

State Board of Accounts Special Investigations



1



What is State
Board of Accounts
Special
Investigations and
What you need to
know about
IC 5-11-1-27(j) and
(k)(1)

2

Mark Mahon - Director of Special Investigations

North Supervisor:

Michelle Janosky

Special Investigators:

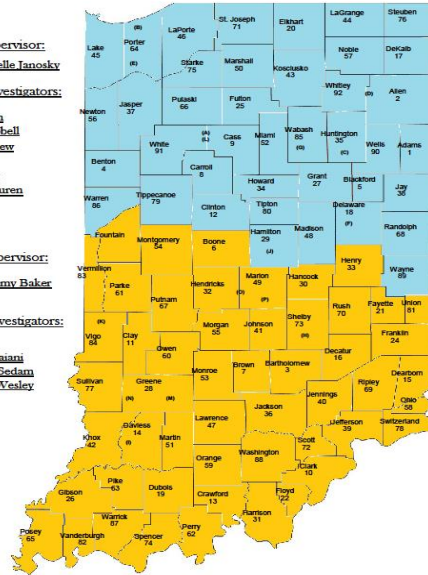
- Kristin Campbell
- Mathew Stone
- Emily VanCuren

South Supervisor:

Tammy Baker

Special Investigators:

- Cina Cambaiani
- Chris Sedam
- Cole Wesley



We Investigate Allegations of Misappropriations of Funds – Why?



Because of Indiana Code 5-11-1-27(j) which states, in part:

... For all material variances, losses, shortages, or thefts, the state board of accounts shall:

(1) determine the amount of funds involved and report the amount to the appropriate government and law enforcement officials; ...

5

So HOW Does it begin?
With an Allegation of Course!



6

Where do Allegations Come From? What's the Sources?

- ? Public
- ? Employees
- ? Law Enforcement
- ? Office Holders
- ? State Board of Accounts Auditors
- ? News Media
- ? Some are Anonymous

ALL ARE KEPT CONFIDENTIAL

7

HOW are they Reported?



8

HOW are they Reported?

Old School:

Phone Call to:

- Director – like Todd Caldwell
 - Mark Mahon
- Special Investigations Supervisors:
 - (Tammy Baker or Michelle Janosky)
- Special Investigators
- Field Examiners/Auditors

Letter to the Office

New Technology:

Email to:

- Director – like Todd Caldwell
 - Mark Mahon
- Special Investigations Supervisors (Baker or Janosky)
- Special Investigators
- Field Examiners/Auditors

New Technology:

Indiana Government Website for State Board of Accounts:

[SBOA: Indiana State Board of Accounts](https://www.in.gov/sboa/)

9

The screenshot shows the website for the Indiana State Board of Accounts (SBOA). The navigation bar includes links for Search Audit Reports, Political Subdivisions, Contact Us, Career Opportunities, and Resource Library. A sidebar on the left contains links for About Us, Political Subdivisions, Private Examiner Audits, and Resource Library. The main content area features a large banner for 'Audit Reports' with a 'Search Reports' button. Below the banner, there are four featured links: 'Report Government Fraud Click Here' (highlighted with a red arrow), 'News Room View Articles', 'Career Opportunities Learn More', and 'Questions? Ask SBOA a Question'.

10

SBOA: Fraud Reporting form

https://www.in.gov/sboa/about-us/contact-us/fraud-reporting-form/

IN.gov Indiana State Board of Accounts Search Audit Reports Political Subdivisions Contact Us Career Opportunities Resource Library

Online Services FAQs

About Us
Political Subdivisions
Private Examiner Audits
Resource Library

Fraud Reporting form

This form can be used by both local officials and citizens to report fraud or noncompliance with local, state, or federal laws and regulations. This information will be considered when planning and performing audits or other engagements for units that receive public funds.

*If an official - you may use this form to report erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property per (IC 5-11-1-27(j)).

*If a citizen - you may use this form to report known/suspected fraud or noncompliance with local, state, or federal laws and regulations.

*For those who wish to submit an anonymous complaint, you may place the word "Anonymous" in both the first and last name fields. Please fill out the contact information completely in the event that we wish to follow up to obtain more information.

Name:*

First Name Last Name

Email:*

Confirm Email:*

Phone:*

Unit Name:*

Unit County:

11

Indiana Code 5-11-1-27(j) First Sentence

All erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property shall be reported immediately to the state board of accounts. . . .

12

AMENDED STATE EXAMINER DIRECTIVE 2015-6

For purposes of this directive, "political subdivision" means all counties, townships, cities, towns, school corporations, library districts, fire protection districts, public transportation corporations, local hospital authorities or corporations, local airport authority districts, special service districts, special taxing districts, and other separate local governmental entities that may sue and be sued. Ind. Code § 5-11-1-27(d); Ind. Code § 5-11-10.5-1.

A. **Materiality Threshold for Political Subdivisions.** In general, each political subdivision must develop their own policy on materiality because the causes of irregular variances, losses, shortages, and thefts are as broad and varied as the political subdivisions in which the incidents occur. . . . The policy must be detailed, and it is essential that materiality thresholds distinguish between incidents involving cash and other types of assets. The policy needs to address maintenance of documentation and resolution of incidents that do not meet the materiality threshold. The policy must also consider Ind. Code § 5-11-1-27(l), which requires public officials who have actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds to immediately send written notice of the misappropriation to the State Board of Accounts and the prosecuting attorney. There is no materiality threshold applicable to Ind. Code § 5-11-1-27(l). Thus, whenever a political subdivision has actual knowledge or is reasonably certain that a misappropriation of public funds has occurred (regardless of the dollar amount), the political subdivision must send written notice of the misappropriation to the State Board of Accounts and the local prosecuting attorney. . . . If a political subdivision does not develop a policy on materiality, then the threshold is \$0.00 and the political subdivision is required to report all irregular variances, losses, shortages, and thefts to the State Board of Accounts.

13

Further per Indiana Code 5-11-1-27(k)(1):

A public officer who has actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds or assets of the public office, including:

- (1) information obtained as a result of a police report;
- (2) an internal audit finding; or
- (3) another source indicating that a misappropriation has occurred;

shall immediately send written notice of the misappropriation to the state board of accounts and the prosecuting attorney serving in the area governed by the political subdivision.

14

Now back to US – Special Investigations – What we do

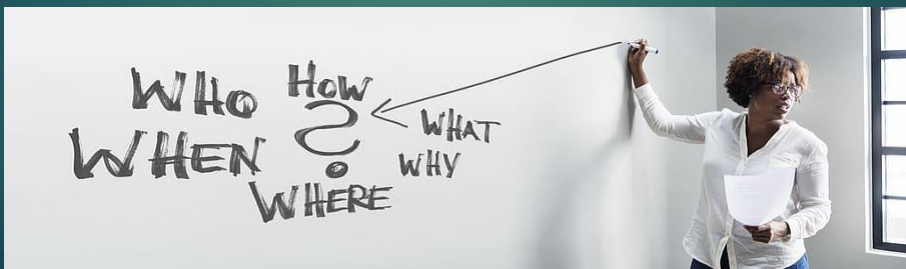


. . . For all material variances, losses, shortages, or thefts, the state board of accounts shall:
 (1) determine the amount of funds involved and report the amount to the appropriate government and law enforcement officials; . . .

15

SBOA Special Investigations Role

- ▶ First, we will perform an assessment or mini-investigation to determine validity, likelihood of a misappropriation of funds, and determine records available for an investigation.
- ▶ Next steps: Where appropriate, conduct a focused investigation on the activities related to the potential criminal activity



16

Things to Keep in Mind:

- ▶ The matter will take time to resolve
- ▶ Emotions can run high, especially if it involves a long-term trusted employee
- ▶ Investigations are conducted with the highest level of professionalism
- ▶ Mismanagement, sloppiness, and ethical lapses are not criminal



17

SBOA Special Investigations Role – Further Compliance with IC 5-11-1-27(j)

- ▶ Per Indiana Code 5-11-1-27(j):
 - (1) determine the amount of funds involved and report the amount to the appropriate government and law enforcement officials;
 - (2) determine the internal control weaknesses that contributed to or caused the condition; and
 - (3) make written recommendations to the appropriate legislative body or appropriate official overseeing the internal control system addressing:
 - A. the method of correcting the condition; and
 - B. the necessary internal control policies and internal control procedures that must be modified to prevent a recurrence of the condition.

18

SBOA Special Investigations Role – Further Compliance with IC 5-11-1-27(j)

Let's look at a Special Investigation Report:

Town of Cloverdale, Putnam County Filed 5/14/2021:

Per IC 5-11-1-27(j) determine the amount of funds involved and report the amount to the appropriate government and law enforcement officials;

19

Determination of amount:

OVERPAYMENT OF COMPENSATION

. . . served as the interim Building Inspector beginning August 8, 2017. XXXX's approved salary for the position was \$13,256 in 2017, \$20,000 in 2018, and \$20,000 in 2019.

We requested XXXX and XXXX, jointly and severally, reimburse the Town \$9,119.27 for overpayment of compensation. (See Summary of Charges, page 14)

The final paycheck issued to XXXX in the amount of \$3,424 was returned to the Town and voided. The amount of the check will be credited on the Summary of Charges. (See Summary of Charges, page 14)

20

Report to Appropriate Government and Law Enforcement Officials:

TOWN OF CLOVERDALE
EXIT CONFERENCE

The contents of this report were discussed on February 23, 2021, with CCCC, Clerk-Treasurer; TTTT1, Town Council member; TTTT2, Town Council member; and AAAA, Attorney.

The contents of this report were discussed on March 1, 2021, with XXXX, former Clerk-Treasurer; XXXX, former Town Manager/interim Building Inspector; and AAAAA, Attorney

21

Report to Appropriate Government and Law Enforcement Officials:

TOWN OF CLOVERDALE
SUMMARY OF CHARGES
(Due to Malfeasance, Misfeasance, or Nonfeasance)

	Charges	Credits	Balance Due
Cheryl Galloway, former Clerk Treasurer, and Wayne Galloway, former Town Manager/Interim Building Inspector, jointly and severally:			
Overpayment of Compensation, pages 3 and 4	\$ 9,119.27	\$ 3,424	\$ 5,695.27
Special Investigation Costs, pages 4 and 5	5,600.25	-	5,600.25
Totals for Cheryl Galloway and Wayne Galloway, jointly and severally	<u>\$ 14,719.52</u>	<u>\$ 3,424</u>	<u>\$ 11,295.52</u>



This report was forwarded to the Office of the Indiana Attorney General and the local prosecuting attorney.

22

SBOA Special Investigations Role – Further Compliance with IC 5-11-1-27(j)

► Per Indiana Code 5-11-1-27(j):

- (1) determine the amount of funds involved and report the amount to the appropriate government and law enforcement officials;
- (2) determine the internal control weaknesses that contributed to or caused the condition; and
- (3) make written recommendations to the appropriate legislative body or appropriate official overseeing the internal control system addressing:
 - A. the method of correcting the condition; and
 - B. the necessary internal control policies and internal control procedures that must be modified to prevent a recurrence of the condition.

23

Report Internal Control Weaknesses:

INTERNAL CONTROLS

We noted the following deficiencies in the internal control system over the Town activities:

- The Town Council did not always review the detail of the payroll claims before approving them.
- There was a lack of segregation of duties between the Town activities. The same person performed the duties for payroll, Town Manager, and interim Building Inspector.
- There was no approval of W. Galloway's time cards. One time card was kept for all duties W. Galloway performed. There was no supervisor signature approving his time and verifying it was accurate.
- There were no written procedures pertaining to the sale of scrap.
- Internal Controls were not in place to ensure the Town property and records were secure.

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual: Uniform Internal Control Standards for Indiana Political Subdivisions. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. These standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties

24

Now this is Likely What Everyone Looks: More Current Special Investigations Reports



25

What Everyone Waits For: Recent Special Investigation Reports - Employees

1. Metropolitan School District Wayne Township, Former Extra-Curricular Treasurer - Collections Not Deposited \$82,142.16 and Unauthorized disbursements to herself and her adult daughter \$53,355.
 1. Investigation Costs for SBOA: \$95,529.60



26

What Everyone Waits For: Recent Special Investigation Reports - Contractors

1. Graw Bone Regional Sewer District
 1. Unsupported Bank Transfers by CPA/Contractor \$37,159.50
 2. Special Investigation Costs - \$17,598.82

AND

2. Helmsburg Regional Sewer District:
 1. Unsupported Bank Transfers by CPA/Contractor \$22,050.00
 2. Special Investigation Costs - \$17,045.10

... the District Board gave Muzzillo control over billing customers, receiving and depositing customer payments, and recording activity on the customer accounts. There was little or no oversight from the District Board on an ongoing basis. Due to this lack of segregation of duties, Muzzillo was able to: (a) Transfer District funds to his personal and business bank accounts, (b) Write and sign checks on the business account, (c) Transfer funds between separate governmental units he handled.



27

What Everyone Waits For: Recent Special Investigation Reports - Beneficiaries

1. City of Indianapolis - Two Separate Reports: Police Pension Payments (1953 Pension Plan)
 1. Pensioner's Surviving Spouses passed away, pension payments directly deposited to a joint account or single account. When Survivors passed away it was not reported.
 1. Beverly McAdams the joint account holder collected \$245,352.12 in pension payments from 2007 to 2019.
Special Investigation Costs - \$8,557.12
 2. Estate of Joanne Flowers collected \$285,854.80
Special Investigation Costs - \$8,963.25

AND

2. City of Michigan City (1925 Police Pension Plan):
 1. Pensioner's Surviving Spouse passed away, pension payments directly deposited to Surviving Spouse's account transferred or used to pay expenses totaling \$75,399.31 - Pamela Westphal
Special Investigation Costs - \$2,800.12

The Cities did not have controls in place to verify existence and eligibility of pensioners still receiving benefits from these pension funds including reviewing and monitoring obituaries. Each City was relying upon the families of pensioners to make notifications of death.

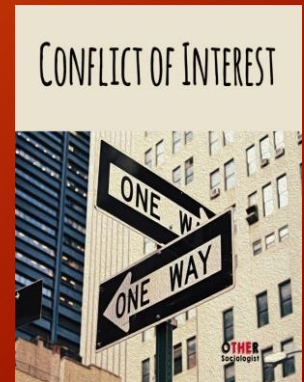


28

What Everyone Waits For: Recent Special Investigation Reports - Related Party Transactions?

1. City of Portage - Unauthorized Payments
 1. Payments made in 2015 and 2016 to companies owned and operated by the subsequent spouse of the Clerk-Treasurer for services including reconciling the bank accounts; however, evidence supporting bank reconcilments were performed in 2015 and 2016 was not provided, also written statements were made in the audit report to indicate the 2016 bank reconciliation was not performed until 2018. Total payments to contractor for 2016 bank reconcilments: \$8,000
 2. Special Investigation Costs - \$6,564.55
- AND
2. Clinton County - Unauthorized Payments:
 1. Unauthorized payments from the Commissary Fund, lack of conflict of interest disclosure, and lack of following County's Nepotism Policy totaling \$219,634.65
 2. Special Investigation Costs - \$109,725.82

The Units did not have policies and procedures (Internal Controls) in place for monitoring and determining compliance with nepotism and conflict of interest policies.



29

Recent Special Investigation Reports BUT As a Compliance Report?? - Electronic or Cyber losses

- January 1, 2019 to March 31, 2020
- UNAUTHORIZED BANK WITHDRAWALS - Between December 13, 2019 and December 31, 2019, SEVEN unauthorized bank transfers totaling \$75,563.19. The City was able to re-coop \$44,499.59, leaving the City's loss at \$31,063.60.
- HOW? Calvin Cline in the State of Washington was able to pay his credit card debt with City Funds.
- WHY? Bank reconcilments were not performed timely or accurately. No one was reviewing the reconcilments, so the unauthorized transactions were not reported to the bank timely.

30

Recent Special Investigation Reports BUT As a Compliance Report (Continued)

- January 1, 2019 to March 31, 2020
- Continued:
- Per our Internal Controls Comment:
 - The City did not have internal controls in place . . . for changes due to technology. Per the Cities and Towns Bulletin and Uniform Compliance Guidelines from June, 2016, “With new technology . . . Use their smartphones to remote. . . Positive pay procedures for warrants, electronic funds transfers, or wire transfers, along with careful monitoring of the unit’s daily bank transactions, would help mitigate this risk. . .” Discuss options with your bank.

31

Beware: Danger lurks Everywhere!
Stay Alert!! Let’s look at Cyber Attacks



32

Technology and Scams

- ▶ Be Aware and Educated on Technology Based Scams

More and more we hear about:

An employee gets an email, or text Like this:

Hey Michelle, this is Todd, you know I'm at the Blue Chip today. Since you live in the area, can you pickup 5 \$500 Visa Gift Cards for prizes. You can submit your receipt to the State for Reimbursement. Thanks Todd!

A second email or text:

Hey Michelle, this is Todd again, did you pick up those Visa Gift Cards? Can you email (text) me the numbers and security numbers so I can list them for inventory and verification purposes? You know our BOSS will want them.

Thanks again, Todd!

33

Technology or Cyber Scams

From: Bank of America <crvdgi@comcast.net>
 Subject: Notification Irregular Activity
 Date: September 23, 2014 3:44:42 PM PDT
 To: Undisclosed recipients: ;
 Reply-To: crvdgi@comcast.net

Bank of America 

Online Banking Alert

Would be capitalized

Dear member:

We detected unusual activity on your Bank of America debit card on **09/22/2014**. For your protection, please verify this activity so you can continue making debit card transactions without interruption.

Please sign in to your account at <https://www.bankofamerica.com> to review and verify your account activity. After verifying your debit card transactions we will take the necessary steps to protect your account from fraud.

If you do not contact us, certain limitations may be placed on your debit card.

Grammatical Error

© 2014 Bank of America Corporation. All rights reserved.

34

Costs



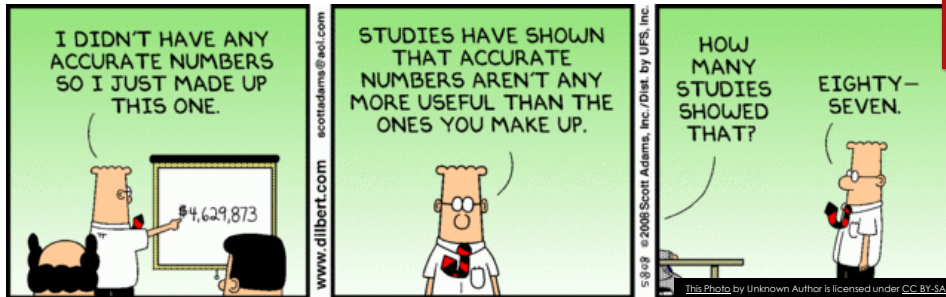
35



Monetary Costs:

- Cost of Unit time
- Cost of investigators
- Cost of Attorneys
 - Cost of Court

36



Are there Other Costs?


37

Other Costs

**The Non-Monetary Cost
and the
Most Valuable Cost:**

**THE LOSS OF PUBLIC
TRUST!**

38




AMERICAN GREED

So Why do People Do it?
Is it JUST GREED?

39

Reasons a “Good Person” May Resort to Theft

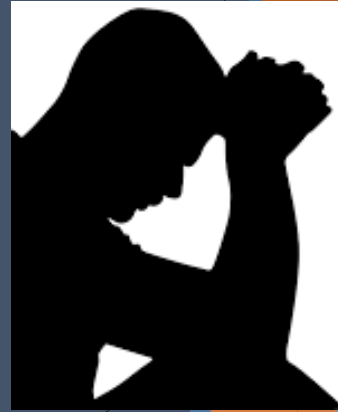
1. Expenses related to an Accident or Illness involving a Family Member
2. Spouse’s loss of job
3. Debt
4. Passed up for a truly deserved raise
5. Just “borrowing” with intent to pay back the amount taken
6. Child College Expenses



40

Darker Reasons often Unknown to Fellow Workers

- ▶ Drugs
- ▶ Gambling Debts or Other Uncontrollable Habits
- ▶ Blackmail
- ▶ Greed
- ▶ Irrational desire to provide everything possible for Grandchildren or Family



41

And the number one reason?

42

BECAUSE THEY CAN!

43

**Summary or
Take Aways**



44

Take Aways

- Indiana Code sets up requirements for Special Investigations:
 - Reporting by Officials
 - Investigation by State Board of Accounts
 - Reporting by State Board of Accounts to
 - Government Officials
 - Law Enforcement
 - Collection of State Board of Accounts Investigation Costs



45

Take Aways

2. Each Governmental Unit Determines Materiality for Reporting Misappropriations or Irregularities per Indiana Code



46

Take Aways - MOST IMPORTANT

A GOOD SYSTEM OF INTERNAL CONTROLS, WHICH INCLUDES MONITORING AND UPDATING CONTROLS FOR CHANGES IS THE BEST WAY TO PREVENT AND DETECT.

INTERNAL CONTROLS IS NOT ONE AND DONE!

TRUST IS NOT AN INTERNAL CONTROL!

TRUST BUT VERIFY

**Bad things
happen
when you
trust the
wrong
people.**
unknown
livelifehappy.com