & Policy)

RECONCILIATIONS BETWEEN KIDTRAKS AND ENCOMPASS

The Indiana Department of Child Services (DCS) maintains a subsidiary system called KidTraks. As identified in the 2015 Section II finding of the Comprehensive Annual Financial State audit of the State of Indiana, the DCS did not perform a comprehensive reconciliation between expenses recorded in KidTraks and expenses posted to the State's accounting system, Encompass. DCS management did not design and implement adequate controls to sufficiently compensate for this deficiency.

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)



Michael R. Pence, Governor
Mary Beth Bonaventura, Director

Indiana Department of Child Services
Room E306 – MS47
302 W. Washington Street
Indianapolis, Indiana 46204-2738

317-234-KIDS
FAX: 317-234-4497

www.in.gov/dcs

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

September 22, 2016

State Board of Accounts
302 W Washington St., Room E418
Indianapolis, IN 46204-2765

Re: OFFICIAL Response - Compliance Review (Jan. – Dec. 2015)

The Department of Child Services appreciates the opportunity to address the Review Results and Written Comments provided by State Board of Accounts relative to this review period. As mentioned in our exit conference with your review team on September 13, 2016, the agency has already begun to implement modifications to our business processes and record keeping to prevent these or similar items from appearing in future reviews.

Asset Deletions

DCS will be modifying our processes to include retention of all documentation relative to the disposal of Assets in the coming year. Our previous processes in this area, making assumptions that others receiving the documentation would be able to produce data upon request, was flawed. DCS will be alleviating this issue by retaining paperwork in our files for these actions and all transactions relative to Assets.

Capital Asset Additions

While DCS believed we were current on its use of the Assets Module, we have taken your written comment as an opportunity to improve the understanding of the policies in this area. DCS will require staff involved in the entry and monitoring of Assets to repeat the training courses in this area of their roles. DCS will engage the support team at GMIS to make any necessary corrections to the ENCOMPASS data to ensure the appropriate and correct accounting for existing Capital Assets for the Annual CAFR and system reporting.

ISETS – ENCOMPASS: Child Support Balance Reconciliation

DCS accepts a departure from its prior processes and failure to consistently maintain a paper trail for full reconciliation of these intersecting systems. Prior to the transition of Vendors in the area of Child Support Lockbox and receipting, DCS financial staff performed routine visual comparisons



Protecting our children, families and future

of the balances maintained in both systems and did not reduce the analysis to writing. As the new Lockbox Vendor and DCS staff resources shifted in the engaging of a new contractor, focus on this process was reduced and loss of clarity to the reports generated occurred.

DCS will be returning this issue to the forefront with our Financial and ISETS system staff to restore reconciliation processes over the coming months. We will additionally initiate a formalized/written documentation requirement to acknowledge daily execution and review of the Balances in the systems at the lowest variable possible in each data system (ISETS – Case Number; Encompass – FUND/ACCOUNT).

Reconciliations between KidTrak and ENCOMPASS

DCS acknowledged this need in the CAFR Audit of 2015 and continues to make progress on the Corrective Action Plan filed in that document. We project that full functionality to perform the most comprehensive reconciliation possible between the two systems will not be achieved until SFY 2018, however several component/modules will be completed in the coming year and implemented in a phased approach.

DCS will provide updates to Board of Accounts and the Auditor of State as this work continues.



INDIANA CIVIL RIGHTS COMMISSION

April 1, 2012 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Jamal Smith	06-07-10 to 01-16-16
	(Vacant)	01-17-16 to 02-28-16
	Richard Hite	02-29-16 to 01-08-17

LATE PAYMENT PENALTIES

The Indiana Civil Right Commission (ICRC) paid late payment penalties to vendors and charged to accounts of the ICRC as a result of untimely payment of claims. This resulted in fees of \$213 for calendar year 2014, and \$1,550 for calendar year 2015. These penalties are an unnecessary use of public funds.

The agency outsources accounting functions to the State Budget Agency's centralized accounting services division via a Memorandum of Understanding. Prior to payment by the Auditor of State's office, public funds to be paid pass through both the agency and the centralized accounting staff, thus necessitating stricter procedures for ensuring timely payment as required by state law.

Indiana Code 5-17-5 requires a state agency to: ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, good and services, equipment, and travel whenever the state agency fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statues, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview--General Guidelines and Policy)

SDO ADVANCE

The Indiana Civil Rights Commission had a Special Disbursing Officer Fund (SDO) balance of \$15,000 as of December 31, 2015. The SDO was inactive for the period of January 1, 2014 through the end the review period. The account should be closed.

Whenever a SDO fund is established, money is removed from a Treasurer of State bank account, thus, not being invested. Therefore, consideration should be given to the size of the SDO fund. If an agency is not using the total SDO advance within one or two months, the SDO advance is too large and should be reduced. If an agency is reimbursing the total value of the advance more than once monthly, an increase might be warranted. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

If no activity in a 24 month period in the SDO account, the account must be closed and the advance returned to the AOS as described in 6.4.10.11. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

INDIANA CIVIL RIGHTS COMMISSION
April 1, 2012 to December 31, 2015
(Continued)

INTERNAL CONTROLS OVER REVENUES

A sample of 25 cash and check receipts collected by the Indiana Civil Rights Commission (ICRC) identified the following deficiencies in internal controls:

- Checks received by mail, or at the receptionist desk, were not restrictively endorsed immediately upon receipt.
- Six of 25 revenue receipts were not deposited by the next business day. Five of the 6 averaged four business days and the sixth, 19 business days.
- The Indiana Civil Rights Commission did not maintain a proper Cash Book. The Cash Book did not include the Deposit ID or total of daily entries as indicated on the Report of Collections (ROC). Both of these items assist in reconciling deposits made to cash and checks collected.

For a portion of the review period the agency outsourced accounting functions to the State Budget Agency's centralized accounting services division via a Memorandum of Understanding. Prior to receipt by the Treasurer of State's office, public funds to be deposited pass through both the ICRC and the SBA centralized accounting staff, thus necessitating stricter procedures for ensuring timely deposit as required by state law.

Checks should be restrictively endorsed with an endorsement stamp immediately upon receipt. This would occur upon opening the mail or otherwise receiving the instrument (check). (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, Chapter 4.3)

Indiana Code 5-13-6-1(b) states in part: ". . . all public funds collected by state officers . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state, not later than the business day following the receipt of the funds. . . ."

Indiana Code 5-13-4-20 defines public funds as: ". . . all fees and funds of whatever kind or character coming into the possession of any public officer by virtue of that office. . . ."

If money is received on a regular basis, some type of Cash Book (paper or electronic) is required (See 4.1.2). This Cash Book must list the revenue by classification and amount in detail. Noting cash and checks separately is helpful for reconciliation to the final Report of Collection. The Cash Book may include the receipt number or daily summaries from a source document or data processing listing. The amount deposited with the Treasurer of State and the corresponding ENCOMPASS Deposit ID must also be shown on the Cash Book. The process of issuing a receipt and posting the cash receipts journal can be incorporated into one function. Only actual collections of money, whether it be cash, check or money orders, must be included in the Cash Book. This is a method of assuring that these monies reconcile with the actual deposits with the TOS. Corrections, wire transfers and other bank to bank transfers would not be necessary to include, as no one in the agency actually receives money in these cases. (Accounting and uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.4)



MICHAEL R. PENCE, GOVERNOR
RICHARD A. HITE, EXECUTIVE DIRECTOR

October 17, 2016

Paul Joyce
State Board of Accounts
302 West Washington Street, Room E 418
Indianapolis, IN 46204-2765

OFFICIAL RESPONSE

Dear Mr. Joyce,

Please find below the Indiana Civil Rights Commission's (ICRC) official response to the State Board of Account's (SBOA) compliance review covering the time period between April 1, 2012 and December 31, 2015.

The Executive Director of the ICRC, whose term began February 29, 2016, expresses gratitude for the diligent assistance of the SBOA in conducting its review and compiling its written comments. The ICRC's new administration is independently dedicated to providing citizens of the state with complete confidence in its integrity and financial accountability and considers the SBOA's comments a valuable part of the ICRC's internal compliance program. The ICRC is committed to having 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.

Compliance Initiatives

Within the present ICRC Executive Director's tenure, challenges have been identified as warranting focused compliance initiatives, including: (i) comprehensive training of agency personnel on the standards contained in the SBOA's Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies; (ii) appointment of the ICRC's Director of Compliance to oversee implementation of internal control standards and compliance with applicable requirements; and (iii) obtaining, training, and retaining a qualified chief financial officer (CFO). The result will be a well-maintained and institutionalized internal control system and the resolution of each item mentioned in the SBOA's agency specific comments.



Accounting Initiatives

Issues identified during the review included:

- Increased Late Payment Penalties
- Inactivity with the Special Disbursing Officer (SDO) Fund
- Deficiencies with internal controls over revenues

During the review period, the State Budget Agency (SBA) Centralized Accounting performed its valuable accounting functions for ICRC. On July 18, 2016, the State Budget Agency (SBA) implemented a vFire ticketing system, which we anticipate will better track requests for payments, and thus minimize future late payment penalties. SBA regularly monitors requests sent through vFire, and we follow-up with tickets that remain open for an increased period of time. Additionally, SBA has reiterated the importance of ICRC submitting invoices to SBA timely in order to avoid any delays in payment. SBA has also shared queries that ICRC may access to monitor the status of payments. With the implementation of vFire, and additional monitoring tools provided to ICRC, we expect future late payment penalties will decrease.

ICRC is working with SBA to explore alternatives for purchasing items without using the SDO fund. Once alternatives have been identified and ICRC knows how to use alternative processes, steps will be taken to make adjustments to the SDO fund. Adjustments can include changing the SDO officer to a current ICRC employee, changing the amount on the SDO fund, or closing the SDO fund. The issue has been noted, and steps will be taken to address this review finding.

Going forward all checks received will be endorsed upon receipt by an ICRC employee. An ICRC employee will provide a date and time stamp for all checks received, and record this information in the cash book. A separate ICRC employee will then deliver the revenue to SBA for deposit. Should ICRC not have anyone in the office that can deliver the revenue to SBA, ICRC will contact SBA for assistance in collecting the revenue.

Additionally, the SBA will provide the Report of Collections to ICRC with supporting documentation as revenue is received, so that the deposit id may be recorded in ICRC's cash book. ICRC and SBA will also work collaboratively to ensure that revenue is deposited with the Treasurer of State no later than the next business day following receipt of funds.

The ICRC's compliance initiatives will involve all staff, but will rely heavily on a collaboration between the newly appointed Director of Compliance and the CFO. Beginning immediately, an internal compliance audit and subsequent compliance initiative will effectuate the policy and regulatory framework necessary to ensure compliance. However, because the ICRC does not currently have a CFO, this collaboration and the compliance initiatives will fully mature subsequent to the CFO's onboarding.

As the ICRC develops its compliance program, consolidates best practices in accord with SBOA's guidelines, institutionalizes its internal control system, addresses its second relatively recent Chief Financial Officer vacancy, and improves training of existing personnel, we look forward to continued partnership with the SBOA and SBA in order to achieve the state's objectives with the utmost financial accountability, compliance, and integrity.

Sincerely,



Rick Hite

Indiana Civil Rights Commission



Deanna J. Oware

State Budget Agency

INDIANA DEPARTMENT OF CORRECTION AND CORRECTIONAL INSTITUTIONS

January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commissioner, Indiana Department of Correction	Bruce Lemmon Randy Koester (interim)	01-01-12 to 11-30-16 12-01-16 to 01-08-17
Superintendent: Correctional Industrial Facility	Wendy Knight	01-01-14 to 01-08-17
Indiana Women's Prison	Steve McCauley	01-01-14 to 01-08-17
Indianapolis Re-Entry Educational Facility	Steven Keever Laurie Johnson	05-01-12 to 04-28-13 04-29-13 to 01-08-17
Pendleton Correctional Facility	Zatecky Dushan	01-01-14 to 01-08-17
Pendleton Juvenile Correctional Facility	Linda Commons Alison Yancey (interim) Alison Yancey	01-01-14 to 08-29-14 08-30-14 to 09-27-14 09-28-14 to 01-08-17
Plainfield Correctional Facility	Brian Smith Stanley Knight	05-01-12 to 05-23-15 05-24-15 to 01-08-17
Putnamville Correctional Facility	Stanley Knight Brian Smith	05-01-12 to 05-23-15 05-24-15 to 01-08-17
Reception Diagnostic Center	James Wynn Craig Grage	05-01-12 to 07-29-16 07-30-16 to 01-08-17
Rockville Training Center	Julie Stout	05-01-12 to 01-08-17

CENTRAL OFFICE - January 1, 2014 to December 31, 2015

CAPITAL ASSETS

We identified the following issues in the Indiana Department of Correction (IDOC) capital asset records:

- A sample of 25 capital asset purchases, contained one asset that was incorrectly given a profile ID for a building, rather than the correct profile ID for firefighting equipment. This resulted in a depreciable life of 480 months, rather than 60 months as established by the State of Indiana.
- The IDOC did not record all assets at cost during the review period. A sample of 15 capital asset manual entries contained 13 assets that were recorded at costs that did not match the invoiced amount, or could not be verified because the agency could not provide an invoice or other supporting documentation.

INDIANA DEPARTMENT OF CORRECTION AND CORRECTIONAL INSTITUTIONS

January 1, 2014 to December 31, 2015

(Continued)

- A sample of 15 asset disposals contained five listed in ENCOMPASS as having been sent to State Surplus that could not be evidenced by a Notification of Surplus State-Owned Property form, or other documentation from the agency.
- An additional 3 of the sample of 15 disposals were assigned an incorrect retirement code. One asset disposal listed in ENCOMPASS as Retirement by Sale was a trade-in. Two incorrect asset disposals were listed in ENCOMPASS as having been sent to State Surplus, though one was a trade-in, and the other was retired in order to add the value of the asset to the vehicle it was installed in.

Agency personnel are responsible for accountability for all assets under their control, including capital assets. Adequate asset management staff should be assigned to recording and maintaining, on the ENCOMPASS financial system, all capital assets with a cost of \$500 or more. Assets are automatically capitalized upon approval by either the BU approver or AOS approver. Controls should be in effect to assure that additions, disposals, and transfers to other departments or agencies are recorded timely. Inventories of these assets should be performed each year in each department and compared to the ENCOMPASS listing. Results of inventories should be retained for audit purposes. Capital assets with a cost of less than \$500 may be included in ENCOMPASS Asset Management at the agency's option. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.3)

The State Comprehensive Annual Financial Report (CAFR) is compiled by the Auditor of State and audited by the Board of Accounts at the end of each state fiscal year. This report is vital to the State's bond rating and must be prepared in accordance with generally accepted accounting principles (GAAP), which requires capital assets to be included at cost (or estimated cost) and depreciated over the useful life of the asset. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.2)

In the process of purchasing an asset, an asset profile ID must be selected; this asset profile ID will assure that the correct useful life and depreciation is applied in Asset Management. When creating a requisition, in the Accounting Defaults section, Asset Information tab, all available profiles are accessible using the 'lookup' function. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.4)

All transfers, sales, retirements and other disposals of capital assets must be processed through and approved by State Surplus Property division of IDOA by submitting Form 13812, Notification of Surplus State-Owned Property. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.4)

The Department of Administration establishes guidelines and requirements relating to the retirement of agency assets. Generally, surplus property may be considered "retired" if disposed of in any of the following ways:

- Sent to Surplus property division (AM Retirement Code - State Surplus)
- Trade-in . . .
- Scrap when no other disposition is efficient or economical . . .
- Retirement in system due to duplicate entry (AM Retirement Code - Duplicate) . . .

(Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.4)

INDIANA DEPARTMENT OF CORRECTION AND CORRECTIONAL INSTITUTIONS

January 1, 2014 to December 31, 2015

(Continued)

PEN PRODUCTS - January 1, 2014 to December 31, 2015

LATE PAYMENT PENALTIES

The PEN Products Division (PEN Products) of Indiana Department of Correction (IDOC) paid late payment penalties to vendors and charged to accounts of Pen Products as a result of untimely payment of claims. This resulted in fees of \$4,170 for calendar year 2014 and \$45,815 for calendar year 2015. These penalties are an unnecessary use of public funds.

Indiana Code 5-17-5 requires a state agency to: ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, good and services, equipment, and travel whenever the state agency fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview--General Guidelines and Policy)

LACK OF CONTRACT

A sample of 15 PEN Products professional service expenditures contained two line items for which PEN did not have a contract in place nor were competitive bids received. One expenditure of \$1,380 was a quarterly installment for a repair service encompassing a term of one year. Another expenditure of \$571 was for waste management services and was billed per an expired QPA. PEN Products continued to use the services at the rates from the expired QPA, when a new QPA for agency use was in place.

Purchases more than \$500 require three quotes via phone, email, fax or mail. (IDOA Delegation of Purchasing Authority Program Manual, page 6)

Procurement Contracts: must be used when there is a need for a service over \$2,500 and/or encompassing a term of 90 days or more. (IDOA Delegation of Purchasing Authority Program Manual, page 11)

Contracts contain clearly defined deliverables (i.e. what is being purchased) that tie the duties of the contractor to payment. It is well suited for uniform rental (outside State QPA contracts), janitorial service, waste management service, and pest control. (IDOA Delegation of Purchasing Authority Program Manual, page 12)

SDO ADVANCE

PEN Products maintained five different Special Disbursing Officer (SDO) accounts during the review period. Two were closed during the review period. Of the remaining three accounts, two did not have sufficient disbursement activity to justify the authorized amount of funds held outside of the Treasurer of State's bank accounts:

INDIANA DEPARTMENT OF CORRECTION AND CORRECTIONAL INSTITUTIONS

January 1, 2014 to December 31, 2015

(Continued)

- PEN Central Office SDO - The SDO has an authorized amount of \$10,000. Total expenditures for calendar year 2015 were \$4,336. The highest monthly expenditure was \$1,103 in November.
- CIF SDO - The SDO has an authorized amount of \$600,000. There were only three expenditures during the calendar year of 2015, for a total of \$49,250.

Whenever a SDO fund is established, money is removed from a Treasurer of State bank account, thus, not being invested. Therefore, consideration should be given to the size of the SDO fund. If an agency is not using the total SDO advance within one or two months, the SDO advance is too large and should be reduced. If an agency is reimbursing the total value of the advance more than once monthly, an increase might be warranted. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)



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www.penproducts.com



LATE PAYMENT PENALTIES

Response: The bulk of the Commissary late fees (see by month tab) were FY2015 invoices that could not be processed on time due to bridging errors, or failure to bridge receipts timely, on the buyers' part. One of the big issues we saw was where the buyer bridged receipts into PeopleSoft and then failed to double check to make sure the receipts posted to PeopleSoft. If the posting failed then it requires multiple steps by the buyer to report the receipts into PeopleSoft correctly. The other big issue has been when the original PO or receipts needed to be amended/corrected in order to match the correct vendor invoice.

The huge spikes in August, September and November reflect the buyer working through his outstanding issues and freeing up Accounts payable to process the past due invoices. 88% of the late fees incurred in CY2015 are attributable to the Commissary fund and almost exclusively to one buyer. The buyer in question has left State employment. Purchasing has assigned 2 buyers to handle the Commissary purchasing and is tasked to focus on what needs to be done to avoid late fees.

Keefe is the largest recipient of late fees. In the past they have applied late fees paid to them against old, past due invoices. This doesn't really provide us with an audit trail on expense avoidance on our part. Keefe has agreed to refund \$17,731.52 in late fees they received in calendar 2015 they are sitting in their unapplied account. PEN received this check in March of 2016.

PEN is dedicated to reducing late fees to negligible amounts. Fiscal is working with Purchasing to fix the issues which have caused PEN to incur unacceptable levels of late fees. The Fiscal Accounts Payable department tracks late fees weekly and provides a list of invoices that are late or about to be late to Purchasing, Fiscal and the PEN Director. The weekly report indicates to the buyers what corrective actions are needed in order for each open invoice to be able to be processed in AP PeopleSoft.

LACK OF CONTRACT

Response: The Purchasing department has struggled to get contracts in place with the current number of buyers. The complexity of interfacing between two systems (PEN internal ERP system & PeopleSoft) to perform the purchasing function along with the greater number of IDOA purchasing rules which must be followed generates the additional work load on buyers. In addition during the time frame of the audit Purchasing had a lot of new buyers which needed to be trained. In our environment have operating two systems which are bridged it takes six months to train a new buyer before they become efficient

The Commissary buyer did not take note when the Freige Engineering quarterly preventive maintenance contract expired and continued to use their services. The Freige Engineering quarterly preventive maintenance on the HVAC units at the commissary this has been stopped until such time as a contract is in place for this service.

The Ray's Trash service provided to our Putnamville operation this has also been stopped. The State has a QPA in place with Republic Trash and they now service PEN's Putnamville location.



SDO ADVANCE

Response: PEN has made a concerted effort to close their SDO accounts and return the funds to the Treasurer. As PEN facility staff positions have been eliminated or transferred to other PEN operations Fiscal has closed the location SDO accounts. All told in calendar year 2015 and 2016 PEN has closed 5 of the 8 SDO accounts and returned \$140,000 to the Treasurer.

The PEN Central Office SDO account has been used primarily to purchase food items to serve attendees during PEN's Offender Workforce Development Specialist training sessions. These items were purchased using SDO checks since the vendor would not extend credit to the State. PEN's relationship with the vendor in question is coming to an end and the Central Office SDO account will be closed in the near term. This closure will return \$10,000 to the Treasurer.

The CIF SDO account has been used primarily as a backup to the Commissary SDO account when this account did not have sufficient funds available to purchase stamps. PEN is required to sell offenders postage stamps through our commissary service. Payment for postage stamps is upon delivery by check. It is PEN's intent to request authorization to increase the Commissary SDO account to adequately fund the require postage purchases and close the CIF SDO account at the same time. This will return \$450,000 to the Treasurer.

All funds in question have been provided by PEN's dedicated fund and the SDO account balances are reflected in PEN legal fund statements in Encompass.

INDIANA DEPARTMENT OF CORRECTION AND CORRECTIONAL INSTITUTIONS
January 1, 2014 to December 31, 2015
(Continued)

CORRECTIONAL INDUSTRIAL FACILITY - January 1, 2014 to December 31, 2015

CAPITAL ASSET DISPOSALS

We identified the following issues in the Correction Industrial Facility capital asset records:

- Twelve asset disposals listed in ENCOMPASS Asset Management (AM) as having been sent to State Surplus or Scrapped were still in active service. The assets were reinstated into active service in AM following our request for backup documentation.
- One asset disposal listed in AM as having been sent to State Surplus could not be evidenced as such by a signed and approved Notification of Surplus State-Owned Property form, or other documentation from the agency.

Agency personnel are responsible for accountability for all assets under their control, including capital assets. Adequate asset management staff should be assigned to recording and maintaining, on the ENCOMPASS financial system, all capital assets with a cost of \$500 or more. Assets are automatically capitalized upon approval by either the BU approver or AOS approver. Controls should be in effect to assure that additions, disposals, and transfers to other departments or agencies are recorded timely. Inventories of these assets should be performed each year in each department and compared to the ENCOMPASS listing. Results of inventories should be retained for audit purposes. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.3)

All transfers, sales, retirements and other disposals of capital assets must be processed through and approved by State Surplus Property division of IDOA by submitting Form 13812, Notification of Surplus State-Owned Property. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.4)



Michael R. Pence
Governor

Bruce Lemmon
Commissioner

CORRECTIONAL INDUSTRIAL FACILITY
5124 West Reformatory Road, Pendleton, Indiana 46064
Phone: (765) 778-8011 Fax (765) 778-0924

November 10, 2016

Paul Joyce, CPA, State Examiner
State Board of Accounts
302 W Washington St E418
Indianapolis IN 46204

RE: Official Response
Compliance Audit

Dear Mr. Joyce,

Please find attached the Correctional Industrial Facility's response to the 1/01/14 to 12/31/15 compliance audit finding. We believe the response, and the actions described within, resolve these findings. We appreciate your assistance and cooperation during this audit period.

Sincerely,

A handwritten signature in black ink, appearing to read "C Babb". The signature is fluid and cursive.

Carmen Babb
Regional Finance Director

Correctional Industrial Facility
November 10, 2016

Capital Asset Inventory

New fixed asset audit and supervisory staff are in place at the Correctional Industrial Facility. Documentation retention procedures are being reviewed and internal controls have been strengthened regarding all areas of fixed asset management. Complete facility fixed asset audits have been recently completed or are currently being completed by multiple staff to ensure each asset is inventoried correctly and timely.

INDIANA DEPARTMENT OF CORRECTION AND CORRECTIONAL INSTITUTIONS
January 1, 2014 to December 31, 2015
(Continued)

INDIANAPOLIS RE-ENTRY EDUCATIONAL FACILITY - May 1, 2012 to December 31, 2015

CAPITAL ASSET INVENTORY

The Indianapolis Re-entry Educational Facility did not provide hard copy or other documentation evidencing that an annual inventory had been performed and that the inventory was up to date as of December 2015. Review of the ENCOMPASS asset listing for the agency indicated that only 10 of the business unit's 489 assets had updates to the custodian or location effective dates to certify that an inventory was performed.

Each year a physical inventory is to be taken and compared to the master listing from the ENCOMPASS Asset Management system. This helps to ensure the asset inventory is accurate and that assets have not left the agency without authorization. It also aids in identifying unused or obsolete assets. Evidence of the physical inventory must be maintained in the agency's records.

To certify the inventory has been performed, the following information will be included in the ENCOMPASS Asset Management system utilizing the Location and Custodian sections and the authorized section of the Location and Custodian tabs:

- The date of the physical inventory
- The current location
- The current custodian (last name, first name) of the assets in inventory
- The person performing the inventory
- The authorization date

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



Michael R. Pence
Governor

INDIANAPOLIS RE-ENTRY EDUCATIONAL FACILITY
401 N. Randolph Street • Indianapolis, Indiana 46201
Phone: (317) 639-2671 • Fax: (317) 684-9643

Bruce Lemmon
Commissioner

November 9, 2016

Paul Joyce, CPA, State Examiner
State Board of Accounts
302 West Washington Street E418
Indianapolis, IN 46204

Re: Official Response
Compliance Audit

Dear Mr. Moran,

Please find attached the Indianapolis Re-Entry Educational Facility's response to the 05/01/2012 to 12/31/15 compliance audit finding. We believe the response, and the actions described within, resolve these findings. We appreciate your assistance and cooperation during this audit period.

Sincerely,

A handwritten signature in cursive script, appearing to read "Tina Little".

Tina Little
Regional Finance Director

Indianapolis Re-Entry Educational Facility Response
November 9, 2016

Capital Asset Inventory

IREF staff responsible for auditing the physical inventory has attended additional training. Multiple staff performed a 100% facility audit in August 2016 and are in the process of updating the assets with Encompass. Two additional fiscal staff have obtained the access to update the custodian and location information to ensure each asset is inventoried timely.

INDIANA DEPARTMENT OF CORRECTION AND CORRECTIONAL INSTITUTIONS

January 1, 2014 to December 31, 2015

(Continued)

PENDLETON CORRECTIONAL FACILITY - January 1, 2014 to December 31, 2015

CAPITAL ASSET DISPOSALS

The Pendleton Correctional Facility did not maintain documentation supporting the proper disposal of assets during the review period. A sample of 15 ENCOMPASS Asset Management (AM) retirements contained 11 asset disposals listed as having been sent to State Surplus that were not evidenced by a signed and approved Notification of Surplus State-Owned Property form, or other documentation from the agency. Of the 11, three were incorrectly retired, as they were reinstated into service following our inquiries. The retirement codes for the other eight could not be verified for correctness as the agency was unable to provide documentation evidencing that they were sent to State Surplus.

All transfers, sales, retirements and other disposals of capital assets must be processed through and approved by State Surplus Property division of IDOA by submitting Form 13812, Notification of Surplus State-Owned Property. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.4)



Michael R. Pence
Governor

PENDLETON CORRECTIONAL FACILITY
4490 W. Reformatory Road • Pendleton, Indiana 46064-9001
Phone: (765) 778-2107 • Fax: (765) 778-3395

Bruce Lemmon
Commissioner

November 10, 2016

Paul Joyce, CPA, State Examiner
State Board of Accounts
302 W Washington St E418
Indianapolis IN 46204

RE: Official Response
Compliance Audit

Dear Mr. Joyce,

Please find attached the Pendleton Correctional Facility's response to the 1/01/14 to 12/31/15 compliance audit finding. We believe the response, and the actions described within, resolve these findings. We appreciate your assistance and cooperation during this audit period.

Sincerely,

A handwritten signature in cursive script that reads "C Babb".

Carmen Babb
Regional Finance Director

Pendleton Correctional Facility
November 10, 2016

Capital Asset Inventory

New fixed asset audit and supervisory staff are in place at the Pendleton Correctional Facility. Documentation retention procedures are being reviewed and internal controls have been strengthened regarding all areas of fixed asset management. Complete facility fixed asset audits have been recently completed or are currently being completed by multiple staff to ensure each asset is inventoried correctly and timely.

INDIANA DEPARTMENT OF CORRECTION AND CORRECTIONAL INSTITUTIONS

January 1, 2014 to December 31, 2015

(Continued)

PENDLETON JUVENILE CORRECTIONAL FACILITY - January 1, 2014 to December 31, 2015

CAPITAL ASSET DISPOSALS

A sample of 15 ENCOMPASS asset retirements made for the Pendleton Juvenile Correctional Facility contained the following issues:

- Seven assets listed in ENCOMPASS as having been disposed were reinstated in ENCOMPASS following our request for documentation supporting proper disposal.
- One asset disposal listed in ENCOMPASS as a duplicate could not be evidenced by a match to an in-service asset or supporting documentation from the agency. Thus, we could not verify that the correct retirement code was used.
- One asset disposal listed in ENCOMPASS as a disposal due to theft could not be evidenced by a police report or other documentation from the agency. However, the disposal should have been classified as a duplicate, as the agency did provide evidence of a matching in-service asset.

Agency personnel are responsible for accountability for all assets under their control, including capital assets. Adequate asset management staff should be assigned to recording and maintaining, on the ENCOMPASS financial system, all capital assets with a cost of \$500 or more. Assets are automatically capitalized upon approval by either the BU approver or AOS approver. Controls should be in effect to assure that additions, disposals, and transfers to other departments or agencies are recorded timely. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.3)

All transfers, sales, retirements and other disposals of capital assets must be processed through and approved by State Surplus Property division of IDOA by submitting Form 13812, Notification of Surplus State-Owned Property. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.4)

The Department of Administration establishes guidelines and requirements relating to the retirement of agency assets. Generally, surplus property may be considered "retired" if disposed of in any of the following ways:

- *Sent to Surplus property division (AM Retirement Code - State Surplus) . . .
- Stolen assets should be reported to the Capital Police and the Office of the Inspector General prior to processing retirement. (AM Retirement Code - Disposal Due to Theft) . . .
- Retirement in system due to duplicate entry (AM Retirement Code - Duplicate). All retirements, whether or not State Surplus is involved, must be recorded in the ENCOMPASS Asset Management system, including accounting for any money received.

(Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.4)



Michael R. Pence
Governor

PENDLETON JUVENILE CORRECTIONAL FACILITY
9310 South State Road 67 • Pendleton, Indiana 46064-8536
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Bruce Lemmon
Commissioner

November 10, 2016

Paul Joyce, CPA, State Examiner
State Board of Accounts
302 W Washington St E418
Indianapolis IN 46204

RE: Official Response
Compliance Audit

Dear Mr. Joyce,

Please find attached the Pendleton Juvenile Correctional Facility's response to the 1/01/14 to 12/31/15 compliance audit finding. We believe the response, and the actions described within, resolve these findings. We appreciate your assistance and cooperation during this audit period.

Sincerely,

A handwritten signature in cursive script that reads "C Babb".

Carmen Babb
Regional Finance Director

Pendleton Juvenile Correctional Facility
November 10, 2016

Capital Asset Inventory

New fixed asset audit and supervisory staff are in place at the Pendleton Juvenile Correctional Facility. Documentation retention procedures are being reviewed and internal controls have been strengthened regarding all areas of fixed asset management. Complete facility fixed asset audits have been recently completed or are currently being completed by multiple staff to ensure each asset is inventoried correctly and timely.

INDIANA DEPARTMENT OF CORRECTION AND CORRECTIONAL INSTITUTIONS

January 1, 2014 to December 31, 2015

(Continued)

PLAINFIELD CORRECTIONAL FACILITY - May 1, 2012 to December 31, 2015

CAPITAL ASSET DISPOSALS

The Plainfield Correctional Facility did not maintain documentation supporting the disposal of assets during the review period. A sample of 15 asset retirements contained ten asset disposals listed in ENCOMPASS Asset Management as having been sent to State Surplus that could not be confirmed as such by a Notification of Surplus State-Owned Property form, or other documentation from the agency.

All transfers, sales, retirements and other disposals of capital assets must be processed through and approved by State Surplus Property division of IDOA by submitting Form 13812, Notification of Surplus State-Owned Property. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.4)

Agency personnel are responsible for accountability for all assets under their control, including capital assets. Adequate asset management staff should be assigned to recording and maintaining, on the ENCOMPASS financial system, all capital assets with a cost of \$500 or more. Assets are automatically capitalized upon approval by either the BU approver or AOS approver. Controls should be in effect to assure that additions, disposals, and transfers to other departments or agencies are recorded timely. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.3)



Michael R. Pence
Governor

PLAINFIELD CORRECTIONAL FACILITY
727 Moon Road • Plainfield, Indiana 46168-9400
Phone: (317) 839-2513 • Fax: (317) 837-1875

Bruce Lemmon
Commissioner

November 10, 2016

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

Re: OFFICIAL RESPONSE
Compliance Audit

Dear Mr. Joyce,

Please find attached the Plainfield Correctional Facility's response to the 5/1/2012 through 12/31/2015 compliance audit finding. We believe the response, and the actions described within, resolve these findings. We appreciate your assistance and cooperation during this audit period.

Sincerely,

A handwritten signature in cursive script, appearing to read "Tina Little".

Tina Little
Regional Finance Director

PLAINFIELD CORRECTIONAL FACILITY

November 10, 2016

DISPOSAL OF CAPITAL ASSETS

We ensure, going forward, that proper paperwork for all transfers, sales, retirements, and any other disposal of capital assets will have appropriate approvals and signatures reviewed by the Business Office before they are processed through and approved by State Surplus Property division of IDOA by submitting Form 13812, Notification of Surplus State-Owned Property.

INDIANA CRIMINAL JUSTICE INSTITUTE
May 1, 2012 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Acting Executive Director	Mary Allen	04-02-12 to 05-20-15
Interim Executive Director	Devon McDonald	05-21-15 to 08-02-15
Executive Director	David Murtaugh	08-03-15 to 01-08-17

LATE PAYMENT PENALTIES

The Indiana Criminal Justice Institute (ICJI), paid late payment penalties to vendors and charged to accounts of the ICJI as a result of untimely payment of claims. This resulted in fees of \$1,864 for calendar year 2014 and \$6,104 for calendar year 2015. These penalties are an unnecessary use of public funds.

The agency outsources accounting functions to the State Budget Agency's centralized accounting services division via a Memorandum of Understanding. Prior to payment by the Auditor of State's office, public funds to be paid pass through both the agency and the centralized accounting staff, thus necessitating stricter procedures for ensuring timely payment as required by state law.

A similar comment appeared in the prior Report.

Indiana Code 5-17-5 requires a state agency to: ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, good and services, equipment, and travel whenever the state agency fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview--General Guidelines and Policy)



STATE OF INDIANA



Michael R. Pence, Governor
David R. Murtaugh, Executive Director

September 29, 2016

State Board of Accounts
302 Washington St., Room E418
Indianapolis, Indiana 46204-2765

In connection with the review of the Indiana Criminal Justice Institute (ICJI) for the period April 1, 2012 to December 31, 2015, the State Board of Accounts identified one issue that warranted written comment. A summary of that issue, and the ICJI's response to that comment are found below.

Late Payment Penalties

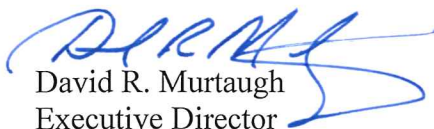
The State Board of Accounts (SBOA) identified a series of late payment penalties paid to vendors associated with claims made to the ICJI's Victim Compensation Division. The penalties amounted to \$1,864 for calendar year 2014 and \$6,104 for calendar year 2015. The ICJI has a MOU with the SBA to provide all financial services, to include the processing of payment of Victim Compensation claims. Indiana Code requires the payment of late fees when the state fails to make a payment as required by law.

Corrective Action Plan

Late fees associated with Victim Compensation Claims are not to be paid by the State of Indiana. The ICJI will develop a written process for the submission of invoices for Victim Compensation claims. This process will involve notification to the SBA, through the submission process, that no late payment penalties shall be assessed on these invoices. All invoices from state agencies are now submitted to SBA through the new electronic ticketing system. Once a ticket has been generated ICJI staff will follow-up with the SBA personnel assigned to ticket, and indicating that no late fees should be assessed on these invoices. SBA personnel will then enter the invoices in PeopleSoft and remove any late charges assessed, based on the date of service. ICJI will then conduct a review of invoices to ensure no later charges have been added.

If there are any questions, please feel free to contact our Chief Counsel, Devon McDonald, at demcdonald@cji.in.gov, or (317) 232-7611.

Sincerely,


David R. Murtaugh
Executive Director

INDIANA EDUCATION EMPLOYMENT RELATIONS BOARD
April 1, 2012 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Michael McConnell	06-12-06 to 06-10-12
	Patrick Mapes	06-11-12 to 06-18-16
	Sarah Cudahy	06-19-16 to 06-30-17
Chair	Michael McConnell	06-12-06 to 06-10-12
	Patrick Mapes	06-11-12 to 06-18-16
	(Vacant)	06-19-16 to 06-30-16
	Jane Ann Himsel	07-01-16 to 06-30-17

There were no issues identified during this review that warranted written comment.

INDIANA DEPARTMENT OF EDUCATION
January 1, 2015 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Superintendent of Public Instruction	Glenda Ritz	01-19-13 to 01-08-17

INTERNAL CONTROLS OVER REVENUES

We identified the following deficiencies in internal controls over revenues collected by the Indiana Department of Education (DOE):

- The DOE does not utilize a Cash Book which provides a comprehensive listing of revenues collected by classification and amount in detail. Revenues collected are recorded on internal reports of collection which are compiled by multiple individuals in the Accounting department. The internal reports of collection provide an inconsistent and incomplete method of recording collected revenues, and ensuring that all revenue collected can be traced from individual checks received, to the corresponding Report of Collection remitted to the Treasurer of State.
- The DOE does not restrictively endorse checks immediately upon receipt. Checks are endorsed by the employee preparing the Report of Collection in ENCOMPASS rather than the employee responsible for receiving and opening checks received through the mail.

If money is received on a regular basis, some type of cash book (paper or electronic) is required (See 4.1.2). This cash book must list the revenue by classification and amount in detail. Noting cash and checks separately is helpful for reconciliation to the final Report of Collection. The cash book may include the receipt number or daily summaries from a source document or data processing listing. The amount deposited with the Treasurer of State and the corresponding ENCOMPASS Deposit ID must also be shown on the cash book. The process of issuing a receipt and posting the cash receipts journal can be incorporated into one function. Only actual collections of money, whether it be cash, check or money orders, must be included in the cash book. This is a method of assuring that these monies reconcile with the actual deposits with the TOS. Corrections, wire transfers and other bank to bank transfers wouldn't be necessary to include, as no one in the agency actually receives money in these cases. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.4)

Checks should be restrictively endorsed with an endorsement stamp immediately upon receipt. This would occur upon opening the mail or otherwise receiving the instrument (check). (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.3)



Indiana Department of Education

Glenda Ritz, NBCT

Indiana Superintendent of Public Instruction

September 2, 2016

State Board of Accounts
Paul Joyce, State Examiner
302 Washington Street, Room E418
Indianapolis, IN 46204-2765

Dear Mr. Joyce,

The Indiana Department of Education (IDOE) provides the following response to the written comment identified in the compliance review conducted for the period January 1, 2015 to December 31, 2015.

WRITTEN COMMENT

We identified the following deficiencies in internal controls over revenues collected by the Indiana Department of Education (DOE):

- DOE does not utilize a cash book which provides a comprehensive listing of revenues collected by classification and amount in detail. Revenues collected are recorded on internal reports of collection which are compiled by multiple individuals in the Accounting department. The internal reports of collection provide an inconsistent and incomplete method of recording collected revenues, and ensuring that all revenue collected can be traced from individual checks received, to the corresponding Report of Collection remitted to the Treasurer of State.
- DOE does not restrictively endorse checks immediately upon receipt. Checks are endorsed by the employee preparing the Report of Collection in ENCOMPASS rather than the employee responsible for receiving and opening checks received through the mail.

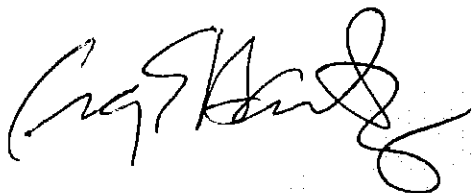
If money is received on a regular basis, some type of cash book (paper or electronic) is required (See 4.1.2). This cash book must list the revenue by classification and amount in detail. Noting cash and checks separately is helpful for reconciliation to the final Report of Collection. The cash book may include the receipt number or daily summaries from a source document or data processing listing. The amount deposited with the Treasurer of State and the corresponding ENCOMPASS Deposit ID must also be shown on the cash book. The process of issuing a receipt and posting the cash receipts journal can be incorporated into one function. Only actual collections of money, whether it be cash, check or money orders, must be included in the cash book. This is a method of assuring that these monies reconcile with the actual deposits with the TOS. Corrections, wire transfers and other bank to bank transfers wouldn't be necessary to include, as no one in the agency actually receives money in these cases. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.4)

Checks should be restrictively endorsed with an endorsement stamp immediately upon receipt. This would occur upon opening the mail or otherwise receiving the instrument (check). (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.3)

RESPONSE AND CORRECTIVE ACTION:

The Department does not receive cash on a regular basis, occurring at the same intervals every day, week or month. The Department has provided the State Board of Accounts with a policy that takes into account the frequency of receipt of cash throughout the year. We appreciate your comments and will incorporate your suggestions into our policy.

Please contact me if you have questions or if further information is needed.

A handwritten signature in black ink, appearing to read "C. J. Anderson", written in a cursive style.

STATE EMPLOYEES' APPEALS COMMISSION
January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director/Chief Administrative Law Judge	Aaron Raff (Vacant) Gabriel Paul	09-06-11 to 08-13-14 08-14-14 to 08-18-14 08-19-14 to 01-08-17

There were no issues identified during this review that warranted written comment.

FAMILY AND SOCIAL SERVICES ADMINISTRATION
January 1, 2015 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Secretary of Family and Social Service Administration	Dr. John Wernert	07-21-14 to 01-08-17

LATE PAYMENT PENALTIES

The Family and Social Services Administration (FSSA) paid late payment penalties to vendors and charged to accounts of the FSSA as a result of untimely payment of claims. Total penalties for the review period were \$29,616. These penalties are an unnecessary use of public funds.

A similar comment appeared in the prior Report.

Indiana Code 5-17-5 requires a state agency to: ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, good and services, equipment, and travel whenever the state agency fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview--General Guidelines and Policy, Section IV)

CLASSIFICATION OF ACCOUNTING TRANSACTIONS

A sample of 25 travel card transactions made by the Family and Social Services Administration (FSSA) contained two transactions that were charged to incorrect accounts.

- One transaction for in-state travel lodging was incorrectly charged to account OutoSt Travel - Lodging.
- The other transaction was for airfare and was incorrectly charged to account AdmOp-Registration. The expenditure should have been charged to account OutoSt Travel - Airfare.

Additionally, a sample of 25 procurement card transactions made by FSSA contained eight transactions that were charged to incorrect accounts, as follows:

- Three transactions for food and beverage purchases were posted to the Basic Living Services account instead of a group meals or food account.
- Three transactions were posted to the AdmOp-Freight & Express account for the full amount of the transaction. In each case, only a portion or none of the transaction was for an expenditure that should have been posted to the AdmOp-Freight & Express account.

FAMILY AND SOCIAL SERVICES ADMINISTRATION

January 1, 2015 to December 31, 2015

(Continued)

- One transaction for a meal purchased was posted to the InState Travel - Per Diem&Meal account. This transaction was not incurred as part of State-approved travel and so this account should not have been used.
- One transaction for educational literature was posted to the Off-Printing & Binding account. Off-Printing & Binding should not have been used for this transaction.

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

- Maintain an adequate internal control environment.
- Maintain adequate internal control procedures.
- Properly utilize the state accounting system as prescribed by the ENCOMPASS Steering Committee.
- Maintain an effective and accurate accounting system for necessary subsidiary and supplementary records. . . .

(Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, General Guidelines & 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 management's 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, IV)

SERIOUSLY MENTALLY ILL PROGRAM - UNSUPPORTED ALLOCATION BASIS

The two prior review reports for the Family and Social Services Administration (FSSA) cited the following issue: Of the transactions tested for the Division of Mental Health and Addiction's (DMHA) Seriously Mentally Ill (SMI) Program, 90 percent did not have supporting prior year's data for the base allocation amount. The base allocation amount is used in a calculation to arrive at the amount paid to Mental Health Facilities. As a result of not having the prior year's data available for review, we could not verify the allocation basis and thus, the calculation behind the disbursements.

During the current review period, FSSA stated that this program was still using an old allocation method carried forward from prior years. A new allocation methodology is still being researched.

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

FAMILY AND SOCIAL SERVICES ADMINISTRATION

January 1, 2015 to December 31, 2015

(Continued)

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, Chapter 14.3)

INTERNAL CONTROLS OVER REVENUES

We identified the following deficiencies in internal controls over revenues collected by the Family and Social Services Administration (FSSA):

- The FSSA did not maintain an adequate Cash Book. Checks and money orders were not recorded until the Report of Collections was created to prepare the receipts for deposit. A triplicate receipt book was used, but only when receipts were requested by customers.
- Due to the lack of a Cash Book to record the money received at the point of receipt, there was not a sufficient audit trail for us to establish a population of physical receipts to verify that all checks received were deposited in compliance with the daily deposit law and other applicable laws, statutes, and the Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies.

Indiana Code (IC) 5-13-5-1(a) states in part:

"Every public officer who receives or distributes public funds shall:

- (1) keep a cashbook into which the public officer shall enter daily, by item, all receipts of public funds; . . ."

Indiana Code (IC) 5-13-6-1(b) states in part:

". . . all public funds collected by state officers . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state, not later than the business day following the receipt of the funds . . . Deposits do not relieve any state officer from the duty of maintaining a cashbook under IC 5-13-5-1."

Indiana Code 5-13-4-20 defines public funds as: ". . . all fees and funds of whatever kind or character coming into the possession of any public officer by virtue of that office. . . ."

Each agency is responsible for establishing procedures to attain a high level of accountability for funds collected and for ensuring that these funds are deposited with the Treasurer of State, or other approved depository, in accordance with state statute.

If money is received on a regular basis, some type of cash book (paper or electronic) is required (See 4.1.2). This cash book must list the revenue by classification and amount in detail. Noting cash and checks separately is helpful for reconciliation to the final Report of Collection. The cash book may include the receipt number or daily summaries from a source document or data processing listing. The amount deposited with

FAMILY AND SOCIAL SERVICES ADMINISTRATION
January 1, 2015 to December 31, 2015
(Continued)

the Treasurer of State and the corresponding ENCOMPASS Deposit ID must also be shown on the cash book. The process of issuing a receipt and posting the cash receipts journal can be incorporated into one function. Only actual collections of money, whether it be cash, check or money orders, must be included in the cash book. This is a method of assuring that these monies reconcile with the actual deposits with the TOS. Corrections, wire transfers and other bank to bank transfers wouldn't be necessary to include, as no one in the agency actually receives money in these cases.

Reconcile deposits with the cash receipts journal (cash book) to assure that all funds received were deposited. It is recommended that this be reconciled daily as approved ROCs are returned to the agency. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies Chapter 4.4)

RECONCILIATION OF REPAYMENT SCHEDULES TO ICES

Prior reports for the Family and Social Services Administration (FSSA) cited the following issue: Actual welfare revenue recoveries are not reconciled to the Indiana Client Eligibility computer System (ICES). Revenue recoveries are received from welfare recipients for overpayments for welfare programs such as TANF, Food Stamps, and Medicaid. The ICES is considered to be the official record for the reporting of revenue recoveries for each welfare recipient's case. Without a reconciliation process in place it cannot be determined if the values recorded in the ICES are correct.

During follow-up inquiry of this prior finding, the FSSA stated that while there is some review to ensure transactions in PeopleSoft agree to the ICES, there is still no 100 percent reconciliation. A reconciliation process is still in development.

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. In the case of agency controlled bank accounts, if the reconciled bank balance is less than the account ledger, the responsible official or employee may be held personally responsible for the amount needed to balance. Audit costs incurred because of theft or shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview - General Guidelines and Policy, IV)



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

October 28, 2016

Paul Joyce, CPA, State Examiner
Indiana State Board of Accounts
200 W. Washing St., Rm. 212 State House
Indianapolis, IN 46204

Dear Mr. Joyce:

This letter represents the Family and Social Services Administration's response to Written Comments identified in the review conducted for the period January 1, 2015 to December 31, 2015. If you have any questions, please contact me at your earliest convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Bowling".

Paul Bowling
Chief Financial Officer
FSSA Administration



Late Payment Penalties

Contact Person: Scott Blake
Title of Contact: Director of Administrative Services
Phone: (317) 234-1488

Response to Comments:

FSSA constantly works on managing and reducing the risk of late payments to our vendors and service providers. However, with existing business processes and the number of payments made on an annual basis, there are always possible delays that make the agency particularly vulnerable to late payments. FSSA Administrative Services staff diligently checks outstanding contract claims and sends reminders to business units before the approaching deadline attempting to retrieve documents for timely payment.

As a way to prevent processing bottlenecks, FSSA is moving toward an invoice management solution that will assist with paper invoices and procedural constraints resulting from staff required to physically move invoices through the agency. We are piloting the solution with the Indiana Auditor of State's office with anticipated implementation during the second quarter of calendar year 2017. With automatic document and data capture, automated matching, and online coding and authorization, the whole process will be streamlined.

Classification of Accounting Transactions

Contact Person: Scott Blake
Title of Contact: Director of Administrative Services
Phone: (317) 234-1488

Response to Comments:

The introduction of the PeopleSoft Financials Credit Card module has allowed the entry of default values to expedite the processing of approvals and payments. In the new roles established for the process, additional training is required on the precise account codes to correctly categorize the expense. In addition, exploration of PeopleSoft configuration will be done to determine if additional distribution lines could be included to further breakdown the transactional amount into specific account codes.

Seriously Mentally Ill (SMI) Program – Unsupported Allocation Basis

Contact Person: Donna Rutherford
Title of Contact: Controller - DMHA
Phone: (317) 232-7862

Response to Comments:

Currently the allocation basis for the SMI program is based on an old allocation method, carried forward over the years as the Division researched a new allocation methodology. DMHA is currently in the process of revising their allocation process for the Community Mental Health Centers and are working to have this in place by SFY 2018. With this new allocation, there will be better process and basis of allocation documentation, which will provide the necessary audit trail for these payments.

Internal Controls Over Revenues

Contact Person: Tammie Robinson
Title of Contact: Manager of Account Receivables
Phone: (317) 234-4446

Response to Comments:

FSSA agrees that we didn't maintain a cash book as indicated in the recent updated accounting manual. FSSA maintained an electronic cash book for all receipts in accordance to the accounting manual prior to the recent update listing all revenue that was processed.

FSSA has updated their processes, procedures and internal controls in accordance to the new guidelines. A miscellaneous check log, has been added to the process documenting all checks, or money orders that are dropped off or come in the mail. A physical cash book, and daily reconciliation process has been developed.

All new forms and procedures will be sent to SBOA for their approval.

Reconciliation of Repayments Schedules to ICES

Contact Person: Lynn Johnson
Title of Contact: Director of Accounting Operations
Phone: (317) 233-4725

Response to Comments:

Update to this prior finding. ICES has been working with the financial area to develop an automatic process for reconciliation between People Soft and ICES. The Financial area does not have access to run reports in ICES due to HIPPA restrictions of the eligibility system.

FSSA is in the process of upgrading ICES to a new eligibility system. The implementation of this new system is to take place in 2017 and continue through 2018. Once the new system is fully in place FSSA hopes to have the reports developed that will resolve the issue of balancing between the two systems.

INDIANA DEPARTMENT OF FINANCIAL INSTITUTIONS
January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	David H. Mills	09-08-09 to 01-31-14
	Thomas C. Fite (interim)	02-01-14 to 03-09-14
	Dennis L. Basset	03-10-14 to 04-15-15
	Thomas C. Fite (interim)	04-16-15 to 06-07-15
	Tim Berry	06-08-15 to 11-10-15
	Thomas C. Fite (interim)	11-11-15 to 01-17-16
	Thomas C. Fite	01-18-16 to 01-08-17

There were no issues identified during this review that warranted written comment.

GOVERNOR'S EXECUTIVE OFFICE
January 14, 2013 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Governor	Honorable Michael Pence	01-14-13 to 01-08-17

There were no issues identified during this review that warranted written comment.

GOVERNOR'S COUNCIL FOR PEOPLE WITH DISABILITIES
January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Suellen Jackson-Boner	06-23-80 to 07-01-15
	(Vacant)	07-02-15 to 07-05-15
	Christine Dahlberg	07-06-15 to 01-08-17

LATE PAYMENT PENALTIES

The Indiana Governor's Council for People with Disabilities (GCPD) paid late payment penalties to vendors and charged to accounts of the GCPD as a result of untimely payment of claims. This resulted in fees, net of adjustments and refunds, of \$9.95 and \$1,442 for calendar years 2014 and 2015, respectively. These penalties are an unnecessary use of public funds.

Indiana Code 5-17-5 requires a state agency to: ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, good and services, equipment, and travel whenever the state agency fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview--General Guidelines and Policy)



GOVERNOR'S COUNCIL FOR PEOPLE WITH DISABILITIES

A | Indiana Government Center South
402 W. Washington St., Room E145
Indianapolis, IN 46204

P | (317) 232-7770

F | (317) 233-3712

E | council@gcpd.in.gov

State Board of Accounts
Attn: Kelson Moran
302 West Washington Street
Room E 418
Indianapolis IN 46204-2765

RE: OFFICIAL RESPONSE

Ms. Moran,

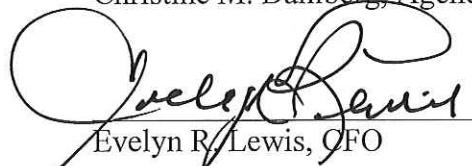
In response to Written Comments as they relate to Late Payment Penalties, please note that the Governor's Council for People with Disabilities (GCPD) has in fact corrected this issue by changing business processes on how and when invoices are processed for payment.

The changed process implemented included:

1. Utilizing current Admin. Staff to facilitate receipt of invoices through
2. a newly created State GCPD AP Electronic Mailbox where vendors remit invoices directly and the mailbox serves as an official receipt stamp
3. preparing invoices [obtaining proper approval to pay], within 3-5 business days of receipt in GCPD AP Mailbox including input into PeopleSoft Financials AP Module daily and/or weekly, finally
4. submitting to the Auditor of State (AOS) within the 3 – 5 days [preparation period listed in step #3] of receipt and not less than weekly, where applicable. Thus, eliminating missing invoices and mitigating *late payment penalties*, since vendors remit directly to the GCPD AP Electronic Mailbox

Signed:

 17/Oct 20/16
Christine M. Dahlberg, Agency Head Date


Evelyn R. Lewis, CFO

17 OCT 2016
Date

INDIANA COMMISSION FOR HIGHER EDUCATION
January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commissioner	Teresa Lubber	07-07-09 to 06-30-17

There were no issues identified during this review that warranted written comment.

INDIANA DEPARTMENT OF HOMELAND SECURITY
March 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	John Hill David Kane	01-14-13 to 11-23-14 11-24-14 to 01-08-17

CAPITAL ASSET DISPOSALS

A sample of 15 asset retirements made by the Indiana Department of Homeland Security contained 13 that were coded in ENCOMPASS as sent to State Surplus, while 2 were coded as duplicate assets. For each of the 15 sampled asset retirements, the agency was unable to provide documentation, such as a State Surplus Form 13812, to substantiate that the asset was actually disposed of in the method indicated by the disposal code.

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, etc., must be made available for audit to provide supporting information for the validity and accountability of monies received or disbursed. Documents must be filed in such a manner as to be readily retrievable or otherwise reasonably obtainable, upon request, during an audit. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, General Guidelines & Policy, Section IV)

Agency personnel are responsible for accountability for all assets under their control, including capital assets. Adequate asset management staff should be assigned to recording and maintaining, on the ENCOMPASS financial system, all capital assets with a cost of \$500 or more. Assets are automatically capitalized upon approval by either the BU approver or AOS approver. Controls should be in effect to assure that additions, disposals, and transfers to other departments or agencies are recorded timely. Inventories of these assets should be performed each year in each department and compared to the ENCOMPASS listing. Results of inventories should be retained for audit purposes. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.3)

CAPITAL ASSET INVENTORY

The capital asset inventory prepared by the Indiana Department of Homeland Security (IDHS) did not agree with the capital asset listing in ENCOMPASS Asset Management. When comparing their listing to ENCOMPASS Asset Management, 2790 of 2808 assets from ENCOMPASS were found on the IDHS's asset listing; however, 18 assets were not accounted for. The IDHS is unaware of the current status of the 18 assets. Staff has been assigned to attempt to locate the 18 missing items which have a total cost of \$56,600.

A similar comment appeared in the prior Report.

Each year a physical inventory is to be taken and compared to the master listing from the ENCOMPASS Asset Management system. This helps to ensure the asset inventory is accurate and that assets have not left the agency without authorization. It also aids in identifying unused or obsolete assets. Evidence of the physical inventory must be maintained in the agency's records. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.4)

INDIANA DEPARTMENT OF HOMELAND SECURITY

March 1, 2014 to December 31, 2015

(Continued)

Agency personnel are responsible for accountability for all assets under their control, including capital assets. Adequate asset management staff should be assigned to recording and maintaining, on the ENCOMPASS financial system, all capital assets with a cost of \$500 or more. Assets are automatically capitalized upon approval by either the BU approver or AOS approver. Controls should be in effect to assure that additions, disposals, and transfers to other departments or agencies are recorded timely. Inventories of these assets should be performed each year in each department and compared to the ENCOMPASS listing. Results of inventories should be retained for audit purposes. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.3)

INTERNAL CONTROLS OVER REVENUES

We identified the following deficiencies in internal controls over revenues collected by the Department of Homeland Security (IDHS):

- The Cash Book groups receipts by revenue type rather than by each individual check or receipt. The Cash Book does not contain identifiable information to trace an individual receipt from a payer.
- Pre-numbered, triplicate receipt books were utilized for in person collections. Review of agency receipt books for the review period identified that a portion of the agency copies of receipts were torn out of the book and missing. Additionally, the receipts were determined to be written out of sequential order during the review period. The Cash Book does not identify which revenues were collected in person, or contain the receipt numbers from the triplicate receipt books; therefore, the total number of missing receipts was not easily identified.

A similar comment appeared in the prior Report.

Regardless of the receipting method, the agency should always be able to trace an individual receipt from a payer to the corresponding Report of Collection. If no receipts on file, agency must maintain a either a copy of the check or note details from the check with their copy of the ROC. In the event of a lost deposit by the bank or carriers, it will be the agency's responsibility to contact the payers and recreate the deposit. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.4)

All receipts, licenses or other accountable items must be pre-numbered or sequentially numbered by computer when issued. Documents should be used in sequential order. If the volume warrants, a separate numeric series should be used for different revenue sources. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.3)

Supporting documentation to support monies received must be maintained and made available for audit to provide supporting information for the validity and accountability of monies received. Documents must be filed in such a manner as to be readily accessible, or otherwise reasonably attainable, upon request during an audit. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.3)

INDIANA DEPARTMENT OF HOMELAND SECURITY
March 1, 2014 to December 31, 2015
(Continued)

LATE PAYMENT PENALTIES

The Indiana Department of Homeland Security (IDHS) paid late payment penalties to vendors and charged to accounts of the IDHS as a result of untimely payment of claims. This resulted in fees of \$3,709 for calendar year 2014 and \$5,137 for calendar year 2015. These penalties are an unnecessary use of public funds.

Indiana Code 5-17-5 requires a state agency to: ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, good and services, equipment, and travel whenever the state agency fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview--General Guidelines and Policy)



MICHAEL R. PENCE, Governor
STATE OF INDIANA

INDIANA DEPARTMENT OF HOMELAND SECURITY
302 West Washington Street
Indianapolis, IN 46204

August 8, 2016

Paul Joyce
State Examiner
Indiana State Board of Accounts
302 W. Washington St. Room E418
Indianapolis, IN 46204-2765

Re: Agency Response to State Compliance Audit of Indiana Department of Homeland Security March 1, 2014 through December 31, 2015

Dear Mr. Joyce,

Thank you for the efforts of your State Board of Accounts audit team during the recently completed State Compliance Audit of IDHS. This letter acknowledges the audit comment items and provide IDHS' plan to address these deficiencies.

Item #1 Missing Documentation for Asset Disposals and Assets Missing from Physical Inventory Listing

SBOA reported that fifteen (15) asset retirements were made by IDHS and of those 15, thirteen (13) were coded in Encompass and sent to State Surplus, and two (2) were coded as duplicate assets. IDHS was not able to provide the State Surplus Form 13812 for these assets.

SBOA's second finding reported that the Inventory did not agree with Encompass Asset management. Eighteen (18) assets appeared to have been deleted from the worksheet pulled from Encompass and provided for SBOA.

Agency Response –

IDHS recently brought on an accountant who will work exclusively on asset management for the agency. This staff person, in conjunction with management personnel, will specify the location and documentation for assets that IDHS adds or deletes in the system. This staff person will also be responsible for completing a physical inventory of each asset annually and updating the Encompass system accordingly.



Item #2 Internal Controls Over Revenues

SBOA identified that receipts were grouped by revenue type rather than by individual check or receipt. There was also an issue with the receipt books as some receipts were missing/torn from the book and the receipts were being written out of sequential order.

Agency Response -

During a previous audit by SBOA, there was no finding in how IDHS grouped the revenue by type rather than by individual check or receipt, therefore IDHS staff did not identify this as an issue to resolve. However, during the current audit IDHS voluntarily updated their cash book and policy to ensure that each revenue, cash or receipt is documented individually and reconciled as well.

Receipt books were originally kept in the Fire and Building Safety Division (DFBS) area. Following the previous audit, agency policy was updated to require that all revenues come directly to the Accounts Receivable section in Finance. This required a move of receipt books from DFBS. When the receipt books were received in Finance the previously issued receipt copies were not in the books. Moving forward all receipt copies will remain intact.

Item #3 Late Payment Penalties

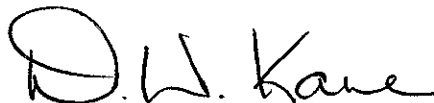
SBOA reported IDHS incurred late payment penalties in FY14 and FY15.

Agency Response –

IDHS has made progress in reducing late fees, however our efforts have not been completely successful. We have stressed internal management control of this topic with senior managers and will continue to strive driving down late payment penalties at every opportunity. Additional training and guidance will be delivered to agency personnel regarding processing invoices timely.

Thank you again for the assistance of the State Board of Accounts in connection with these issues. We are grateful for your assistance in helping IDHS to improve our business operations.

Sincerely,



David W. Kane
Executive Director

cc: John Hill
Beth Hampshire

INDIANA HOMELAND SECURITY FOUNDATION
March 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	John Hill David Kane	01-14-13 to 11-23-14 11-24-14 to 01-08-17

There were no issues identified during this review that warranted written comment.

INDIANA HORSE RACING COMMISSION
January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Joseph Gorajec	07-01-10 to 02-01-15
	Michael D. Smith	02-02-15 to 06-30-17
Chairman	William Diener	07-02-12 to 09-30-14
	Thomas Weatherwax	10-01-14 to 09-30-17

There were no issues identified during this review that warranted written comment.

INDIANA DEPARTMENT OF INSURANCE
January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commissioner	Stephen W. Robertson	10-12-10 to 01-08-17

LATE PAYMENT PENALTIES

The Indiana Department of Insurance (IDOI), paid late payment penalties to vendors and charged to accounts of the IDOI as a result of untimely payment of claims. This resulted in fees of \$2,808 for calendar year 2014 and \$13,304 for calendar year 2015, after adjustments and refunds were made. These penalties are an unnecessary use of public funds.

Indiana Code 5-17-5 requires a state agency to: ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, good and services, equipment, and travel whenever the state agency fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview--General Guidelines and Policy)

COLLECTION OF EXAMINATION FEES

Each insurance company that conducts business within the State of Indiana is subject to an examination at least once every three to five years. The Indiana Department of Insurance (IDOI) retains independent examination firms, other professionals and agency staff to conduct examinations of insurance companies. For audit services performed by independent examination firms or other professionals, these firms invoice IDOI for all audit costs. Invoices are "approved" by IDOI, and forwarded to the examined insurance company, who makes payment directly to the retained firm. For audit services conducted by agency staff, IDOI will bill the insurance company for all audit costs of the state employee.

To ensure proper internal controls and accountability over public funds, IDOI should collect payment from the examined companies for the costs of required audits, and deposit the funds into state accounts. The expenses related to the audits, whether the audits are performed by state employees or performed by IDOI retained firms or professionals, should be paid directly from IDOI funds.

A similar comment appeared in the prior Report.

According to Indiana Code 27-1-3.1-9(d), the Commissioner of Indiana Department of Insurance (IDOI) is empowered to retain Independent CPAs, other professionals and specialists as examiners. The cost of retaining these examiners shall be borne by the company that is the subject of the examination.

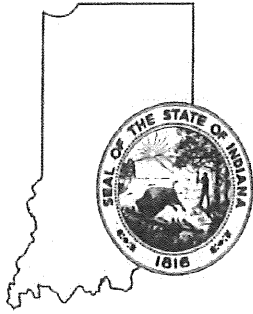
INDIANA DEPARTMENT OF INSURANCE

January 1, 2014 to December 31, 2015

(Continued)

In an Attorney General advisory letter issued to the State Board of Account's State Examiner on January 16, 2002, and subsequently forwarded to the Commissioner of the Department of Insurance, the Office of the Attorney General stated: "Although it may be expedient to have the company pay individuals directly, the statute does not contemplate such a process." The Attorney General also indicated that, because outside consultants function as agents of the IDOI, "Consultants retained by the department should be compensated by the department even though it is the ultimate responsibility of the companies that are being examined to reimburse the department for those costs."

Each agency is responsible for compliance with applicable statutes, regulations, contract provisions, and state policies. Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governing Accounting Standards Board, Financial Accounting Standards Board, and other standard setting bodies and also with various accounting guides, manuals, and other publications. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)



STATE OF INDIANA

IDOI

MICHAEL R. PENCE, Governor

Indiana Department of Insurance

311 W. Washington Street, Suite 103

Indianapolis, Indiana 46204-2787

Telephone: (317) 232-2385

Fax: (317) 232-5251

Stephen W. Robertson, Commissioner

September 21, 2016

Paul Joyce, State Examiner
STATE BOARD OF ACCOUNTS
302 West Washington Street, Room E418
Indianapolis, Indiana 46204-2769

Re: Indiana Department of Insurance ("IDOI") Response to Written Comments of
Audit

Dear Examiner Joyce:

This letter contains the Indiana Department of Insurance's Official Response to the State Board of Accounts Audit Results and Comments as presented to the Indiana Department of Insurance on September, 2016. We are happy to see that your examiners found our activities to be in all material respects in conformity with applicable requirements, except for those few findings noted below. The State Board of Accounts' findings and comments appear in bold, with IDOI's responses following in plain text.

LATE PAYMENT PENALTIES

During our review of the Indiana Department of Insurance (IDOI), we identified late payment penalties paid to vendors and charged to accounts of the IDOI as a result of untimely payment of claims. This resulted in fees of \$2,808 for calendar year 2014 and \$13,304 for calendar year 2015 after adjustment and refunds were made. These penalties are an unnecessary use of public funds.

Indiana Code 5-17-5 requires a state agency to: ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, good and services, equipment, and travel whenever the state agency fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES (317) 232-2413 COMPANY COMPLIANCE (317) 233-0697 CONSUMER SERVICES (317) 232-2395 EXAMINATIONS/FINANCIAL SERVICES (317) 232-2390 MEDICAL MALPRACTICE (317) 232-2402 SECURITIES/COMPANY RECORDS (317) 232-1991 STATE HEALTH INSURANCE PRO 1-800-332-4674

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview--General Guidelines and Policy)

The IDOI agrees with the examiner's conclusions and, prior to the examination, has shown improvement in this area. We will continue to monitor compliance with internal policies requiring timely review and transmission of invoices for payment.

COLLECTION OF EXAMINATION FEES

As stated in our prior reports, every insurance company that conducts business within the State of Indiana is subject to an examination at least once every three to five years. The Indiana Department of Insurance (IDOI) retains independent examination firms, other professionals and agency staff to conduct examinations of insurance companies. For audit services performed by independent examination firms or other professionals, these firms invoice IDOI for all audit costs. Invoices are "approved" by IDOI, and forwarded to the examined insurance company, who makes payment directly to the retained firm. For audit services conducted by agency staff, IDOI will bill the insurance company for all audit costs of the state employee.

To ensure proper internal controls and accountability over public funds, IDOI should collect payment from the examined companies for the costs of required audits, and deposit the funds into state accounts. The expenses related to the audits, whether the audits are performed by state employees or performed by IDOI retained firms or professionals, should be paid directly from IDOI funds.

According to Indiana Code 27-1-3.1-9(d), the Commissioner of Indiana Department of Insurance (IDOI) is empowered to retain Independent CPAs, other professionals and specialists as examiners. The cost of retaining these examiners shall be borne by the company that is the subject of the examination.

In an Attorney General advisory letter issued to the State Board of Account's State Examiner on January 16, 2002, and subsequently forwarded to the Commissioner of the Department of Insurance, the Office of the Attorney General stated: "Although it may be expedient to have the company pay individuals directly, the statute does not contemplate such a process." The Attorney General also indicated that, because outside consultants function as agents of the IDOI, "Consultants retained by the department should be compensated by the department even though it is the ultimate responsibility of the companies that are being examined to reimburse the department for those costs."

Each agency is responsible for compliance with applicable statutes, regulations, contract provisions, and state policies. Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governing Accounting Standards Board, Financial Accounting Standards Board, and other standard setting bodies and also with various accounting guides, manuals, and other publications. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Once again, our position has not changed since our last audit. We urge the State Board of Accounts to consider these arguments at its next review rather than parroting previous concerns.

Domestic insurance companies are subject to a financial examination on a regular or emergency basis every three to five years. market conduct examinations are on an as needed basis to verify the behavior of the company in the marketplace as to unfair claims and unfair trade practices, and include domestic, foreign, and alien insurers doing business in the state. Both exams are accomplished pursuant to Ind. Code § 27-1-3.1 *et. seq.* (the "Exam Statute") and conducted in accordance with National Association of Insurance Commissioners (NAIC) Handbooks, as required by Ind. Code § 27-1-3.1 -9(a) ("In conducting the examination, the Commissioner shall observe those guidelines and procedures set forth in the NAIC examiner's handbook.").

The examinations statute was developed via IDOI's participation with the NAIC (*see* Ind. Code § 27-1-1-2) as a model law similarly adopted by the legislators of many states. The development of this model and its eventual adoption by the Indiana legislature reflects the unique role of IDOI as a member of the NAIC and the public policy associated with the unfettered gathering of information via the use of an executed examination warrant. Insurance is a significant thread in the fabric of our economy and must be able to provide the protection contracted for when a peril arises. So, the Commissioner's authority to **appoint** examiners must be preserved to facilitate the protection of Indiana citizens, even at times when internal budget restrictions may otherwise inhibit IDOI's ability to confirm the solvency of an insurer or verify compliance with statutes designed to protect the industry and insuring public from harm. Those who designed the model and wisely adopted the model recognized three things when they crafted the following language:

“The cost of retaining these examiners shall be borne by the company that is the subject of the examination” Ind. Code § 27-1-3.1-9(d).

- 1) The appointment of examiners and others pursuant to an exam must be distinct from the other budgetary operations of IDOI so as not to adversely impact IDOI’s operations. A ‘subject’ company’s inability or chosen reluctance to pay an examination related bill would put a financial burden on IDOI and have an impact never anticipated by the legislature in its adoption of this model law.
- 2) The ‘subject’ company must not be able to impair IDOI’s review or scrutiny, by delaying or withholding payment to examiners and adversely impacting IDOI’s investigative authority or decision making. The use of the word ‘*shall*’ by the legislature left no room for variation on the issue of costs.
- 3) The Commissioner must have the flexibility to act in an expedient manner.

The use of the appointment mechanism was purposeful and allows for an extension of the Commissioner’s authority and flexibility of assignment of an examiner relative to a unique specialty or purpose.

Therefore, should IDOI, at any time pay an examiner directly, even anticipating next day reimbursement from the subject company IDOI has “borne the cost of the exam” and **done so in contravention of the statute.**

Implementing SBA’s suggested interpretation of Ind. Code § 27-1-3.1 would put IDOI in violation of Indiana law and would make IDOI responsible for payment of the examiners’ expenses. In the event of a slow payment or default on payment by the insurer, the suggested interpretation would result in IDOI being financially liable for payment, and then IDOI would need to seek repayment by the examined entity. Slow or no reimbursement would significantly inhibit IDOI’s ability to perform its statutory audit and examination functions. A circumstance of slow payment is not unusual, especially with financially troubled companies. Under our current budget IDOI is unable to make payments to the examiner until receiving payment from the company. Our budget would need to be increased to allow for the possibility of default or delays. Under the current system, IDOI does not believe that it is responsible to the examiner if the insurer fails to pay. The examiner’s remedy is with the company rather than IDOI. IDOI takes steps

to ensure the examiner is aware of this fact and the examiner, in the engagement letter, acknowledges that IDOI is not responsible for payment of the expenses. All examination expenses are reviewed by IDOI and approved before being sent to the company for payment.

Outside examiners now conduct more than 95% of IDOI's financial and market conduct examinations. IDOI's ability to perform examinations could be severely limited by the recommended change. The potential consequences are significant, including but not limited to the loss of accreditation with the NAIC. Loss of accreditation results in IDOI's inability to fulfill its statutory obligations and potential loss of Indiana businesses to an accredited state.

Furthermore, the 2002 Attorney General "Opinion" cited above is not an Official Advisory Opinion, but rather an Advisory Letter. This letter fails to analyze or even mention Ind. Code § 27-1-3.1-9(a), quoted above. It is a well-established tenant of Indiana law that when two statutes conflict, the more specific provision controls over the more general one. *See, e.g., Grether v. Indiana State Board of Dental Examiners*, 159 N.E.2d 131 (Ind. 1959); *Lockard v. Miles*, 882 N.E.2d 288 (Ind. Ct. App. 2008) The Exam Statute is the more specific; therefore, it controls over other more general statutes, administrative rules, and guidebooks.

I want to take this opportunity to thank you for your staff's professionalism and efficiency during this audit.

Sincerely,

A handwritten signature in black ink that reads "Stephen W. Robertson". The signature is written in a cursive, flowing style and is positioned above the printed name.

Stephen W. Robertson

Indiana Insurance Commissioner

INDIANA DEPARTMENT OF LABOR
January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commissioner	Rick Ruble	11-04-13 to 01-08-17

CAPITAL ASSET ADDITIONS

During our testing of disbursements for Indiana Department of Labor, we identified that a contract of \$150,000 with Assured Consulting Service for the design, development, configuration, and support of implementation of software interface module was not capitalized as computer software, but instead was written off as a contractual expenditure.

Computer Software is an intangible asset subject to capital assets reporting pursuant to GASB 51, Accounting and Financial Reporting for Intangible Assets. Computer software is to be reported under category code 553. (State of Indiana Capital Asset Policy, page 4)

Agency personnel are responsible for accountability for all assets under their control, including capital assets. Adequate asset management staff should be assigned to recording and maintaining, on the ENCOMPASS financial system, all capital assets with a cost of \$500 or more. Assets are automatically capitalized upon approval by either the BU approver or AOS approver. Controls should be in effect to assure that additions, disposals, and transfers to other departments or agencies are recorded timely. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.3)

CAPITAL ASSET INVENTORY

The Indiana Department of Labor did not conduct an annual inventory for fiscal year 2015.

Each year a physical inventory is to be taken and compared to the master listing from the ENCOMPASS Asset Management system. This helps to ensure the asset inventory is accurate and that assets have not left the agency without authorization. It also aids in identifying unused or obsolete assets. Evidence of the physical inventory must be maintained in the agency's records.

To certify the inventory has been performed, the following information will be included in the ENCOMPASS Asset Management system utilizing the Location and Custodian sections and the authorized section of the Location and Custodian tabs:

- The date of the physical inventory.
- The current location.
- The current custodian (last name, first name) of the assets in inventory.
- The person performing the inventory.
- The authorization date.

(Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Capital Asset Accounting, Chapter 8.4)



Indiana

Department of Labor

Advancing the safety, health and prosperity of Hoosiers in the workplace

MICHAEL R. PENCE, GOVERNOR
Rick J. Ruble, Commissioner

402 West Washington Street, Room W195
Indianapolis, Indiana 46204-2751

Phone: (317) 232-2655
Fax: (317) 233-3790

May 26, 2016

Indiana State Board of Accounts
Attn: Kelson Moran
302 West Washington Street, Room E 418
Indianapolis, Indiana 46204

Official Response to audit of Indiana Department of Labor January 1, 2014 through December 31, 2015

The Indiana Department of Labor agrees with your findings and files its individual responses to each written comments.

Capital Asset Additions

We have capitalized OSHA Express as computer software in ENCOMPASS and is waiting for Auditor of State's office to approve the transaction. Asset ID is 000000001931.

Annual Physical Inventory

We plan to conduct this year's (FY16) annual audit next week. Going forward the annual audit will be conducted during the annual agency wide fall or spring meeting as it had been in the past.

Indiana department of Labor is in the process of implementing all the recommended guidelines set forth in the report and appreciates the work of the State Board of Accounts in helping us to improve our accounting procedures and controls.

LARUE D. CARTER MEMORIAL HOSPITAL

April 1, 2012 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Secretary of Family and Social Services Administration	Debra Minot	02-25-13 to 07-01-14
	(Vacant)	07-02-14 to 07-06-14
	Michael Gargano	07-07-14 to 07-20-14
	Dr. John Wernert	07-21-14 to 01-08-17
Superintendent	Dr. Peggy Stephens	11-17-13 to 01-25-14
	Eric Heeter	01-26-14 to 10-04-15
	Eric Carpenter	10-05-15 to 08-11-16
	Robert Clover	08-12-16 to 06-30-17

LATE PAYMENT PENALTIES

Larue D. Carter Memorial Hospital (LCSH) paid late payment penalties to vendors and charged to accounts of the LCSH as a result of untimely payment of claims. This resulted in fees of \$539 for calendar year 2014 and \$8,936 for calendar year 2015. These penalties are an unnecessary use of public funds.

A similar comment appeared in the prior Report.

Indiana Code 5-17-5 requires a state agency to: ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, good and services, equipment, and travel whenever the state agency fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview--General Guidelines and Policy)

INTERNAL CONTROLS OVER FUNDS AND MONTHLY REPORTS

A review of the Larue D. Carter Memorial Hospital Trust fund and Recreation fund identified that no monthly report or bank reconciliation was prepared for the final six months of the review period, from July 2015 to December 2015.

Each institution should file monthly financial statements for its local funds with the state agency having administrative control over the institution. Institutions must use the official approved form applicable to their state agency. Changes may not be made to the approved form without approval of the State Board of Accounts. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 12.4.7 Monthly Financial Information)

LARUE D. CARTER MEMORIAL HOSPITAL

April 1, 2012 to December 31, 2015

(Continued)

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 & Policy, Section IV)

Supervision is the ongoing oversight, management and guidance of an activity by designated employees to help ensure the results of the activity achieve the established objectives. Those with the responsibility for supervision should:

- Assign tasks and establish written procedures for completing assignments.
- Systematically review each staff member's work.
- Approve work at critical points to ensure quality and accuracy.
- Provide guidance and training when necessary.
- Provide documentation of supervision and review (for example, initialing examined work).

(Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 2.3)

UNCLAIMED PROPERTY

The Larue D. Carter Memorial Hospital Patient Trust Fund contained 7 inactive accounts for individuals discharged prior to December 31, 2014, whose account had a balance greater than zero in the Trust Fund Ledger.

A similar comment appeared in the prior Report.

Indiana Code 32-34-1-20(c) provides that property that is held, issued, or owed in the ordinary course of a holder's business is presumed abandoned if held by a state or other government, governmental subdivision or agency, or public corporation or other public authority one (1) year after the property becomes distributable.

Indiana Codes 32-34-1-26 and 27 require a holder of property that is presumed abandoned and that is subject to custody as unclaimed property to report in writing and pay or deliver the property to the Attorney General.

CAPITAL ASSET DISPOSALS

A sample of 15 ENCOMPASS Asset Management (AM) asset retirements made in 2014 and 2015 contained the following issues:

- LCMH could not provide documentation explaining why five asset disposals are listed in AM as "Missing Assets."

LARUE D. CARTER MEMORIAL HOSPITAL

April 1, 2012 to December 31, 2015

(Continued)

- Ten asset disposals listed in AM as being sent to State Surplus could not be evidenced as such by a signed and approved Notification of Surplus State-Owned Property form, or other documentation from the agency.

Agency personnel are responsible for accountability for all assets under their control, including capital assets. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.3)

All transfers, sales, retirements and other disposals of capital assets must be processed through and approved by State Surplus Property division of IDOA by submitting Form 13812, Notification of Surplus State-Owned Property. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.4)



Michael R. Pence, Governor
State of Indiana

***Larue D. Carter Memorial Hospital
Division of Mental Health and Addiction***

2601 COLD SPRING ROAD
INDIANAPOLIS, IN 46222-2202
317-941-4052
FAX: 317-941-4244

November 1, 2016

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

Dear State Board of Accounts:

This letter represents Larue D. Carter Memorial Hospital and the Family and Social Services Administration's response to Written Comments identified in the review conducted for the period April 1, 2012 to December 31, 2015. If you have any questions, please contact me at your earliest convenience.

Sincerely,

Robert Clover
Superintendent
Larue D. Carter Memorial Hospital





Michael R. Pence, Governor
State of Indiana

Larue D. Carter Memorial Hospital
Division of Mental Health and Addiction

2601 COLD SPRING ROAD
INDIANAPOLIS, IN 46222-2202
317-941-4052
FAX: 317-941-4244

RE: Official Response to Audit

Internal Controls over Funds and Monthly Reports

Contact Person: Justissa Elion-Epon
Title of Contact: Business Administrator
Phone: 317-941-4052

Response to Comments:

As mentioned in the finding that monthly reports and bank reconciliation were not prepared for the last 6 months between the time periods of July 2015 to December 2015. This was due to staff turnover between those time periods. Since then, Larue D. Carter Memorial Hospital has gained back internal control over patient funds and has been preparing and maintaining monthly reports. Moreover, Larue D. Carter Memorial Hospital is currently in the process of implementing safeguard controls, written policies and procedure of handling funds in accordance with the Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies.

Unclaimed Property

Contact Person: Justissa Elion-Epon
Title of Contact: Business Administrator
Phone: 317-941-4052

Response to Comments:

Larue D. Carter Memorial Hospital will identified all patient trust fund inactive accounts for those individuals discharged prior to December 31st, 2014 and remit to the office of the Attorney General. As a corrective action plan, Larue D. Carter Memorial Hospital will establish a





Michael R. Pence, Governor
State of Indiana

Larue D. Carter Memorial Hospital
Division of Mental Health and Addiction
2601 COLD SPRING ROAD
INDIANAPOLIS, IN 46222-2202
317-941-4052
FAX: 317-941-4244

procedure for reviewing patient trust inactive accounts in an ongoing basis to ensure all inactive accounts are remitted to the Attorney General in a timely manner.

Late Payment Penalties

Contact Person: Scott Blake
Title of Contact: Director of Administrative Services
Phone: (317) 234-1488

Response to Comments:

If you have ever been part of running an Accounts Payable department, you know how much effort and work goes in to the resolution of invoice matching issues. Once the purchase is made, matching issues can create a bottleneck in paying the supplier on time. Starting from the simplest issue, such as missing receipts, to an inter-intra-multi business unit/departmental issue, finding and formulating a resolution process can be both challenging and time consuming.

FSSA constantly works on managing and reducing the risk of late payments to our vendors and service providers. However, with existing business processes and the number of payments made on an annual basis, there are always possible delays that make the agency particularly vulnerable to late payments. FSSA Administrative Services staff diligently checks got outstanding contract claims and sends reminders to business units before the approaching deadline attempting to retrieve documents for timely payment.

As a way to prevent processing bottlenecks, FSSA is moving toward an invoice management solution that will assist with paper invoices and procedural constraints resulting from staff required to physically move invoices through the agency. We are piloting the solution with the Indiana Auditor of State's office with anticipated implementation during the second quarter of





Michael R. Pence, Governor
State of Indiana

Larue D. Carter Memorial Hospital
Division of Mental Health and Addiction

2601 COLD SPRING ROAD
INDIANAPOLIS, IN 46222-2202
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calendar year 2017. With automatic document and data capture, automated matching, and online coding and authorization, the whole process will be streamlined.

Disposal of Capital Assets

Contact Person: Scott Blake
Title of Contact: Director of Administrative Services
Phone: (317) 234-1488

Response to Comments:

Administrative Service will reiterate to FSSA State Operated Facilities Asset Management (AM) Coordinators that during the annual inventory all tag numbers, serial numbers, locations, and custodians should be confirmed or changes reported. Any changes reported must be updated in Encompass in a timely manner. Any missing or worn tag numbers should be replaced with new tags and the change updated in Encompass.



INDIANA LAW ENFORCEMENT TRAINING BOARD

April 1, 2012 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Rusty K. Goodpaster	12-14-05 to 12-15-17
Chairman	Paul Whitesell	01-01-08 to 12-31-12
	Douglas Carter	01-01-13 to 01-08-17

CAPITAL ASSET INVENTORY

The Law Enforcement Training Board (LETB) did not maintain documentation providing evidence that complete annual capital asset physical inventories were conducted each year during the review period. Based on review of internal agency documentation and ENCOMPASS Asset Management (AM), we determined that not all assets were confirmed to be in possession of the agency. AM queries indicate that 30 of the 1018 agency owned assets, with a sum cost of \$68,956, have not been updated as to Custodian or Location effective dates.

A similar comment appeared in the prior Report.

Each year a physical inventory is to be taken and compared to the master listing from the ENCOMPASS Asset Management system. This helps to ensure the asset inventory is accurate and that assets have not left the agency without authorization. It also aids in identifying unused or obsolete assets. Evidence of the physical inventory must be maintained in the agency's records.

To certify the inventory has been performed, the following information will be included in the ENCOMPASS Asset Management system utilizing the Location and Custodian sections and the authorized section of the Location and Custodian tabs:

- The date of the physical inventory.
- The current location.
- The current custodian (last name, first name) of the assets in inventory.
- The person performing the inventory.
- The authorization date.

(Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, Chapter 8.4)



Law Enforcement Training Board

PO Box 313
Plainfield, Indiana 46168-0313


Phone 317/839-5191
Fax 317/839-9741

www.in.gov/ilea

OFFICIAL RESPONSE

October 4, 2016

TO: State Board of Accounts

FROM: Rusty K. Goodpaster, Executive Director 
Law Enforcement Training Board/Indiana Law Enforcement Academy

SUBJECT: Official Response to State Board of Accounts Audit

This is in response to the Communication of Agency Specific Comments, dated September 28, 2016 for the audit completed in September.

The one written comment was in regard to our **Capital Asset Physical Inventory** not being completed as required.

This has been an ongoing project over the last two years and we have made progress but are still not up to date. This has been due to several personnel changes within the Business Office and other departments which resulted in changes in duties. However, we are in the process of reinforcing the importance of the annual physical inventories and have plans to have an updated fixed asset training session for employees to prevent items from being disposed of without following all of the required steps.

In addition, we were advised by the gentlemen that met with us for the "Exit Interview" that they would send us the Encompass link that will enable us to be able to query our fixed asset information. We feel that this will also assist us in insuring that our records are brought up to date.

We are confident that the fixed asset records will be up to date when the next audit is performed.

If you have any questions, please contact Kathy J. Long at 317/837-3242 or klong@ilea.in.gov.

Thank you.

RKG:ms

Cc: Rusty K. Goodpaster, Executive Director
Michel Lindsay, Deputy Director
Kathy J. Long, Director of Support Services
Lori Sipos, Business Administrator

OFFICE OF THE LIEUTENANT GOVERNOR
January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Lieutenant Governor	Honorable Sue Ellspermann	01-14-13 to 03-02-16
	Honorable Eric Holcomb	03-03-16 to 01-08-17

There were no issues identified during this review that warranted written comment.

LOGANSPORT STATE HOSPITAL
June 1, 2012 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Secretary of Family and Social Services Administration	Debra Minot	02-25-13 to 07-01-14
	(Vacant)	07-02-14 to 07-06-14
	Michael Gargano	07-07-14 to 07-20-14
	Dr. John Wernert	07-21-14 to 01-08-17
Superintendent	Robert E. Clover	03-20-11 to 07-21-13
	Richard Daryl Hall (interim)	07-22-13 to 01-24-14
	Robert E. Clover	01-28-14 to 08-15-16
	Richard Daryl Hall (interim)	08-16-16 to 12-31-16

SDO ADVANCE

Logansport State Hospital (LSH) did not consistently use either of its two Special Disbursing Office (SDO) advances within one or two months. During the review period, the agency maintained two separate SDO accounts, LPN 3901 and LPN 4527, which had the following activity:

- LPN 3901 (advance amount of \$12,000) was not used in a two year period and should be closed.
- LPN 4527 (advance amount of \$15,000) did not have the total of its advance used within one or two months and should be reduced. In a two year period, LSH had only \$4,000 of expenditures, out of the total available \$15,000 SDO advance amount. The SDO should be reduced or closed.

Whenever an SDO fund is established, money is removed from a Treasurer of State bank account, thus, not being invested. Therefore, consideration should be given to the size of the SDO fund. If an agency is not using the total SDO advance within one or two months, the SDO advance is too large and should be reduced. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

If no activity in a 24 month period in the SDO account, the account must be closed and the advance returned to the AOS as described in 6.4.10.11. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

INTERNAL CONTROLS OVER REVENUES

We identified the following deficiencies in internal controls over revenues collected by the Logansport State Hospital (LSH):

- The LSH did not maintain a Cash Book, as required by Indiana Code. Cash and checks were not recorded at receipt. Without a Cash Book, we were unable to determine compliance with the daily deposit law and other state code and policy requirements.
- The LSH did not have sufficient segregation of duties over its cash receipts. One staff member was able to receive, record, and deposit cash receipts. This exposes the agency to increased risk of fraud or misstatement.

LOGANSPOUR STATE HOSPITAL
June 1, 2012 to December 31, 2015
(Continued)

Indiana Code (IC) 5-13-5-1(a) states in part:

"Every public officer who receives or distributes public funds shall:

- (1) keep a cashbook into which the public officer shall enter daily, by item, all receipts of public funds; . . ."

Indiana Code (IC) 5-13-6-1(b) states in part:

". . . all public funds collected by state officers . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state, not later than the business day following the receipt of the funds . . . Deposits do not relieve any state officer from the duty of maintaining a cashbook under IC 5-13-5-1."

Indiana Code 5-13-4-20 defines public funds as: "all fees and funds of whatever kind or character coming into the possession of any public officer by virtue of that office. . . ."

If money is received on a regular basis, some type of cash book (paper or electronic) is required (See 4.1.2). This cash book must list the revenue by classification and amount in detail. Noting cash and checks separately is helpful for reconciliation to the final Report of Collection. The cash book may include the receipt number or daily summaries from a source document or data processing listing. The amount deposited with the Treasurer of State and the corresponding ENCOMPASS Deposit ID must also be shown on the cash book. The process of issuing a receipt and posting the cash receipts journal can be incorporated into one function. Only actual collections of money, whether it be cash, check or money orders, must be included in the cash book. This is a method of assuring that these monies reconcile with the actual deposits with the TOS. Corrections, wire transfers and other bank to bank transfers would not be necessary to include, as no one in the agency actually receives money in these cases. (Accounting and uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.4)

Separation of duties is the division or segregation of key duties and responsibilities among different people to reduce the opportunities for any individual to be in a position to commit and conceal errors, intentional or unintentional, or perpetrate fraud in the normal course of their duties. The fundamental premise of segregated duties is that different personnel should perform the functions of initiation, authorization, record keeping, and custody. No one individual should control or perform all key aspects of a transaction or event. These are called incompatible duties when performed by the same individual. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 2.3)

INDIANA BUREAU OF MOTOR VEHICLES AND MOTOR VEHICLES COMMISSION
January 1, 2015 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commissioner	Donald Snemis Kent Abernathy	01-06-14 to 02-12-15 02-12-15 to 01-08-17

CAPITAL ASSET INVENTORY

The Indiana Bureau of Motor Vehicles did not complete an annual inventory during the review period. While the agency does perform a partial inventory count of warehouse assets, procedures are not performed to verify that the agency asset listing from the State's Asset Management system is accurate and complete.

Each year a physical inventory is to be taken and compared to the master listing from the ENCOMPASS Asset Management system. This helps to ensure the asset inventory is accurate and that assets have not left the agency without authorization. It also aids in identifying unused or obsolete assets. Evidence of the physical inventory must be maintained in the agency's records.

To certify the inventory has been performed, the following information will be included in the ENCOMPASS Asset Management system utilizing the Location and Custodian sections and the authorized section of the Location and Custodian tabs:

- The date of the physical inventory.
- The current location.
- The current custodian (last name, first name) of the assets in inventory.
- The person performing the inventory.
- The authorization date.

(Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.4)

SDO ADVANCE

The Special Disbursing Officer Funds (SDO) advances for Bureau of Motor Vehicles (BMV) and the Motor Vehicle Commission (BMVC) were not turned over for several months. The agency SDO advances are too large and should be reduced.

The BMV SDO advance of \$5,000, used in the central office, turned over only twice in the review period. The majority of the BMVC SDO of \$165,000 is used for cash change drawers at the branch locations or BMV automated service machines. After factoring out the amount needed for cash change drawers and automated service machines, the account still turned over only four times during the review period.

INDIANA BUREAU OF MOTOR VEHICLES AND MOTOR VEHICLES COMMISSION

January 1, 2015 to December 31, 2015

(Continued)

Whenever a SDO fund is established, money is removed from a Treasurer of State bank account, thus, not being invested. Therefore, consideration should be given to the size of the SDO fund. If an agency is not using the total SDO advance within one or two months, the SDO advance is too large and should be reduced. If an agency is reimbursing the total value of the advance more than once monthly, an increase might be warranted. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)



STATE OF INDIANA

Michael R. Pence, Governor

Kent W. Abernathy, Commissioner
Bureau of Motor Vehicles
100 North Senate Avenue
Indianapolis, Indiana 46204
888-692-6841

October 26, 2016

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

Re: BMV Response to SBOA Audit of Calendar Year Ended 12/31/2015

Dear Mr. Joyce:

1. **Capital Asset Annual Inventory:** We acknowledge a physical inventory was not completed for calendar year ended 12/31/15. However, a comprehensive listing of assets is maintained for all assets maintained at the BMV/C and updated as changes occur. We are in the process of performing a physical inventory of BMV Central Office assets and assets located at all 132 Branch locations with a plan on completion by early calendar year 2017.
2. **SDO Advance Amounts:** The BMV/C SDO accounts are maintained at a level to support the agencies. The BMVC continues to add Self-Service Terminals (SST) to it's branch locations. These SST's are similar to ATM's and requires a considerable amount of cash to maintain.

If you have any questions, please contact me at (317) 233-1530.

Sincerely,

Jeffrey H. Moon
Chief Financial Officer
Indiana Bureau of Motor Vehicles

INDIANA STATE PERSONNEL DEPARTMENT
January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	Anita K. Samuel Jon D. Darrow	01-14-13 to 10-18-14 10-18-14 to 01-08-17

There were no issues identified during this review that warranted written comment.

INDIANA STATE POLICE ADMINISTRATION
January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Superintendent	Douglas G. Carter	01-14-13 to 01-08-17

CONTROLS OVER PROCUREMENT CARDS

A sample of 25 procurement card transactions made by the Indiana State Police contained four transactions that were made by an individual other than the cardholder. Receipts which were provided as supporting documentation for the transactions contained signatures of the purchasers, which were not the intended cardholder.

By signing the application and the appropriate Cardholder User Agreement, cardholders agree to:

- Adhere to the guidelines established in this manual, including any updates.
- Not allow anyone to use their card.
- Not use their card for personal use.
- Follow all policies, procedures, and statutes governing purchasing and travel activities for the State of Indiana.

(State of Indiana Procurement Card and Travel Card Program Agency Program Administrator and Cardholder User Manual, page 9)

The only person entitled to use a Procurement Card is the person whose name appears on the face of the card. A Procurement Card and Travel Card must not be loaned to another person for use. (State of Indiana Procurement Card and Travel Card Program Agency Program Administrator and Cardholder User Manual, page 20)

CLASSIFICATION OF ACCOUNTING TRANSACTIONS

In four separate tests of Indiana State Police expenditures, we identified errors in posting to the correct account, as described below:

- A sample of 25 procurement card transactions contained one transaction for pipe fittings, nuts, and bolts that was recorded to a Weed Bush Chemical account. This transaction should have been recorded to a supplies or parts account.
- A sample of 25 travel card transactions contained eight that were recorded to incorrect accounts. Seven transactions for registration fees paid directly to vendors, on behalf of employees traveling for business, were posted to the AdmOp-EmpReimb-Registration account. These transactions should have been recorded to AdmOp-Registration. The eighth transaction was for an employee hotel expense which was recorded to InState Travel - Per Diem & Meal. This transaction should have been recorded to InState Travel - Lodging.

INDIANA STATE POLICE ADMINISTRATION

January 1, 2014 to December 31, 2015

(Continued)

- A sample of 25 general disbursement transactions contained one transaction for winning fees that was recorded to the AdmOp-Freight & Express account. This transaction should have been recorded to a motor vehicle account.
- A sample of 25 capital cost purchases contained one transaction for recorder maintenance services that was recorded to the manufacturing equipment account. This account is a capital cost account, which caused the transaction to appear as a capital asset addition. The transaction should have been recorded to a services account.

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

- Maintain an adequate internal control environment.
- Maintain adequate internal control procedures.
- Properly utilize the state accounting system as prescribed by the ENCOMPASS Steering Committee.
- Maintain an effective and accurate accounting system for necessary subsidiary and supplementary records. . . .

(Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, General Guidelines & 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 management's 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, IV)

CAPITAL ASSET DISPOSALS

A sample of 15 asset retirements made by the Indiana State Police (ISP) contained 12 assets that were sent to State Surplus, as evidenced by State Form 13812. The retirements were not recorded in ENCOMPASS Asset Management (AM) in a timely manner. Delays up to 204 days were noted. The ISP capital assets were incorrectly classified as in service, despite being sent to State Surplus prior to the fiscal year end, overstating capital assets for the fiscal year.

Additionally, another asset in the sample was classified as retired in AM even though the item remained in the possession of the ISP at one of its facilities. As a result of our inquiries, the ISP further identified 21 similar assets that had been retired in AM but were still in the possession of the ISP. The ISP has since sent the assets to State Surplus.

INDIANA STATE POLICE ADMINISTRATION
January 1, 2014 to December 31, 2015
(Continued)

Agency personnel are responsible for accountability for all assets under their control, including capital assets. Adequate asset management staff should be assigned to recording and maintaining, on the ENCOMPASS financial system, all capital assets with a cost of \$500 or more. Assets are automatically capitalized upon approval by either the BU approver or AOS approver. Controls should be in effect to assure that additions, disposals, and transfers to other departments or agencies are recorded timely. Inventories of these assets should be performed each year in each department and compared to the ENCOMPASS listing. Results of inventories should be retained for audit purposes. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.3)

SDO TRANSACTIONS

A sample of 25 Special Disbursing Officer (SDO) transactions made by the Indiana State Police (ISP) contained 14 transactions that were unallowable uses of the SDO account. The following unallowable purchases were identified:

- Two purchases for uniform alterations paid directly to a vendor.
- Four purchases for utility or other reoccurring type payments.
- Seven purchases for vehicle expenses.
- One purchase for cleaning supplies for a product available from a QPA.

SDO funds shall NOT be spent on:

- Items available on any Quantity Purchase Agreement (QPA).
- PEN Products or other prison industry products.
- Printing services above \$500 without justification from IDOA.
- Items or services procured on an encumbered purchase order contract.
- Advance payments, except as authorized by IC 4-13-2-20(a)and(b).
- Items that could be more economically or effectively procured by use of competitive bidding or quotations.
- Personal items and alcoholic beverages, escort services, furs, jewelry, movie rentals.
- Travel related expenses such as hotel charges and vehicle rentals; vehicle expenses such as repair, parking, fuel purchases.
- Capital assets.
- Gift cards or gift certificates.
- Awards or prizes.

INDIANA STATE POLICE ADMINISTRATION
January 1, 2014 to December 31, 2015
(Continued)

- Utility payments.
- Restaurants or food, entertainment.
- Any other items required to be purchased through ePro, as defined in the STREAMLINING Delegation of Purchasing Authority Program, which is available at www.in.gov/idoa/3341.htm.

(Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

EMPLOYEE AND SUPERVISOR APPROVALS ON TIME CARDS

The Indiana State Police (ISP) utilizes hard copy Sworn Employee Attendance and Civilian Employee Attendance records (time cards). Employees and their immediate supervisor are responsible for approving the hours worked by the employee during each pay period. Additionally, the employee and supervisor are responsible for approving the time card cover sheet containing balances for leave time at the conclusion of each calendar year. A sample of 25 time cards for employees of the ISP were tested for the review period. We identified the following issues:

- One employee time card did not have the supervisor approval for 20 pay periods in 2014 and 4 pay periods in 2015. Additionally, this employee did not certify their own time for 13 pay periods in 2015.
- Another employee time card did not have the supervisor approval for two pay periods in 2014 and one pay period in 2015.

The ISP Standard Operating Procedure HMR-008 states in part: "Original signatures are required on all cards for the employee and the reviewing officer. Substitute signatures (with initials of the signer), typed names, or stamped signatures are not permitted; . . ."

SDO ADVANCE

The Indiana State Police (ISP) utilizes a Special Disbursing Officer (SDO) account with an advance of \$25,000. The ISP has separated \$12,250 of the advance into 20 petty cash accounts which are being used at district offices, district labs, and agency departments. The remaining \$12,750 is maintained in the main SDO advance account. The agency is not expending the total of the SDO advance within one or two months.

A similar comment appeared in the prior Report.

For calendar year 2014, the main SDO account advance of \$12,750 was not turned over for five months, while the total advance of \$25,000 did not turn over for the entire calendar year. For calendar year 2015, neither the main SDO account advance nor the total advance turned over for the entire calendar year.

Whenever a SDO fund is established, money is removed from a Treasurer of State bank account, thus, not being invested. Therefore, consideration should be given to the size of the SDO fund. If an agency is not using the total SDO advance within one or two months, the SDO advance is too large and should be reduced. If an agency is reimbursing the total value of the advance more than once monthly, an increase might be warranted. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 6.4)

INDIANA STATE POLICE ADMINISTRATION
January 1, 2014 to December 31, 2015
(Continued)

COMMUTE IN STATE VEHICLE MILEAGE RECORDS

Reports of Vehicle Mileage and Costs (State Form 13696) were not being maintained by civilian personnel and retained by the agency for review purposes. During the review period, the Indiana State Police (ISP) began tracking civilian commuting through the use of documents created by ISP departments. The documents were not maintained for the entire review period and were not consistent amongst different departments. Additionally, the documents did not contain all of the necessary criteria listed on the State Form 13696. The various department created documents were missing a portion or all of the following items: odometer readings, commuting miles, days commuted, gasoline costs, oil costs, maintenance costs, employee signature, and supervisor signature. Due to the inconsistency of the documentation completed by commuters, we were unable to verify that commuting was correctly recorded as a taxable fringe benefit.

Agencies must complete State Form 13696 (Report of Vehicle Mileage and Cost) each month for all titled and plated motorized vehicles. Agencies with access to M5 must enter the meter usage into the M5 system each month. Agencies without access to M5 must forward the forms to IDOA Fleet Services. Agencies may substitute their own agency-generated vehicle mileage form in lieu of SF13696, provided that the required information is captured and entered into M5 monthly. A link to the SF 13696 is provided in Section VII-B-4. (State of Indiana Vehicle Fleet Management Policy, page 11)

TIMELINESS OF TRAVEL ADVANCE REPAYMENTS

The Indiana State Police (ISP) utilizes a Special Disbursing Officer (SDO) account to pay travel advances to employees traveling on agency business who cannot pay with personal funds. After traveling, employees must submit supporting documentation for the travel expenses to the agency travel administrator for reimbursement. Once the employee has been reimbursed for their travel expenses, the employee has seven days to repay the travel advance to the ISP SDO fund. As of December 31, 2015, the ISP SDO account had outstanding travel advances in the amount of \$4,680. Supporting documentation for the travel advances indicated that the advances were not being paid back by employees within seven days of receiving travel reimbursement. Delays up to 118 days were identified. If all travel advances as of December 31, 2015, would have been reimbursed within the seven day timeline, the outstanding amount of travel advances would have been \$2,698.

The ISP Standard Operating Procedure FIS-003: Travel - Requests and Reimbursements, effective January 15, 2015, states in part:

" . . . F. Requests for travel advances.

1. Individuals wishing to receive advanced payment for travel expenses; such as rental car fees and/or lodging must submit a request memo, through channels, to the Director of the Fiscal Section either with the travel request or after the travel has been approved by IDOA, but in no case, closer than ten working days prior to the date the travel begins.
2. The request memo shall detail expenses and hardships that exist to justify the requested advancement.
3. If approved by the Director of the Fiscal Section a check shall be issued to the traveler for the approved amount.

INDIANA STATE POLICE ADMINISTRATION
January 1, 2014 to December 31, 2015
(Continued)

4. Upon completion of travel, the traveler shall submit a Travel Voucher (State Form #980) to include all actual expenses, by item, including those originally covered by the cash advance. Upon receipt of travel reimbursement (by direct deposit) the traveler shall, within seven (7) days, make reimbursement to the Department for the full amount of the cash advance. Reimbursement shall be made by check or money order payable to the Indiana State Police c/o the Fiscal Section. . . ."

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.

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)

INTERNAL CONTROLS OVER REVENUE

We identified the following deficiencies in internal controls over revenues collected and processed by the Indiana State Police (ISP):

- Accident photos are purchased at the ISP district offices. Checks received at the offices are to be provided to the ISP fiscal office within one week of receipt, per guidance of the Treasurer of State office. A sample of 25 days' receipts at the fiscal office contained 6 days with checks received more than one week prior to remittance to the fiscal office. Delays up to 50 days were identified during testing.
- Checks are not restrictively endorsed immediately upon receipt. Checks received from the ISP district offices are not endorsed until they are received in the fiscal office. Therefore, checks are remaining free from endorsement for extended periods of time, while transported via mail to the fiscal office. Additionally, money orders received by the firearms division are not immediately endorsed upon receipt. Rather, money orders are endorsed just prior to the collections being taken to the fiscal office which could be as late as the next morning. The money orders are adequately safeguarded overnight but remain free of restrictive endorsement.
- We tested 25 days' receipts to determine if proper segregation of duties were being followed in the processing of receipts. For 1 of the 25 days tested, we identified that the same employee prepared the Report of Collection (ROC) and made the deposit in the agency check depositing scanner. These duties should be conducted by separate employees. Additionally, for all 25 days, we identified that the employee opening the mail containing checks is not documented. Therefore, we could not verify if proper segregation of duties were being followed during this portion of the receipt process.

INDIANA STATE POLICE ADMINISTRATION

January 1, 2014 to December 31, 2015

(Continued)

- We tested five days' collections for the ISP Museum (Museum). The Museum deposits collections directly into a bank account which is transferred to the Treasurer of State bank account.
 - For one of the five days tested, the Museum did not deposit the daily collections by the next business day. A delay of six days was identified for this day's collections.
 - Four of the five days' collections for the Museum contained cash and checks. For each of the four days, we identified that ISP created an ROC to record Museum revenue in ENCOMPASS later than the end of the next business day after funds were deposited at the bank. Delays up to seven days were identified.

Indiana Code 5-13-6-1(b) states in part:

". . . all public funds collected by state officers . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state, not later than the business day following the receipt of the funds . . . Deposits do not relieve any state officer from the duty of maintaining a cashbook under IC 5-13-5-1."

Indiana Code 5-13-4-20 defines public funds as: "all fees and funds of whatever kind or character coming into the possession of any public officer by virtue of that office. . . ."

Checks should be restrictively endorsed with an endorsement stamp immediately upon receipt. This would occur upon opening the mail or otherwise receiving the instrument (check). (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.3)

Separation of duties is the division or segregation of key duties and responsibilities among different people to reduce the opportunities for any individual to be in a position to commit and conceal errors, intentional or unintentional, or perpetrate fraud in the normal course of their duties. The fundamental premise of segregated duties is that different personnel should perform the functions of initiation, authorization, record keeping, and custody. No one individual should control or perform all key aspects of a transaction or event. These are called incompatible duties when performed by the same individual. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 2.3)

DEPOSITS IN BANK - The total amount of all bank deposits made to the credit of the TOS in outside banks, with evidence of deposit included with the ROC. Agencies depositing directly into approved bank accounts outside the TOS must enter their agency number (and circle it) in the upper left hand corner of all bank deposit slips prior to making deposits at the bank. This will allow the TOS to contact the agency if they discover a deposit that does not correspond to an ENCOMPASS generated ROC. After making the deposit in the bank, the agency must forward an ENCOMPASS ROC and bank receipt of deposit to the TOS not later than the next business day following receipt of funds. Upon verification, the TOS will enter into the ENCOMPASS system a deposit identifier number from their independent system. Once approved, a deposited amount cannot be modified in that particular ENCOMPASS deposit ID. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.4)

INDIANA STATE POLICE

INDIANA GOVERNMENT CENTER NORTH
100 NORTH SENATE AVENUE

INDIANAPOLIS, INDIANA 46204-2259

www.State.in.us/isp

September 23, 2016

To: Paul D. Joyce, State Examiner
State Board of Accounts

From: Douglas G. Carter
Superintendent

Subject: **OFFICIAL RESPONSE**

The following is the Indiana State Police (ISP) official response to our most recent audit review for the period of January 01, 2014 through December 31, 2015.

Controls over Procurement Cards

Sample of 25 procurement card transactions made by the Indiana State Police identified 4 transactions made by an individual other than the cardholder.

ISP Response: Concur

Action Taken: Currently the ISP p-card management plan designates the district Lieutenant or post commander take responsibility for the district assigned purchasing card. Based on established compensating controls requiring the Lieutenant to be personally liable for all purchases made under his authority, the plan has allowed the commander to designate an individual under his command use of the purchasing card when situations prevent him or her from leaving the premises to make a purchase. In the past, we have limited the number of p-cards issued in order to limit the agency's liability. In the future, it will be necessary to increase the issuance of cards in order to comply with the state established guidelines.

Expenses Posted to Incorrect Account

In four separate expenditure tests, errors in posting to the proper account were identified.

ISP Response: Concur

Action Taken: ISP Fiscal staff will review account numbers to assure the proper account is assigned prior to payment processing.

Asset Disposals in Encompass

Based on a sample test of asset disposals sent to State Surplus, retirements were not recorded in a timely manner.

ISP Response: Concur

Action Taken: Each year a physical inventory will be taken and compared to the master listing from the ENCOMPASS Asset Management system. Controls will be established to assure that additions, disposals, and transfers to other departments and agencies are recorded in a timely manner. This documentation will be retained for audit purposes.

Unallowable SDO Payments

Based on a sampling of SDO transactions tested, 14 transactions contained items which were unallowable purchases for the SDO.

ISP Response: Concur

Action Taken: District petty cash custodians have been notified that cleaning products must be purchased from the state QPA vendor and all towing fees, oxygen, and acetylene purchases must be processed through the Auditor's system. We are in the process of setting up alteration services for each district which will also be processed through the proper state procurement process.

Employee and Supervisor Approvals on Time Cards

The Indiana State Police utilizes hard copy attendance records. A sample of 25 attendance cards were tested for the review period. One employee attendance card did not have the supervisor approval or the employee signature multiple times during the period audited. Another employee attendance card did not have the supervisor approval for several pay periods in 2014 and once in 2015.

ISP Response: Concur

Action Taken: Employees and Supervisors are responsible for approving the hours worked by the employee during each pay period. Additionally, the employee and supervisor are responsible for approving the attendance cover sheet containing balances and a complete history of time used and earned during the year. Signing this cover sheet does approve the entire calendar process, but it does not remove the responsibility of the

individuals to sign each individual pay period as stated in HRM-008. Human Resources will send out a directive to remind staff of the importance of signing all areas of the attendance cards. Many of the issues associated with this manual attendance system will soon be obsolete with the implementation of the Encompass Time and Labor process, which ISP began implementing September 2016.

SDO Bank Accounts

The ISP SDO advance of \$25,000 was not turned over, or reimbursed completely during the entire review period as established guidelines recommend.

ISP Response: Concur

Action Taken: ISP Fiscal Section will review the amount advanced to each petty cash custodian from the agency original SDO reducing the advances to reflect current need based on usage. Any reduction in district petty cash advances will be returned to the Auditor of State reducing the agency SDO advance.

Commute in State Vehicle Mileage Records

Reports of Vehicle Mileage and Costs (State Form 13696) were not being maintained by civilian personnel and retained by the agency for review purposes. Use of an alternate document created by ISP, which did not contain all necessary information provided incomplete and inconsistent records during the review.

ISP Response: Concur

Action Taken: ISP civilian employees commuting in state owned vehicles will use SF 13696 for the tracking and reporting of vehicle mileage and costs until Encompass Time and Labor has been fully implemented. Agency implementation began September 2016. Commuting charges for state vehicles will be represented as (TRC) Time Reporting Code, C2 Commute Charges State Vehicle.

Timeliness of Travel Advance Repayments

The ISP utilizes the SDO account to pay travel advances to employees traveling on agency business who cannot pay with personal funds. After travel, employees submit for reimbursement and have 7 days to repay the advance to the SDO according to ISP Operating Procedure FIS-003. During the review period, travel advances were not being reimbursed to the SDO by the traveler within the agency established guidelines.

ISP Response: Concur

Action Taken: The ISP Fiscal section has implemented a tracking system to identify individuals that have a travel advance associated with their out of state travel requests and travel reimbursement vouchers. As notification is received from the Auditor Office that a

travel voucher has been paid, the voucher previously flagged as having an advance is pulled and the traveler is emailed to notify them that their travel advance is due be returned within 7 days from the date of their electronic funds transfer. This process has been in place for several months and has made a positive impact on the advance return time. We are also reviewing SOP FIS-003 concerning the number of days an employee has to return the travel advance. A more reasonable period is being discussed based on the assignment of our staff throughout the state.

Internal Control over Revenue

During the review period, several districts and outlying divisions were identified to have deficiencies in internal controls over revenues collected and processed.

ISP Response: Concur

Action Taken: The ISP Fiscal section will notify all ISP employees in via an agency email directive concerning the proper handling of public funds according to IC 5-13-6-1(b) and the Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, (Chapter 4.4)

Sincerely,



Douglas G. Carter
Superintendent

DGC/mjj

INDIANA PROTECTION AND ADVOCACY SERVICES COMMISSION

January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Gary Richter	08-10-13 to 03-28-14
	(Vacant)	03-29-14 to 03-30-14
	David Boes (interim)	03-31-14 to 10-19-14
	Dawn Adams	10-20-14 to 06-30-17
Commission Chair	Doug Goepfner	07-01-10 to 06-30-16
	Robert Walson	07-01-16 to 12-18-16

INFORMATIONAL COMMENT

CREATION OF INDIANA DISABILITY RIGHTS

Effective May 31, 2016, the service delivery arm of the Indiana Protection and Advocacy Services Commission (Commission) is known as Indiana Disability Rights. The Commission defined in Indiana Code 12-28 will maintain the existing name and all federal funding and financial activity in PeopleSoft Financials will remain under the Commission name.

WRITTEN COMMENTS

CLASSIFICATION OF ACCOUNTING TRANSACTIONS

A sample of 25 Indiana Protection and Advocacy Services Commission (IPAS) procurement card transactions contained 9 that were recorded to an incorrect account. The following incorrect account usages were identified:

- Five were recorded to an IT Services account, but should have been recorded as Dues & Subscriptions.
- Three were recorded to an IT Services account, but should have been recorded as Office Supplies.
- One was recorded to a Dues & Subscriptions account, but should have been recorded as Office Supplies.

Additionally, a sample of 25 general disbursement transactions contained one that was recorded to the Dues & Subscriptions account, but should have been recorded to Office Supplies.

Also, during our review of all 31 check and cash receipts for the IPAS, 29 were recorded in to the Recovery Refunds account, but should have been recorded to various other accounts.

Lastly, we identified that the IPAS incorrectly used the Dues & Subscriptions account for expenses that should have been accounted for as a contractual service.

INDIANA PROTECTION AND ADVOCACY SERVICES COMMISSION

January 1, 2014 to December 31, 2015

(Continued)

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

- Maintain an adequate internal control environment.
- Maintain adequate internal control procedures.
- Properly utilize the state accounting system as prescribed by the ENCOMPASS Steering Committee.
- Maintain an effective and accurate accounting system for necessary subsidiary and supplementary records. . . .

(Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, General Guidelines & 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 management's 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, IV)

UNALLOWABLE PROCUREMENT CARD PURCHASES

A sample of 25 procurement card transactions made by the Indiana Protection and Advocacy Services Commission contained six transactions for items which could have been purchased using a statewide Quantity Purchase Agreement (QPA). Items identified in the test that are available in a QPA included webcams, computer mouse devices, and other general office supplies.

A similar comment appeared in the prior Report.

Prohibited items include, but are not limited to, the following:

- . . . Commodities and services required to be purchased through current QPAs or contracts. . . .

(Procurement Card and Travel Card Program Agency Program Administrator and Cardholder User Manual, Page 14)

INDIANA PROTECTION AND ADVOCACY SERVICES COMMISSION

January 1, 2014 to December 31, 2015

(Continued)

INTERNAL CONTROLS OVER REVENUE

Review of all 31 check and/or cash receipts received by the Indiana Protection and Advocacy Services Commission (IPAS) during the review period identified deficiencies in internal controls as described below:

- Checks were not restrictively endorsed immediately upon receipt. Checks were not endorsed until preparation of the Report of Collection.
- Not all receipts were recorded in the Revenue Received Log. We identified two money orders, totaling \$96 and \$27.50, respectively, were received by the IPAS, included on a Report of Collection, and deposited with the Treasurer of State. However, the amounts were not recorded as receipts in the Revenue Received Log. Additionally, a receipt was issued for a cash collection of \$6, but the collection was not recorded in the Revenue Received Log and could not be traced to a deposit with the Treasurer of State.
- A Revenue Received Log was utilized by the agency and served as the agency's cash receipts book. However, the Revenue Received Log did not contain all of the necessary elements of a cash receipts book, including record of the deposit ID after deposit with the Treasurer of State (TOS).
- The IPAS did not reconcile the deposits made with the Cash Book, to verify that all money collected was deposited.
- Twenty-five deposits were delivered to the TOS two business days or more after initial collection. We identified delays up to four days in our review.
- In 2 of the 31 receipts tested, proper segregation of duties were not followed. The employee preparing the Report of Collections was not separate from the person receiving the checks. Additionally, in the three instances noted above, where the collected revenue was not recorded in the Revenue Received Log, we were unable to test if proper segregation of duties were being followed.

Checks should be restrictively endorsed with an endorsement stamp, immediately upon receipt. This would occur upon opening the mail or otherwise receiving the instrument (check). (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.3)

If money is received on a regular basis, some type of cash book (paper or electronic) is required (See 4.1.2). This cash book must list the revenue by classification and amount in detail. Noting cash and checks separately is helpful for reconciliation to the final Report of Collection. The cash book may include the receipt number or daily summaries from a source document or data processing listing. The amount deposited with the Treasurer of State and the corresponding ENCOMPASS Deposit ID must also be shown on the cash book. The process of issuing a receipt and posting the cash receipts journal can be incorporated into one function. Only actual collections of money, whether it be cash, check or money orders, must be included in the cash book. This is a method of assuring that these monies reconcile with the actual deposits with the TOS. Corrections, wire transfers and other bank to bank transfers wouldn't be necessary to include, as no one in the agency actually receives money in these cases.

INDIANA PROTECTION AND ADVOCACY SERVICES COMMISSION

January 1, 2014 to December 31, 2015

(Continued)

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 & Policy, Section IV)



August 25, 2016

State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, IN 46204-2765

**Official Response to Audit
for the period
January 1, 2014 to December 31, 2015**

Indiana Protection and Advocacy Services Commission & Indiana Disability Rights (IPAS/IDR) would like to express our appreciation to the State Board of Accounts and Field Examiners David Lund & Rachel Smith for the professional and helpful compliance review recently completed. We have no material disagreement with the findings and are in the process of rectifying all issues raised. We do believe it appropriate to add our perspective in relation to the comments included in the audit report. IPAS/IDR recognizes that the comments represent areas in which we can improve and do not represent substantial findings of noncompliance.

INCORRECT ACCOUNT POSTINGS

We understand and agree that several transactions were recorded to an incorrect account. We endeavor to record transactions to the most appropriate expense or revenue account and have already undertaken efforts to achieve accuracy. We will continue to discuss the importance of this with all accounting staff, and along with enforcement by executive staff, should result in increased awareness and adherence to policy and procedure.

UNALLOWABLE PROCUREMENT CARD PURCHASES

IPAS/IDR understands and agrees there were purchases made via procurement card for items which could have been purchased via QPA. We hired a new CFO during the audit period who limited purchases via procurement card (p-card). The agency is now limited to one p-card and all use is completed only with approval of the CFO and procurement agent. This, along with continued enforcement by executive staff, should result in increased awareness and adherence to policy and procedure.

INTERNAL CONTROLS OVER REVENUE

We understand and agree there were deficiencies in this area. Immediately upon receiving this information, IPAS/IDR scheduled a meeting with the appropriate staff to review the proper handling procedures. Continued training and enforcement by executive staff, should result in increased awareness and adherence to policy and procedure.

Equality Through Advocacy

The Protection and Advocacy System for the State of Indiana

4701 N Keystone Ave
Suite 222
Indianapolis IN 46205
IndianaDisabilityRights.org

Phone: 317.722.5555
Toll Free: 800.622.4845
TTY: 800.838.1131
Fax: 317.722.5564



Again, IPAS/IDR thanks the State Board of Accounts and Field Examiners for the beneficial review. The issues brought to light with this review, and the valuable recommendations which resulted have already been addressed and undertaken. IPAS/IDR will continue to work to improve its accounting operations and maintain its compliance with all applicable policies, regulations and laws.

Sincerely,

A handwritten signature in blue ink that reads "Dawn M. Adams". The signature is fluid and cursive, with the first name being the most prominent.

Dawn M. Adams, J.D.
Executive Director

INDIANA PUBLIC ACCESS COUNSELOR
January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

Office

Official

Term

Public Access Counselor

Luke Britt

08-26-13 to 01-08-17

There were no issues identified during this review that warranted written comment.

INDIANA DEPARTMENT OF REVENUE
January 1, 2015 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commissioner	Michael Alley Andrew Kossack	05-07-12 to 07-17-15 07-18-15 to 01-08-17

There were no issues identified during this review that warranted written comment.

INDIANA SCHOOL FOR THE BLIND AND VISUALLY IMPAIRED
May 1, 2012 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Superintendent	James Durst	08-08-02 to 06-30-17
Chairperson of the Board	Michael Dalrymple	07-01-11 to 06-30-12
	James Mervilde	07-01-12 to 06-30-15
	Amanda Black	07-01-15 to 06-30-17

CAPITAL ASSET SAFEGUARDS

The Indiana School for the Blind and Visually Impaired reported five capital asset as missing in the State's capital assets records during the review period. The capital assets reported as missing were five iPads purchased in 2012, totaling \$2,761. Adequate controls were not implemented to safeguard the assets. When the assets were determined to be missing, a police report was not filed.

Agency personnel are responsible for accountability for all assets under their control, including capital assets. Adequate asset management staff should be assigned to recording and maintaining, on the ENCOMPASS financial system, all capital assets with a cost of \$500 or more. Assets are automatically capitalized upon approval by either the BU approver or AOS approver. Controls should be in effect to assure that additions, disposals, and transfers to other departments or agencies are recorded timely. Inventories of these assets should be performed each year in each department and compared to the ENCOMPASS listing. Results of inventories should be retained for audit purposes. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.3)

Management should protect the department's equipment, information, documents and other resources that could be wrongfully used, damaged, or stolen by limiting access to authorized individuals only and by instituting adequate controls and approvals. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 2.2)

INTERNAL CONTROLS OVER REVENUE

We identified the following deficiencies in internal controls over revenues collected by the Indiana School for the Blind and Visually Impaired:

- Checks received by mail were not restrictively endorsed immediately upon receipt.
- Revenues were not entered into a Cash Book at the point of initial receipt.
- Duties are not sufficiently segregated. The same agency employee that initially collects the receipts, prepares the report of collections and records the collections in Encompass.

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 & Policy, Section IV)

INDIANA SCHOOL FOR THE BLIND AND VISUALLY IMPAIRED
May 1, 2012 to December 31, 2015
(Continued)

Receipts should be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.3)

Checks should be restrictively endorsed with an endorsement stamp, immediately upon receipt. This would occur upon opening the mail or otherwise receiving the instrument (check). (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.3)

SDO TRANSACTIONS

The Indiana School for the Blind and Visually Impaired made purchases from its Special Disbursing Officer Fund (SDO) which were not allowable. A sample of 25 SDO reimbursement vouchers contained 10 that were for unallowable purchases. The unallowable expenses included the following:

- Fuel was purchased on four vouchers.
- Food was purchased on four vouchers.
- Parking was paid for on two vouchers.

SDO funds shall NOT be spent on:

- Items available on any Quantity Purchase Agreement (QPA).
- PEN products or other prison industry products.
- Printing services above \$500 without justification from IDOA.
- Items or services procured on an encumbered purchase order contract.
- Advance payments, except as authorized by IC 4-13-2-20(a) and (b).
- Items that could be more economically or effectively procured by use of competitive bidding or quotes.
- Personal items and alcoholic beverages, escort services, furs, jewelry, movie rentals.
- Travel related expenses such as hotel charges and vehicle rentals; vehicle expenses such as repair, parking, fuel purchases.
- Capital assets.
- Gift cards or gift certificates.
- Awards or prizes.
- Utility payments.

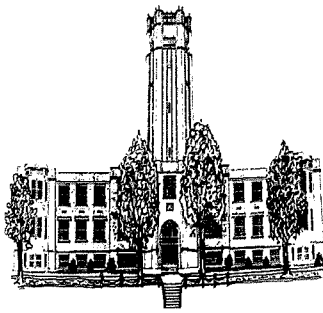
INDIANA SCHOOL FOR THE BLIND AND VISUALLY IMPAIRED

May 1, 2012 to December 31, 2015

(Continued)

- Restaurants or food, entertainment.
- Any other items required to be purchased through ePro, as defined in the STREAMLINING Delegation of Purchasing Authority Program, which is available at www.in.gov/idoa/3341.htm

(Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)



Indiana School for the Blind and Visually Impaired

7725 North College Avenue
Indianapolis, IN 46240-2504

To: Indiana State Board of Accounts

From: James R. Durst, Superintendent
Raouf Estefanos, Assistant Superintendent of Business and Operations

Date: July 13, 2016

Re: Official Response to Audit Review

Pursuant to the recent audit review conducted in May and June of 2016, please find the official response to the audit review from the Indiana School for the Blind and Visually Impaired below.

MISSING ASSETS

Agency personnel are responsible for accountability for all assets under their control, including capital assets. Adequate asset management staff should be assigned to recording and maintaining, on the ENCOMPASS financial system, all capital assets with a cost of \$500 or more. Assets are automatically capitalized upon approval by either the BU approver or AOS approver. Controls should be in effect to assure that additions, disposals, and transfers to other departments or agencies are recorded timely. Inventories of these assets should be performed each year in each department and compared to the ENCOMPASS listing. Results of inventories should be retained for audit purposes. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.3)

Management should protect the departments' equipment, information, documents and other resources that could be wrongfully used, damaged, or stolen by limiting access to authorized individuals only and by instituting adequate controls and approvals. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 2.2)

Response:

The Indiana School for the Blind and Visually Impaired realizes the critical need to ensure the assets of the State of Indiana are accurately inventoried, recorded, transferred and accounted for. ISBVI was under the false impression that items under the amount of \$500.00 were not required to be recorded on the ENCOMPASS financial system. Staff and students sign a contract indicating their financial responsibility for State items that are assigned to them.

More stringent controls will be put in place to account for those items and to seek restitution when items are lost or stolen, including but not limited to, contacting the Indiana State Police. Additionally, ISBVI will take the necessary steps to assign adequate staff to ensure proper asset management.

INTERNAL CONTROLS OVER REVENUE

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 & Policy, Section IV)

Receipts should be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.3)

Checks should be restrictively endorsed with an endorsement stamp, immediately upon receipt. This would occur upon opening the mail or otherwise receiving the instrument (check). (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.3)

Response:

Mail will be provided to the Indiana School for the Blind Accountant 2 or the Account Clerk 3. Checks and proceeds will be pulled and properly recorded by the Accountant 6. The Accountant 2 will create the accounting entry for the Assistant Superintendent to approve.

SDO ACTIVITY - UNALLOWABLE TRANSACTIONS

The Indiana School for the Blind and Visually Impaired (ISBVI) made purchases from its Special Disbursing Officer Fund (SDO) which was not allowable. A sample of 25 SDO reimbursement vouchers was selected to test. Of the 25 vouchers tested, 10 contained purchases for unallowable expenses. The unallowable expenses included the following:

- Fuel was purchased on four vouchers.
- Food was purchased on four vouchers.
- Parking was paid for on two vouchers.

SDO funds shall NOT be spent on:

- Items available on any Quantity Purchase Agreement (QPA).
- PEN products or other prison industry products.
- Printing services above \$500 without justification from IDOA.
- Items or services procured on an encumbered purchase order contract.
- Advance payments, except as authorized by IC 4-13-2-20 (a) and (b).
- Items that could be more economically or effectively procured by use of competitive bidding or quotes.
- Personal items and alcoholic beverages, escort services, furs, jewelry, movie rentals.
- Travel related expenses such as hotel charges and vehicle rentals; vehicle expenses such as repair, parking, fuel purchases.
- Capital assets.
- Gift cards or gift certificates.
- Awards or prizes.
- Utility payments.
- Restaurants, food or entertainment.
- Any other items required to be purchased through ePro, as defined in the STREAMLINING Delegation of Purchasing Authority Program, which is available at www.in.gov/idoa/3341.htm (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

Response:

The Special Disbursing Officer Fund will not be utilized for unallowable expenses. Realizing the requirements of the Special Disbursing Officer Funds and the uniqueness of the Indiana School for the Blind and Visually Impaired as both a school and a state agency, ISBVI will actively work with appropriate state agencies to develop a more streamlined and efficient process to reimburse and/or provide funds for staff who participate in school functions such as field trips, student outings, meetings and local school and parent visits.

We appreciate the information received as a result of this audit review and will take the necessary steps to remedy the situations brought to our attention in a timely manner.

INDIANA SCHOOL FOR THE DEAF
April 1, 2012 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Superintendent	David Geeslin	07-01-06 to 06-30-17
Chairman of the Board	Scott Jensen	07-01-07 to 06-30-12
	Greg Genrich	07-01-12 to 06-30-13
	Patty Kem	07-01-13 to 06-30-14
	Melody Marley	07-01-14 to 08-24-15
	Lucy Witte	08-25-15 to 06-30-17

INTERNAL CONTROLS OVER REVENUES

We identified the following deficiencies in internal controls over revenues collected by the Indiana School for the Deaf (ISD):

- Checks received by mail were not restrictively endorsed immediately upon receipt.
- Revenues were not entered into a Cash Book at the point of initial receipt.
- Duties are not sufficiently segregated. One employee collects the receipts from multiple departments, records the receipts in a Cash Book, prepares the Report of Collections, and deposits the receipts with the Treasurer of State.
- The ISD did not properly maintain a complete Cash Book. While a Cash Book did exist, it did not include classification of revenue indicating that the receipt was cash or a check. Also, source receipts numbers were omitted from the Cash Book.

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 & Policy, Section IV)

Receipts should be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.3)

Checks should be restrictively endorsed with an endorsement stamp, immediately upon receipt. This would occur upon opening the mail or otherwise receiving the instrument (check). (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.3)

If money is received on a regular basis, some type of Cash Book (paper or electronic) is required (See 4.1.2). This Cash Book must list the revenue by classification and amount in detail. Noting cash and checks separately is helpful for reconciliation to the final Report of Collection. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.4)

INDIANA SCHOOL FOR THE DEAF
April 1, 2012 to December 31, 2015
(Continued)

LATE PAYMENT PENALTIES

The Indiana School for the Deaf (ISD) paid late payment penalties to vendors and charged to accounts of the ISD as a result of untimely payment of claims. This resulted in fees of \$6,712 for calendar year 2014, and \$3,764 for calendar year 2015. These penalties are an unnecessary use of public funds.

A similar comment appeared in the prior Report.

The agency outsources accounting functions to the State Budget Agency's centralized accounting services division via a Memorandum of Understanding. Prior to payment by the Auditor of State's office, public funds to be paid pass through both the agency and the centralized accounting staff, thus necessitating stricter procedures for ensuring timely payment as required by state law.

Indiana Code 5-17-5 requires a state agency to: ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, good and services, equipment, and travel whenever the state agency fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview--General Guidelines and Policy)

CAPITAL ASSETS

As originally identified during the audit of the 2015 State Comprehensive Annual Financial Report, the capital asset inventory of the Indiana School for the Deaf (ISD) was not complete as to the addition of constructed assets. The Indiana Department of Administration Public Works department constructed an Emergency Generator for the ISD, completed in 2015. Follow up during this agency review confirmed that this capital asset still had not been recorded by the ISD in the PeopleSoft Asset Management module. As a result of our inquiries, this asset was added to asset management in 2016, under profile 53957 - Shop Generator, with a depreciable life of 5 years; however, the asset was recorded at a cost that was equivalent to only one of the payments, \$87,595.85, instead of the full construction and design costs of \$842,725.

Additionally, the ISD did not conduct an annual physical inventory count in 2015.

A similar comment appeared in the prior Report.

Agency personnel are responsible for accountability for all assets under their control, including capital assets. Adequate asset management staff should be assigned to recording and maintaining, on the ENCOMPASS financial system, all capital assets with a cost of \$500 or more. Assets are automatically capitalized upon approval by either the BU approver or AOS approver. Controls should be in effect to assure that additions, disposals, and transfers to other departments or agencies are recorded timely. Inventories of these assets should be performed each year in each department and compared to the ENCOMPASS listing. Results of inventories should be retained for audit purposes. (Accounting and Uniform Compliance Guidelines Manual for State Agencies and Quasi Agencies, Chapter 8.4)

INDIANA SCHOOL FOR THE DEAF
April 1, 2012 to December 31, 2015
(Continued)

Each year a physical inventory is to be taken and compared to the master listing from the ENCOMPASS Asset Management system. This helps to ensure the asset inventory is accurate and that assets have not left the agency without authorization. It also aids in identifying unused or obsolete assets. Evidence of the physical inventory must be maintained in the agency's records. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Capital Asset Accounting, Chapter 8.4)

DAILY DEPOSITS

The Indiana School for the Deaf (ISD) did not deposit all cash and checks received by the agency within one business day. We identified that 7 out of 25 sampled receipts were not deposited by the next business day. These receipt dates ranged from three to nine total days without being deposited. The deposit total, for the seven receipts identified, was \$22,693.19.

The agency outsources accounting functions to the State Budget Agency's centralized accounting services division via a Memorandum of Understanding. Prior to receipt by the Treasurer of State's office, public funds to be deposited pass through both the agency and the centralized accounting staff, thus necessitating stricter procedures for ensuring timely deposit as required by state law.

Indiana Code (IC) 5-13-6-1(b) states in part: ". . . all public funds collected by state officers . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state, not later than the business day following the receipt of the funds. . . ."

Each agency is responsible for establishing procedures to attain a high level of accountability for funds collected and for ensuring that these funds are deposited with the Treasurer of State, or other approved depository, in accordance with state statute. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.4)

PROCUREMENT CARD TRANSACTIONS

A sample of 25 procurement card transactions made by the Indiana School for the Deaf (ISD) contained the following issues:

- One item tested was not in compliance with procurement card policy. A purchase of aquarium supplies totaling \$720 was split into three procurement card payments of \$240, which avoided the procurement card single purchase limit of \$500.
- We identified an additional direct vendor payment to this vendor separate from the credit card payments, for the same invoice. This additional payment resulted in an overpayment for the above supplies purchased of \$240 above the invoice amount. The agency was unaware of this overpayment prior to our inquiries. The vendor reimbursed ISD for this overpayment upon request by ISD.

The J.P. Morgan Visa Procurement Card may be used at any vendor location that accepts Visa. Each Procurement Card is assigned specific spending limits determined by State guidelines and the Agency. These limits include both monthly spend and per transaction limits. The Program Administrator will provide the limits to the cardholder when they receive their card.

INDIANA SCHOOL FOR THE DEAF

April 1, 2012 to December 31, 2015

(Continued)

Splitting charges (known as artificially dividing) to avoid exceeding the individual transaction limit is forbidden and punishable, and may result in cancellation of the cardholder's access by the IDOA PA. (State of Indiana Procurement Card and travel Card Agency Program Administrator and Cardholder User Manual, page 14)

Officials and employees who are accountable for the expenditure of public funds must exercise due diligence to assure that all such payments are in the taxpayer's interest. The following is a list, not necessarily complete, of unacceptable payments from public funds:

- Duplicate payments or overpayments. . . .

(Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 6.4)

INDIANA OFFICE OF TECHNOLOGY
January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Chief Information Officer	Paul Baltzell Deward Neely	01-01-13 to 10-09-15 10-10-15 to 01-08-17

CAPITAL ASSET INVENTORY AND DISPOSAL RECORDS

The Indiana Office of Technology (IOT) performed an annual physical inventory of capital assets starting in April 2015. The inventory documentation presented for review indicated deficiencies in the agency's inventory and overall capital asset disposal recording process. The following deficiencies were noted:

- The IOT's physical inventory records indicated that 2,884 of 51,194 assets were determined to be unaccounted for. Of the 2,884 unaccounted for assets, 1769, or 61%, were determined to be communications and network equipment which can be located remotely if the equipment is online. At the time of the physical inventory, these assets were determined to be offline and could not be located remotely. The IOT is working with asset custodians to locate these unaccounted for assets and determine if the assets should stay in service or be disposed.
- The IOT asset retirements are not being recorded in ENCOMPASS Asset Management in a timely manner. Disposal dates recorded in Asset Management were significantly later than dates recorded on State Surplus forms. Eight of the 15 IOT capital asset retirements tested were retired in Asset Management more than one year after the State Surplus form was created. The longest delay was in excess of three years.

Each year a physical inventory is to be taken and compared to the master listing from the ENCOMPASS Asset Management system. This helps to ensure the asset inventory is accurate and that assets have not left the agency without authorization. It also aids in identifying unused or obsolete assets. Evidence of the physical inventory must be maintained in the agency's records. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.4)

Agency personnel are responsible for accountability for all assets under their control, including capital assets. Adequate asset management staff should be assigned to recording and maintaining, on the ENCOMPASS financial system, all capital assets with a cost of \$500 or more. Assets are automatically capitalized upon approval by either the BU approver or AOS approver. Controls should be in effect to assure that additions, disposals, and transfers to other departments or agencies are recorded timely. Inventories of these assets should be performed each year in each department and compared to the ENCOMPASS listing. Results of inventories should be retained for audit purposes. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.3)



STATE OF INDIANA

OFFICE OF TECHNOLOGY

Deward Neely
Chief Information Officer

Michael R. Pence, Governor

Indiana Government Center North
100 N. Senate Ave., Room N551
Indianapolis, IN 46204
(317) 232 - 3171

To: State Board of Accounts

From: Terry Bradshaw, Controller, IOT

Date: August 3, 2016

RE: Official response to SBOA audit finding for period January 2014 through December 2015

IOT has reviewed the State Board of Accounts audit finding related our annual physical inventory of capital assets. Our official response to the finding is below:

- Unaccounted for Network equipment-We've addressed the gap in the surplus process with our Network Department. We will continue to monitor this to ensure the equipment is being processed for replacement properly.
- Assets not being retired in Encompass in a timely manner-This has since been resolved. We have taken steps to spread out the workload of recording retirements within Encompass to ensure it is done monthly. As of the date of this response, IOT is recording the retirement in the same month they are sent to surplus.

Sincerely,

A handwritten signature in black ink, appearing to read "Terry R.", written over a white background.

Terry Bradshaw
IOT Controller
317-234-0893

INDIANA DEPARTMENT OF TOXICOLOGY
January 1, 2013 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Ed Littlejohn	04-02-12 to 01-08-17

There were no issues identified during this review that warranted written comment.

INDIANA DEPARTMENT OF TRANSPORTATION

January 1, 2015 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commissioner	Karl B. Browning Brandye Hendrickson	08-16-13 to 04-22-15 04-23-15 to 01-08-17

SDO ADVANCE

The Special Disbursing Officer Fund (SDO) advance for the Indiana Department of Transportation (INDOT) was not turned over, or reimbursed completely, during the review period. Of the total \$100,000 SDO advance, \$17,400 is used for petty cash and distributed to the INDOT regional offices. Of the remaining \$82,600, the average monthly expense is only 4.51% of the remaining SDO advance amount. Less than half of the SDO advance is used within a calendar year.

Whenever a SDO fund is established, money is removed from a Treasurer of State bank account, thus, not being invested. Therefore, consideration should be given to the size of the SDO fund. If an agency is not using the total SDO advance within one or two months, the SDO advance is too large and should be reduced. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4 - Amount of SDO Advance)

LATE PAYMENT PENALTIES

The Indiana Department of Transportation (INDOT) paid late payment penalties to vendors and charged to accounts of the INDOT as a result of untimely payment of claims. This resulted in fees, after adjustments and refunds, of \$4,824 and \$20,944 for calendar years 2014 and 2015, respectively. These penalties are an unnecessary use of public funds.

Indiana Code 5-17-5 requires a state agency to: ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, good and services, equipment, and travel whenever the state agency fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview--General Guidelines and Policy)



INDIANA DEPARTMENT OF TRANSPORTATION

100 North Senate Avenue
Room N749
Indianapolis, Indiana 46204

PHONE: (317) 232-5367
FAX: (317) 233-3691

Michael R. Pence, Governor
Brandye L. Hendrickson,
Commissioner

October 20, 2016

Paul Joyce, State Examiner
State Board of Accounts
IGCS, Room E418
Indianapolis IN 46204

Subject: Response to State Compliance Audit for the period January 1, 2015 thru December 31, 2015

The following is INDOT's official response to the State Compliance Audit and Review for the January 1, 2015 thru December 31, 2015

SDO Advance Turnover:

INDOT has continued to decrease the amount of money held within their SDO fund since Sept 2009 from a high of \$2.0 million, down to \$1.3 million, to the current \$100,000. Although the SDO fund does not turn over, at the current interest rates, the amount of interest earned is just enough to cover the bank fees. If the balance was reduced, the fees would exceed the interest earned, and result in a balance due the bank each month.

The Treasurer's office does not pay INDOT's SDO bank fees, INDOT pays their own fees.

Late Payment Penalties

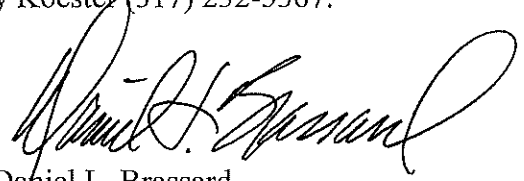
INDOT strives to keep the amount of Late Payment Penalty paid at a minimum to avoid an unnecessary waste of tax payer money, while the amount did increase significantly from calendar year 2014 to calendar year 2015 the total amount does only amount of .001% of INDOT's Accounts Payable expenditures during that time frame.

LPP is also a key metric and performance goal for all INDOT Finance Managers and their teams. When late payment penalties do occur INDOT tries to recover those funds by asking the vendor for a refund or credit. Upon review of the calendar year 2015 LPP total, INDOT has identified \$1,382.06 that was returned by the vendor as a credit, but not deposited back under the LPP account and an additional \$97.17 that was returned in calendar year 2016.

Reducing late payment penalties is a key and ongoing focus for INDOT; in fact INDOT has been developing an application called PayWise. One function of the system will greatly increase the visibility of the AP process, allowing for better tracking and monitoring of the payable process. This will allow finance managers to identify any problems with invoices, payments, or the process in general and fix issues before they turn into potential

late payment penalties. This increased transparency will allow INDOT to track the progress of invoices from the time they are received to the time they are entered into PeopleSoft, a time period that is currently much harder to track at a higher level currently. INDOT plans to have the first phase of PayWise active in all districts by the start of Calendar year 2017.

If there are any questions contact Brian Larcom (317) 232-0619 -Joy Koester (317) 232-5367.

A handwritten signature in black ink, appearing to read "Daniel L. Brassard". The signature is fluid and cursive, with a large loop at the end.

Daniel L. Brassard
CFO, Deputy Commissioner – Finance
Indiana Department of Transportation

INDIANA TREASURER OF STATE
January 1, 2015 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Richard Mourdock	02-10-07 to 08-29-14
	Daniel Huges (interim)	08-30-14 to 11-17-14
	Kelly Mitchell	11-18-14 to 12-31-18

There were no issues identified during this review that warranted written comment.

INDIANA UTILITY REGULATORY COMMISSION
January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commission Chair	James D. Atterholt	10-05-10 to 05-18-14
	(Vacant)	05-19-14 to 05-20-14
	Carol A. Stephan	05-20-14 to 02-29-20

LATE PAYMENT PENALTIES

The Indiana Utility Regulatory Commission (IURC) paid late payment penalties to vendors and charged to accounts of the IURC as a result of untimely payment of claims. There were no late payment penalties for calendar year 2014, however there were \$2,475 in charges for calendar year 2015. These penalties are an unnecessary use of public funds.

Indiana Code 5-17-5 requires a state agency to: ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, good and services, equipment, and travel whenever the state agency fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview--General Guidelines and Policy)

STATE OF INDIANA



INDIANA UTILITY REGULATORY COMMISSION
101 WEST WASHINGTON STREET, SUITE 1500 EAST
INDIANAPOLIS, INDIANA 46204-3419

<http://www.in.gov/iurc>
Office: (317) 232-2701
Facsimile: (317) 232-6758

September 16, 2016

State Board of Accounts
Attn: Kelson Moran
302 W. Washington Street, RM E-418
Indianapolis, IN 46204-2765

RE: **OFFICIAL RESPONSE**

In an effort to reduce late payment penalty assessments going forward, the IURC will incorporate the following changes to our internal review and approval of claims before they are sent to the Auditor of State:

Each week, when invoices are circulated to the IURC Finance Subcommittee for review and approval, any invoice that is greater than 35 days old or any receipt date that is greater than 35 days old will automatically be highlighted on the spreadsheet, signifying the importance of getting it entered into Encompass immediately. In situations when the 35 day threshold cannot be met, the IURC will contact the vendor to request a late fee waiver that can be attached to the claim.

Sincerely,

Carol A. Stephan
Commission Chair
Indiana Utility Regulatory Commission

INDIANA DEPARTMENT OF VETERANS' AFFAIRS

January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	James Brown	01-15-13 to 01-08-17

INTERNAL CONTROL OVER RECEIPTS

We identified the following deficiencies in internal controls over revenues collected by the Indiana Department of Veteran' Affairs:

- Checks received by mail were not restrictively endorsed immediately upon receipt.
- Revenues were not entered into a Cash Book at the point of initial receipt.
- We were not able to verify that deposits were made not later than the business day following the receipt of funds, due to the lack of a Cash Book at the point of initial receipt.

Indiana Code 5-13-6-1(b) states in part: ". . . all public funds collected by state officers . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state, not later than the business day following the receipt of the funds. . . ."

Indiana Code 5-13-4-20 defines public funds as: "all fees and funds of whatever kind or character coming into the possession of any public officer by virtue of that office."

Checks should be restrictively endorsed with an endorsement stamp immediately upon receipt. This would occur upon opening the mail or otherwise receiving the instrument (check). (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, Chapter4.3)

Receipts should be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.3)

Each agency is responsible for establishing procedures to attain a high level of accountability for funds collected and for ensuring that these funds are deposited with the Treasurer of State, or other approved depository, in accordance with state statute. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.4)

LACK OF GRANT AGREEMENT

Review of a sample of 15 Indiana Department of Veteran's Affairs (IDVA) contractual service expenditures identified two transactions that did not have a properly executed or approved contract or grant agreement. The IDVA pays \$40,000 annually (\$10,000 quarterly) to the Disabled American Veterans, a veteran service organization that provides services of writing claims and being power of attorney for veterans in the claims process. There was a prior grant agreement for this vendor covering June 30, 2013, but no renewal was extended to cover the payments made during our review period.

Additionally, these payments are being accounted for in the PeopleSoft Encompass accounting system in contractual service accounts. Grant accounts would be more appropriate.

INDIANA DEPARTMENT OF VETERANS' AFFAIRS

January 1, 2014 to December 31, 2015

(Continued)

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

- Operate within the confines of the established budget.
- Maintain an adequate internal control environment.
- Maintain adequate internal control procedures.
- Properly utilize the state accounting system as prescribed by the ENCOMPASS Steering Committee.
- Maintain an effective and accurate accounting system for necessary subsidiary and supplementary records.
- Maintain, and make available for audit, documentation supporting the validity and accountability of monies received or disbursed.
- Perform duties in accordance with statute, regulations, state policy, contract provisions, and federal requirements as applicable.

(Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview--General Guidelines and Policy)

The Office of Attorney General and Department of Administration's 2014 Professional Services Contract Manual states in part:

"A procurement contract should be used whenever the agency wishes to buy, lease, or exchange property or services for the direct benefit of the state agency. . . . Also, when a state agency's principal purpose is to acquire an intermediary's services, which ultimately may or may not be delivered to an authorized recipient, then a contract is required. . . .

Conversely, when the relationship established is for the transfer of money, property, services or anything of value to the recipient to accomplish a public purpose of support or stimulation, and the state agency's role is passive or no state agency involvement is anticipated during the performance of the activity, then a grant award is created. The purpose of a grant is to benefit some identified segment of the public, rather than the state agency."

ACCOUNTABILITY FOR FEDERAL FUND COLLECTIONS

Review and analysis of federal grant revenue received by the Indiana Department of Veterans' Affairs (IDVA) identified that the IDVA was not making the proper accounting entries to record federal grant reimbursements in the PeopleSoft Encompass accounting system. Reimbursement for the IDVA federal grant expenditures was drawn down to the Treasurer of State bank account, but no Report of Collection was entered by the IDVA to assign the drawn down funds to the IDVA accounting records. The sum of these grant reimbursements totaled \$303,827.

We communicated this issue to the IDVA and correcting entries were created by the State Budget Agency centralized accounting department.

INDIANA DEPARTMENT OF VETERANS' AFFAIRS

January 1, 2014 to December 31, 2015

(Continued)

Each agency is responsible for establishing procedures to attain a high level of accountability for funds collected and for ensuring that these funds are deposited with the Treasurer of State, or other approved depository, in accordance with state statute. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.4)

For each federal program, the accounting records must include:

Federal funds received: Account for the amount of the program award and the amount received to ensure that the program award is not overdrawn.

(Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 7.3)

INDIANA VETERANS' HOME
April 1, 2012 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director Department of Veteran Affairs	Charles T. Applegate	07-01-08 to 01-14-13
	James Brown	01-15-13 to 01-08-17
Superintendent	Melissa Durr (interim)	03-30-12 to 07-21-12
	Rob Clover (interim)	07-22-12 to 01-11-13
	Linda Sharp	01-12-13 to 06-30-17

LATE PAYMENT PENALTIES

The Indiana Veterans' Home (IVH) paid late payment penalties to vendors and charged to accounts of the IVH as a result of untimely payment of claims. This resulted in fees of \$458 for calendar year 2014 and \$14,495 for calendar year 2015. These penalties are an unnecessary use of public funds.

The agency outsources accounting functions to the State Budget Agency's centralized accounting services division via a Memorandum of Understanding. Prior to payment by the Auditor of State's office, public funds to be paid pass through both the agency and the centralized accounting staff, thus necessitating stricter procedures for ensuring timely payment as required by state law.

Indiana Code 5-17-5 requires a state agency to: ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, good and services, equipment, and travel whenever the state agency fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview - General Guidelines and Policy, Section IV)

INTERNAL CONTROLS OVER REVENUE

We identified the following deficiencies in internal controls over revenues collected by the Indiana Veterans' Home (IVH):

- Checks received by mail were not restrictively endorsed immediately upon receipt.
- Upon receipt, revenues were not recorded in a Cash Book or similar tracking mechanism.

INDIANA VETERANS' HOME
April 1, 2012 to December 31, 2015
(Continued)

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 & Policy, Section IV)

Receipts should be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.3)

Checks should be restrictively endorsed with an endorsement stamp, immediately upon receipt. This would occur upon opening the mail or otherwise receiving the instrument (check). (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.3)

BANK ACCOUNT RECONCILIATIONS

Bank reconciliations of the Trust Fund and Escrow Fund balances to the bank account balances were not conducted by the Indiana Veterans' Home (IVH). A review of IVH Trust Fund records shows a bank balance of \$1,004,325, and a Trust Fund balance of \$523,680. After consideration of outstanding checks of \$119,069, we identified a \$361,575 positive variance between the December 31, 2015 Trust Fund bank balance and the Trust Fund book balance. The agency was unable to provide an explanation or supporting documentation as to why this variance exists.

At all times, the manual and computerized records, subsidiary ledgers, the control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund to the extent allowable under IC 4-24-6-9. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 12.3)

Trust funds consist of monies held for the use and benefit of, or belonging to patients, students, members, or offenders while they are residing in the institution. Indiana Code 4-24-6-2 requires the superintendent of the institution to keep an accurate accounting of the receipts and disbursements of Trust funds on books and records in accordance with the accounting procedures prescribed by the State Board of Accounts. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 12.4)

CAPITAL ASSET ADDITIONS AND DISPOSALS

During our review of the Indiana Veterans' Home (IVH), we identified deficiencies with proper supporting documentation for capital assets as described below:

- Nine IVH capital asset manual additions were reviewed. The IVH was unable to provide documentation, such as invoices or receipts, supporting the asset value recorded for any nine of the items tested.
- Fifteen IVH capital asset retirements were reviewed. The IVH was unable to provide a state surplus approval form, or other documentation supporting the proper disposal of the 15 assets tested.

INDIANA VETERANS' HOME
April 1, 2012 to December 31, 2015
(Continued)

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, etc., must be made available for audit to provide supporting information for the validity and accountability of monies received or disbursed. Documents must be filed in such a manner as to be readily retrievable or otherwise reasonably obtainable, upon request, during an audit. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview--General Guidelines & Policy, Section IV)

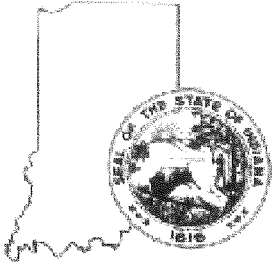
All transfers, sales, retirements and other disposals of capital assets must be processed through and approved by State Surplus Property division of IDOA by submitting Form 13812, Notification of Surplus State-Owned Property. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 8.4)

SDO ADVANCE

During our review of the Indiana Veterans' Home (IVH) Special Disbursing Officer (SDO) account, we identified that the SDO had no reimbursement activity and the IVH did not use the SDO advance at any time during the review period.

Whenever a SDO fund is established, money is removed from a Treasurer of State bank account, thus, not being invested. Therefore, consideration should be given to the size of the SDO fund. If an agency is not using the total SDO advance within one or two months, the SDO advance is too large and should be reduced. If an agency is reimbursing the total value of the advance more than once monthly, an increase might be warranted. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)

If no activity in a 24 month period in the SDO account, the account must be closed and the advance returned to the AOS as described in 6.4.10.11. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4)



STATE OF INDIANA

MICHAEL R. PENCE, Governor

INDIANA VETERANS' HOME

3851 N. River Road
West Lafayette, IN 47906
Telephone: (765) 463-1502

August 11, 2016

SBOA audit response for the period ending December 31, 2015

August 11, 2016

Dear Paul Joyce:

Indiana Veterans' Home Response to SBOA's Review Comments

Late Payment Penalties

The Indiana Veterans' Home outsourced payment functions to State Budget Agency have centralized accounting. The Indiana Veterans' Home would forward invoices to SBA for processing and some invoices were not processed timely due to various reasons. The Indiana Veterans' Home has now taken this responsibility back and this should no longer be an issue.

Internal Controls Over Revenue

Checks are now being stamped when the envelope is opened. A cash book has been established to track revenue.

Bank Account Reconciliations

We are in the process of hiring a CFO for our agency. Once the CFO is here, all accounts will be reviewed and reconciled.

Supporting Documentation

The previous CFO did not consistently keep the surplus paperwork. Our Facility Operations Director is responsible for getting the approvals for surplus or scrap items. Once approved, the information is forwarded to the Business Office to remove the assets

from the books. The Facility Operations Director keeps a copy of all paperwork for his records.

SDO Advance

We are currently working with the State Auditor's Office to close this account. Bank statements from Chase Bank for the last year show a \$30,000 balance the entire year. We believe it was human error when an entry was made in PeopleSoft.

Sincerely,

A handwritten signature in black ink, appearing to read "L. Sharp".

Linda Sharp
Superintendent
Indiana Veterans' Home
3851 N River Road
West Lafayette, IN 47906
765-497-8501

WORKERS' COMPENSATION BOARD OF INDIANA
January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Chair	Linda Hamilton	06-21-10 to 01-08-17

INTERNAL CONTROLS OVER REVENUES

We identified the following deficiencies in internal controls over cash and check receipts by the Workers' Compensation Board:

- Checks are not restrictively endorsed nor recorded in a Cash Book at the time of receipt. The mail is opened by various agency employees. If cash or checks are received by mail they are forwarded to the Fiscal Manager, who endorses them and records them in the Cash Book.
- The deposit ID is not included in the Cash Book or receipt book, which would allow for easy reconciliation with the daily deposits.
- There is a lack of segregation of duties in the recording and submission of receipts. The same person endorses the checks, records the receipt in the receipt book, and prepares the Report of Collection.

Checks should be restrictively endorsed with an endorsement stamp immediately upon receipt. This would occur upon opening the mail or otherwise receiving the instrument (check). (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, Chapter 4.3)

Indiana Code 5-13-5-1 states:

"(a) Every public officer who receives or distributes public funds shall:

- (1) keep a cashbook into which the public officer shall enter daily, by item, all receipts of public funds; and
- (2) balance the cashbook daily to show funds on hand at the close of each day.

(b) The cashbook is a public record and is open to public inspection in accordance with IC 5-14-3.

(c) A person who violates this section is subject to criminal prosecution under IC 35-44.2-2-2."

Deposit ID must also be shown on the cash book. The process of issuing a receipt and posting the cash receipts journal can be incorporated into one function. Only actual collections of money, whether it be cash, check or money orders, must be included in the cash book. This is a method of assuring that these monies reconcile with the actual deposits with the TOS. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 4.4)

WORKERS' COMPENSATION BOARD OF INDIANA

January 1, 2014 to December 31, 2015

(Continued)

Separation of duties is the division or segregation of key duties and responsibilities among different people to reduce the opportunities for any individual to be in a position to commit and conceal errors, intentional or unintentional, or perpetrate fraud in the normal course of their duties. The fundamental premise of segregated duties is that different personnel should perform the functions of initiation, authorization, record keeping, and custody. No one individual should control or perform all key aspects of a transaction or event. These are called incompatible duties when performed by the same individual. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 2.3)



STATE OF INDIANA

MICHAEL R. PENCE, Governor

Linda Peterson Hamilton, Chairman

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OFFICIAL RESPONSE **To Audit of WCB**

Since the date of the Worker's Compensation Board of Indiana's audit report, it has created a cash book, including an area where the deposit ID will be recorded. Practices have been instituted whereby duties having to do with the receipt, recording and deposit of funds received by the agency have been split among various responsible staff members. Checks will be restrictively endorsed immediately upon receipt whether they arrive by mail or in person.

It is the Board's intent to fulfill each request communicated in the written comments attached to its audit report. By way of explanation but not excuse, the agency has approximately twelve staff members, all of whom have multiple duties involved with the handling of more than 53,000 First Reports of Injury annually. The efficient and professional handling of monetary receipts and deposits has been handled by the same executive staff member for more than 30 years.

Respectfully Submitted,

Linda Peterson Hamilton, Chairman
September 8th, 2016

INDIANA DEPARTMENT OF WORKFORCE DEVELOPMENT
January 1, 2014 to December 31, 2015

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commissioner	Scott Sanders Steve Braun	05-01-12 to 10-18-14 10-19-14 to 01-08-17

There were no issues identified during this review that warranted written comment.