

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

SPECIAL REVIEW REPORT

OF

DEPARTMENT OF NATURAL RESOURCES
REVENUE DEPOSITS
STATE OF INDIANA

January 1, 2007 to August 15, 2007



FILED
11/20/2007

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AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	Robert E. Carter, Jr.	11-21-06 to 01-11-09
Chairman of the Commission	Bryan W. Poynter	01-16-07 to 01-15-08



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TO: THE OFFICIALS OF THE DEPARTMENT OF NATURAL RESOURCES

In cooperation with the Department of Natural Resources Law Enforcement Division, we reviewed financial documents of the Department of Natural Resources for the period January 1, 2007 through August 15, 2007, regarding the revenue deposits with the Treasurer of State processed by Tammy L. Watson, Account Clerk. The results of our review are presented in this special report.

STATE BOARD OF ACCOUNTS

September 13, 2007

DEPARTMENT OF NATURAL RESOURCES
REVIEW COMMENTS
September 13, 2007

LAW ENFORCEMENT INVESTIGATION

The Department of Natural Resources (DNR) Law Enforcement Division was notified by DNR Accounting Division staff of a potential theft of funds after the DNR Entomology Division budget analyst discovered a lack of anticipated revenue. Law Enforcement staff conducted interviews of Accounting Division employees and obtained a confession from Tammy L. Watson who was immediately terminated. Ms. Watson took Law Enforcement staff to her vehicle and home where she turned over undeposited checks, deposit slip paperwork, and a small amount of coins. No currency was recovered. Ms. Watson was a Manpower employee assigned as a temporary worker to the Accounting Division starting February 12, 2007. She was hired by DNR as an Account Clerk 3 on June 11, 2007, and worked in the Accounting Division until her termination on July 30, 2007.

Initially, Law Enforcement staff had recovered checks and coins from Ms. Watson which totaled \$159,115.01. On August 9, 2007, Law Enforcement staff asked us to determine the total dollar amount of undeposited funds.

REVENUE COLLECTION PROCESS

The DNR collects revenue for licenses, permits, and other fees related to the state's cultural, educational, and recreational resources it maintains. DNR receives monies by mail, through electronic methods, and from walk-in patrons. The DNR Customer Service Center located in the Indiana Government Center South, Room W160, is the collection point of revenue for some of the division mail and from walk-in patrons. The Service Center staff record all sales transactions in cash registers and perform nightly close-out and reconciliation procedures.

At the Service Center each morning, Accounting Division staff count the cash (currency and coins) and checks from the previous day's activity and return to the Accounting Division with the cash and checks. Accounting staff recount the money and prepare a predeposit Report of Collections (ROC), State Form 14311 which is used as the state's deposit slip. The amount of currency, coins, and checks is listed in the ROC deposit section of the form. The ROC is signed by an authorized DNR agency official and an Accounting Division employee takes the funds to the Treasurer of State's office for deposit. A couple of days later, the ROC form is returned to the Accounting Division stamped by the Treasurer of State with a deposit number indicating that the funds were deposited. Accounting staff also prepared and delivered to the Treasurer of State ROCs for electronic, lockbox, and other types of noncash revenue.

During her employment, Ms. Watson was one of several Accounting Division staff given the responsibility of transporting the revenue collections to the Treasurer for deposit. For good internal controls, staff should verify that the funds were deposited intact and into the corresponding fund/centers designated on the face of the ROC.

REVENUE NOT DEPOSITED

Since revenue received by mail in the Entomology Division is receipted in the Service Center, we began our review by examining the Service Center collections process. After inspection of the Service Center records, we chose to rely on their cash register transactions for accountability of their revenue collections with separate accountability from the Accounting Division.

DEPARTMENT OF NATURAL RESOURCES
REVIEW COMMENTS
September 13, 2007
(Continued)

For the period January 1, 2007 through August 15, 2007, we examined their entire revenue cycle beginning with daily sales transactions recorded at the Service Center to corresponding deposits at the Treasurer of State. For each day, we traced the daily totals of cash (currency and coins) and checks from the Service Center cash register reconciliation to the ROC prepared in the Accounting Division and then to the stamped ROC returned from the Treasurer.

We found that for January 1, 2007 through May 16, 2007, all daily receipts had been deposited intact. However, beginning on May 17, 2007 through July 20, 2007, not all ROCs prepared in the Accounting Division were delivered to the Treasurer's office for deposit.

There were 22 ROC batches recovered by Law Enforcement staff that had not been deposited. These batches totaled \$4,334.28 in cash and \$143,813.93 in checks. Law Enforcement staff also recovered 9 loose checks not batched with a ROC and \$0.85 in coins. An inventory of all the checks recovered from Ms. Watson totaled \$159,114.16. Therefore, there was an additional \$15,300.23 in recovered checks that did not correspond to any of the recovered ROC batches indicating there may have been other undeposited ROCs.

In addition to the recovered ROC batches, we found 2 other ROCs that had not been recovered by Law Enforcement staff. These 2 missing ROC batches that had not been taken to the Treasurer of State totaled \$520.31 in cash and \$16,748.73 in checks.

We also found 8 stamped ROCs that had altered totals for currency and checks when compared to Accounting's predeposit ROC copies. Although each of the predeposit ROC totals matched the stamped ROC totals and the predeposit ROCs listed currency collected at the Service Center, the ROC versions taken for deposit listed little or no cash in the currency line of the deposit section. Checks in the amount of \$1,438.00 from recovered checks that did not correspond to the recovered ROC batches or checks from the missing ROC batches were used as substitutions for the cash not deposited. A total of \$1,438.00 in cash from altered ROCs was never deposited.

There is a small percentage of cash received by mail and routed to the Accounting Division for deposit which was not included within our scope of this review.

Based on Law Enforcement staff's investigation and our review of agency records, we found a total of \$165,405.90 in Service Center revenue collections which had not been deposited by Tammy L. Watson. Law Enforcement recovered \$159,114.16 in checks leaving \$6,291.74 in cash that was not recovered. (See Schedule of Revenue Not Deposited, page 9 and see Summary, page 13)

Since Ms. Watson had worked at DNR both as a Manpower temporary worker and as a DNR employee, we calculated the amount of cash she had not deposited during both time periods. While employed by Manpower for the period of February 12, 2007 to June 10, 2007, Ms. Watson did not deposit a total of \$2,358.34 in cash. During her employment with the State, for the period from June 11, 2007 through July 30, 2007, Ms. Watson did not deposit a total of \$3,933.40 in cash.

We concluded that Tammy L. Watson, former DNR Account Clerk, should repay the State of Indiana a total of \$6,291.74. (See Summary, page 13)

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. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

DEPARTMENT OF NATURAL RESOURCES
REVIEW COMMENTS
September 13, 2007
(Continued)

The Treasurer of State is the receiver and custodian of all state revenue and in order to make deposits with the Treasurer of State, the agency must prepare a report of collections form. Cash and checks, as well as other evidence of monies received, must be deposited with the Treasurer of State not later than the next business day following receipt thereof. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 3)

LACK OF INTERNAL CONTROLS

During our review of the DNR revenue collections process, we found deficiencies in the DNR's internal control structure in the following areas:

Segregation of Duties

Duties were not adequately segregated in the Accounting Division. For a period during our review, one employee was responsible for opening the mail, logging and endorsing the checks, preparing the deposits, making the deposits, using the Director of Accounting's signature stamp to approve the ROCs, and posting to the record.

When duties are not sufficiently segregated, the possibility that funds may be misplaced or stolen increases.

Each agency, department, quasi, institution, or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

Safeguards over Cash

Various divisions within the DNR receive monies by mail. Through inquiry we learned that, in some of the divisions, one employee opens the mail without the direct observation from another employee. Divisions deposit mail revenue either through the Service Center or the Accounting Division and, for those using the Accounting Division, the funds are hand-delivered to the Accounting Division or forwarded there via interoffice mail.

When mail is opened by one employee without the direct observation from another employee or when monies are sent via interoffice mail, the possibility that funds may be misplaced or stolen increases.

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. An example of a control procedure includes adequate safeguards over access and use of assets and records. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

DEPARTMENT OF NATURAL RESOURCES
REVIEW COMMENTS
September 13, 2007
(Continued)

Cash Books

The DNR does not maintain adequate cash books at some of its cash collection points to record the funds received. While some divisions do not maintain a cash book at all, other divisions do not maintain a cash book with sufficient detail to perform a reconciliation of the cash book and ROC deposits. In addition, some divisions did not receive a copy of the stamped ROC from the Accounting Division after the funds were deposited. Therefore, they did not determine if all the receipts initially received by the divisions were properly deposited intact and in a timely manner.

Indiana Code 5-13-5-1(a) states: "Every public official who receives or distributes public funds shall:

- (1) keep a cash book into which the public officer shall enter daily, by item, all receipts of public funds; and
- (2) balance the cash book daily to show funds on hand at the close of the day."

Indiana Code 5-13-6-1 states: "Deposits do not relieve any state officer from the duty of maintaining a cashbook under IC 5-13-5-1."

Some type of receipting method must be utilized by each agency or department for all money received. The cash book must be so designed as to list the revenue by classification and amount in detail. It 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 report of collections number must also be shown on the cash book. Since there is no standard cash book (also referred to as a cash receipts journal) prescribed for state agencies, all cash books or journals must be approved in writing by the State Board of Accounts. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 3)

Reconciliations

Our testing of DNR deposits revealed that the Accounting Division did not consistently perform reconciliations of the ROC copies to verify that all entries on the predeposit ROCs and stamped ROCs agreed and were accurately posted. In addition, Accounting Division staff did not consistently perform reconciliations of the ROCs with the Auditor of State Agency Revenue Activity or the Available Funds Activity reports in a timely manner.

When reconciliations are not performed in a timely manner, the possibility that funds may be misplaced or stolen increases.

Upon receiving the canary copy of the report of collections from the Auditor's office, an agency should compare the processed canary copy to the photocopy retained by the agency during processing to verify that the entries are identical. An agency should also post the report of collections number to the cash receipts journal, and file the canary copy of the report of collections by date. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 3)

Each month, the agency should determine that total revenues were accurately accumulated for the center. The agency should regularly ensure that all reports of collections have been fully processed. The cash receipts journal should be scanned at least monthly to determine that a report of collections number has been posted for each batch shown. If a cash receipts journal is not utilized for a given revenue type, then scan the dates on the report of collections photocopies (retained during processing). Inquire into the disposition of any unprocessed after one week. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 3)

DEPARTMENT OF NATURAL RESOURCES
REVIEW COMMENTS
September 13, 2007
(Continued)

DAILY DEPOSITS

For our review period, the DNR Accounting Division staff did not consistently deposit Service Center receipts with the Treasurer of State by the following business day. A similar comment was included in our prior three reports (most recently B17947 and B25779).

Indiana Code 5-13-6-1(b) states in part: ". . . all public funds . . . 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, 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, Chapter 1)

DEPARTMENT OF NATURAL RESOURCES
SCHEDULE OF REVENUE NOT DEPOSITED
January 1, 2007 to August 15, 2007

	<u>Cash</u>	<u>Checks</u>	<u>Totals</u>	<u>Notes</u>
DNR recovered ROCs	\$ 4,334.28	\$ 143,813.93	\$ 148,148.21	
Excess recovered checks w/ no ROCs	-	15,300.23	15,300.23	
Additional funds from missing ROCs	520.31	16,748.73	17,269.04	
Credit for excess recovered checks	-	(15,300.23)	(15,300.23)	
Checks substituted for cash in deposited ROCs	1,438.00	(1,438.00)	-	
ROC adjustment credit	-	(10.50)	(10.50)	
Credit for recovered coins	<u>(0.85)</u>	<u>-</u>	<u>(0.85)</u>	
Funds not deposited as of July 30, 2007	6,291.74	159,114.16	165,405.90	
Recovered by DNR Law Enforcement	<u>-</u>	<u>(159,114.16)</u>	<u>(159,114.16)</u>	
Remaining shortage	<u>\$ 6,291.74</u>	<u>\$ -</u>	<u>\$ 6,291.74</u>	(A)
(A) Manpower temp - February 12, 2007 to June 10, 2007	\$ 2,358.34			
DNR employee - June 11, 2007 to July 30, 2007	<u>3,933.40</u>			
Cash not deposited as of September 13, 2007	<u>\$ 6,291.74</u>			

DEPARTMENT OF NATURAL RESOURCES
EXIT CONFERENCE

The contents of this report were discussed on October 17, 2007, with Robert E. Carter, Jr., Director. The official response has been made a part of this report and may be found on pages 11 and 12.



October 24, 2007

Mr. Bruce Hartman, C.P.A.
State Examiner
Indiana State Board of Accounts
IGCS, Room E418
Indianapolis, IN 46204

Dear Bruce:

I have reviewed the draft comments of the special audit conducted by the State Board of Accounts dated September 13, 2007. After discussion and consultation with field examiners and staff of the Indiana Department of Natural Resources, I would like to comment on the audit findings. First, thank you and your great team for quickly assisting the IDNR staff and Law Enforcement Division in determining the amount of the loss and how it occurred. Additionally, we thank you for the guidance on improving IDNR processes and accounting controls.

Although we had no knowledge of the loss at the time, it had become apparent that the division was understaffed. As a result, we began making changes in IDNR's Division of Accounting in May and June of this year. IDNR, with the assistance of OMB and SPD, created additional positions for that division in an effort to provide enough staff to manage the workload and to provide for adequate internal controls and segregation of duties.

In June 2007, IDNR hired a new Assistant Director of Accounting (a position that had been vacant for many months) and later during the summer I appointed a new Acting Director of Accounting. While adding talent and changing management, we were able to retain the previous Director of Accounting to fulfill other duties and yet be available to assist with accounting issues when needed. This new management team and approach has been making improvements, some of which are called for in the special audit report. I'm hopeful that with the addition of staff and the change in management we have created an overall attitude and awareness within the Division that is necessary to provide adequate internal controls.

The entire Report of Collections process has been revised and we expect our changes will be reviewed during the regular audit by State Board of Accounts that is currently underway. Recommendations of that review, as with the special review, will be seriously considered and appropriate changes will be implemented.

While some suggested segregation of duties were implemented prior to receipt of this review, additional segregation continues and more is anticipated with the implementation of ENCOMPASS.

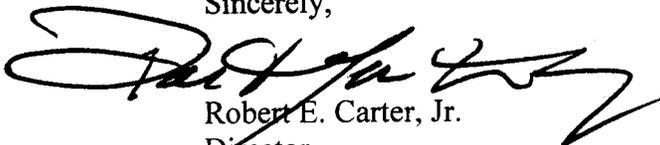
The necessary safeguards over cash is under study by a team of administrative division directors being led by the IDNR Deputy Director for Administrative Services. Creating a system that serves the needs of the agency's divisions for licensing/regulation and meets the necessary safeguards over cash is a challenge. The IDNR team is determined to meet this challenge as the organization continues to realign its business functions to better serve the needs of those we serve and implements ENCOMPASS. Developing cash books that meet with the approval of the State Board of Accounts is a part of that team's work plan.

Early this summer the reconciliation process for ROC's was substantially changed and they are now being reconciled on a daily basis. IDNR's Division of Accounting is currently completing its reconciliation of its fiscal year 2007 records. With the addition and realignment of staff, the Division is starting its reconciliation of the first quarter of 2008 and current monthly/weekly/daily balancing activities for all IDNR accounts. The balancing and reconciliation of the accounts is in addition to the reconciliation of the ROC's.

The issue of daily deposits has been discussed with the accounting staff and their managers and they are working diligently to comply with the deposit requirements set forth in the statute.

On behalf of IDNR, I again thank you and your staff for your good efforts and look forward to our agency and its Division of Accounting making improvements that comply with statutes and the standards established by State Board of Accounts while consistently implementing best business practices.

Sincerely,



Robert E. Carter, Jr.
Director

DEPARTMENT OF NATURAL RESOURCES
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Tammy L. Watson, Account Clerk:			
Revenue Not Deposited, page 4 through 6	\$ 165,405.90	\$	\$
Recovered by DNR Law Enforcement	_____	159,114.16	_____ -
Totals	<u>\$ 165,405.90</u>	<u>\$ 159,114.16</u>	<u>\$ 6,291.74</u>

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AFFIDAVIT

STATE OF INDIANA

We, Patti Serbus and Michael Daniely, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the Department of Natural Resources, for the period from January 1, 2007 to August 15, 2007, is true and correct to the best of our knowledge and belief.

Field Examiners

Subscribed and sworn to before me this ____ day of _____, 2007.

Notary Public

My Commission Expires: _____

County of Residence: _____