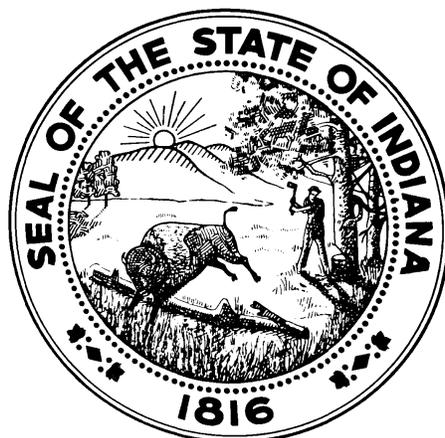


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SPECIAL REVIEW REPORT
OF

OFFENDER TRUST FUNDS
INDIANAPOLIS MEN'S AND WOMEN'S
COMMUNITY RE-ENTRY FACILITIES
INDIANA DEPARTMENT OF CORRECTION

March 1, 2005 to February 29, 2008



FILED

04/17/2009

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Agency Officials	2
Transmittal Letter	3
Review Comments:	
Introduction	4
Undeposited Trust Fund Receipts	4-5
Offender Checks Not Posted To OTS	5
NSF Offender Payroll Checks	5
Unrecovered Fraudulent Checks	6
Official Bond Coverage	6
Lack of Internal Controls:	
Accounting Records	7
Trust Fund Financial Statements	7
Daily Deposits	7
Outstanding Checks	8
Unclaimed Property	8
Trust Fund Interest Earned	8
Improper Use of Prescribed Form	8
Receipt Books	9
Inaccurate Offender Trust System Balances	9
Missing Cash Receipts	10
Subsistence and Victims Compensation Funds	10
Monitoring of Internal Controls	10-11
Schedule A – Undeposited Trust Fund Receipts	12
Schedule B – Offender Checks Not Posted to OTS	13
Exit Conference	14
Official Responses	15-20
Summary	21
Affidavit	23

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commissioner, Indiana Department of Correction	J. David Donahue	01-10-05 to 07-31-08
	Edwin Buss	08-01-08 to 01-13-13
Superintendent	Earl Martin	07-01-04 to 07-30-05
	James Hendrix (Interim)	07-31-05 to 08-13-05
	James Hendrix	08-14-05 to 10-07-07
	Dwight Graves (Men's Interim)	10-08-07 to 03-30-08
	Bridget Collins (Women's Interim)	10-08-07 to 03-30-08
	Gene Martin	03-31-08 to 06-30-09



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ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE INDIANA DEPARTMENT OF CORRECTION

We have reviewed the records of the Indianapolis Men's and Women's Community Re-Entry Facilities for the period of March 1, 2005 to February 29, 2008, in regard to the Offender Trust Fund for both facilities. The results of our review are presented in this special report.

STATE BOARD OF ACCOUNTS

June 26, 2008

OFFENDER TRUST FUNDS
INDIANAPOLIS MEN'S AND WOMEN'S COMMUNITY RE-ENTRY FACILITIES
INDIANA DEPARTMENT OF CORRECTION
REVIEW COMMENTS
February 29, 2008

INTRODUCTION

The Indiana Department of Correction (IDOC) operates three community re-entry facilities throughout the State for offenders. One of these facilities is located in South Bend and the other two are in Indianapolis. The community re-entry program allows offenders to leave the facility and work at an outside job during the last few months of their incarceration. The facilities covered in our review are the Indianapolis Men's Community Re-Entry (IMCR) and the Indianapolis Women's Community Re-Entry (IWCR).

When paid, offenders of the IMCR and IWCR facilities are required to submit their pay immediately upon return to the facility. At this time offenders are issued official receipts by the desk officer. Offenders who receive funds from friends and family are also issued official receipts by the desk officer. All funds received, along with the related receipt copies, are delivered to the Trust Fund Clerk. These funds are to be deposited into the facility Trust Fund and entered into the Offender Trust System (OTS) in an account under the offender's name. The OTS is a computerized system used by IDOC to track and account for offender Trust Fund monies while incarcerated.

Prior to June 2005, there was a Trust Fund Clerk at each facility. Starting in June 2005, the IDOC consolidated the accounting functions of the IMCR and IWCR offender Trust Funds under one Trust Fund Clerk located at the IMCR facility. The receipt copies and monies collected at the IWCR facility are placed in a bank bag and delivered by an employee to the IMCR facility or picked up by the Trust Fund Clerk on a daily basis.

Melody Snelson was the Trust Fund Clerk at the IMCR when the duties were consolidated in June 2005 until December 13, 2005.

UNDEPOSITED TRUST FUND RECEIPTS

It is the responsibility of the Trust Fund Clerk to post daily receipts to the offender accounts in the OTS as well as deposit the monies into the Trust Fund checking account at a local bank. From June 2005 to December 2005, we found that the total amount of funds deposited into both the IMCR and IWCR Trust Fund checking accounts were less than the amounts receipted by the desk officers at each facility. We determined that funds reported on receipts issued by the IMCR facility totaling \$171,746.14 (\$170,832.21 in checks or money orders and \$913.93 in cash) were not deposited into the IMCR Trust Fund checking account. For this same time period, we also determined that funds reported on receipts issued by the IWCR facility totaling \$12,546.18 (\$451.77 in checks or money orders and \$12,094.41 in cash) were not deposited into the IWCR Trust Fund checking account. The total of undeposited receipts for both facilities was \$184,292.32. (See Schedule A, page 12)

The IDOC's internal audit staff identified and recovered some of the undeposited receipts. As of January 27, 2009, \$89,465.52 (\$89,343.10 for the IMCR and \$122.42 for the IWCR) was recovered from employers' payroll checks that were not deposited. This left a total shortage for both facilities of \$94,826.80.

We requested Ms. Snelson, former IDOC Trust Fund Clerk, repay the State of Indiana the Trust Fund shortage of \$94,826.80. (See Summary, page 21)

OFFENDER TRUST FUNDS
INDIANAPOLIS MEN'S AND WOMEN'S COMMUNITY RE-ENTRY FACILITIES
INDIANA DEPARTMENT OF CORRECTION
REVIEW COMMENTS
February 29, 2008
(Continued)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and monthly reports, and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 13)

OFFENDER CHECKS NOT POSTED TO OTS

From July 2005 to November 2005 there were 22 IMCR checks totaling \$8,955.84 and 11 IWCR checks totaling \$1,894.12 payable to offenders or in payment of claims on behalf of offenders that were not posted to the offenders' accounts in the OTS. Not posting the checks to the offenders' accounts resulted in overages in the Trust accounts. Upon release from the facilities offenders were paid their OTS account balances which resulted in shortages in the Trust Funds. (See Schedule B, page 13)

We requested Ms. Snelson, former Trust Fund Clerk, repay \$10,849.96 (\$8,955.84 for the IMCR Trust Fund and \$1,894.12 for the IWCR Trust Fund), the amounts not posted to the OTS from July 2005 to December 2005. (See Summary, page 21)

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 13)

Institutions 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 the internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 13)

NSF OFFENDER PAYROLL CHECKS

From September 2005 to October 2007, we noted 10 offender payroll checks from employers totaling \$4,149.06 that were deposited in the IMCR Trust Fund checking account and later returned for non-sufficient funds (NSF). We also noted two offender payroll checks in July 2005 from employers totaling \$1,744.88 that were deposited in the IWCR Trust Fund checking account and returned NSF. These funds were credited to the offenders' accounts in the OTS and the offenders spent or were paid these funds upon release. As of January 27, 2009, the IMCR or IWCR had not contacted the employers for reissuances of these NSF checks leaving the Trust Funds short these funds.

Institutions 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 the internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 13)

OFFENDER TRUST FUNDS
INDIANAPOLIS MEN'S AND WOMEN'S COMMUNITY RE-ENTRY FACILITIES
INDIANA DEPARTMENT OF CORRECTION
REVIEW COMMENTS
February 29, 2008
(Continued)

UNRECOVERED FRAUDULENT CHECKS

An individual not employed by the IWCR used the IWCR Trust Fund bank account number to negotiate five fraudulent checks during July 2005 in the amount of \$1,747.40. The IWCR became aware of these fraudulent checks shortly after the bank statement was received in August 2005. These were reported by IDOC's internal affairs to the Indiana State Police (ISP) on December 12, 2005. However repeated attempts by the ISP to contact IDOC's fiscal division to pursue these fraudulent checks went unanswered. On March 6, 2006, the ISP closed the case due to a lack of response from IDOC's fiscal division. As of January 27, 2009, the IWCR had not received reimbursement from the bank for these fraudulent checks leaving the Trust Fund short these funds.

Institutions 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 the internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 13)

OFFICIAL BOND COVERAGE

In accordance with IC 4-24-6-9, any misfeasance or nonfeasance on the part of a superintendent or employee of an institution is to be covered by a general performance blanket bond. The IDOC did have bond coverage, but allowed the coverage to expire on June 30, 2001. As a result the IDOC did not have the required bond coverage at the IMCR and IWCR facilities to cover the Trust Fund shortages identified in this report. Therefore, IDOC's decision to discontinue bond coverage will result in the State General Fund bearing the loss for any of the \$113,318.10 shortage unrecovered. The State should not be subjected to a loss that would otherwise have been covered by legislatively mandated bond coverage. Ultimately, the IDOC management responsible for discontinuing bond coverage may be jointly liable for this loss.

IC 4-24-6-9(d) states: "No other bond except the general performance bond given by the superintendent or warden of any institution, or by an officer or employee of the institution, shall be required. A general blanket performance bond or criminal insurance policy endorsed to include faithful performance that is obtained under IC 5-4-1-15.1 shall cover any misfeasance or nonfeasance in the administration of sections 6 and 7 of this chapter on the part of any superintendent, warden, officer, or employee of the institution."

LACK OF INTERNAL CONTROLS

During our review of the IMCR and IWCR, we found deficiencies in the internal control structure of both facilities in the following areas:

OFFENDER TRUST FUNDS
INDIANAPOLIS MEN'S AND WOMEN'S COMMUNITY RE-ENTRY FACILITIES
INDIANA DEPARTMENT OF CORRECTION
REVIEW COMMENTS
February 29, 2008
(Continued)

Accounting Records

We found that the IMCR and IWCR monthly Trust Fund and bank account reconciliations were not prepared in a timely manner. Reconciliations were not performed from July 2005 to December 2005. In addition, reconciliations that were performed from January 2006 to February 2008 were incomplete and inaccurate. The IMCR's reconciled bank balance at February 29, 2008, did not match the OTS balance. Also, as of March 31, 2008, the IWCR had not completed reconciliation between the Trust Fund and bank account.

Individual subsidiary accounts must be kept for each offender detailing transactions to the individual account and showing an exact record of the balance on hand. To ensure accuracy, the control account and individual subsidiary accounts are to be reconciled to each other and to the bank statement on a monthly basis. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 13)

Trust Fund Financial Statements

The IMCR and IWCR did not complete monthly financial statements for the Trust Funds for any month during our review period.

Each institution should file monthly financial statements for its local funds with the state agency having administrative control over the institution. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 13)

Institutions should have internal controls in effect which provide reasonable assurance regarding reliability of financial information and records. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 13)

Daily Deposits

The IMCR and IWCR did not consistently deposit receipts for the Trust Funds within the following business day. Offenders are issued receipts on a daily basis and we noted several months where no deposits were made.

Procedures to ensure adequate internal controls and accountability over Trust Funds would include depositing receipts in a timely manner.

Controls over the receipting, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records, 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 control procedures, including safeguarding controls over cash and all other assets. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

OFFENDER TRUST FUNDS
INDIANAPOLIS MEN'S AND WOMEN'S COMMUNITY RE-ENTRY FACILITIES
INDIANA DEPARTMENT OF CORRECTION
REVIEW COMMENTS
February 29, 2008
(Continued)

Outstanding Checks

The IMCR Trust Fund had 118 checks totaling \$27,161.10 which have been outstanding over one year.

IC 32-34-1-20 provides that property becomes abandoned if held by the State or other government, governmental subdivision or agency, or public corporation or other public authority one (1) year after the property becomes distributable.

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

Unclaimed Property

The IMCR Trust Fund had numerous accounts on the OTS that have been inactive for more than one year. The balances in these inactive accounts have not been paid to the offender or delivered to the Attorney General's Unclaimed Property Division.

IC 32-34-1-20 provides that property becomes abandoned if held by the State or other government, governmental subdivision or agency, or public corporation or other public authority one (1) year after the property becomes distributable.

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

Trust Fund Interest Earned

The IMCR had not transferred the interest earned on the Trust Fund to the Recreation Fund since November 2004. As of February 29, 2008, the accumulated interest due the Recreation Fund was \$6,184.45.

The interest earned on the Trust Fund balance should be transferred to the Recreation Fund on a monthly or quarterly basis. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 13)

Improper Use of Prescribed Form

The IMCR offenders are allowed to maintain a minimal amount of cash on their person when they enter the facility. The Trust Fund receipt book, prescribed State Form 9415, was used improperly to record this cash. A separate receipting method should be used to record this cash. State Form 9415 is to be used only to receipt funds received on behalf of the offender for deposit into the Trust Fund.

Officials and employees are required to use the State Board of Accounts prescribed or approved forms in the manner prescribed or approved. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 15)

OFFENDER TRUST FUNDS
INDIANAPOLIS MEN'S AND WOMEN'S COMMUNITY RE-ENTRY FACILITIES
INDIANA DEPARTMENT OF CORRECTION
REVIEW COMMENTS
February 29, 2008
(Continued)

Receipt Books

The IWCR uses an approved three copy receipt form for Trust Fund receipts. We noted instances where a receipt was voided but the first and/or second copies were missing. We also noted a missing receipt where the third copy had been torn from the receipt book.

The official receipt forms are consecutively numbered. The agency clerk must complete the form in ink. Information to be entered includes date, entity or person received from, description, and indication of cash or check payment. The official receipt forms have three copies, the first is given to the payee, the second copy is retained with the agency's report of collections, and the third copy remains intact in the receipt book. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 3)

All three copies of a voided receipt must remain in the receipt book. These may be stapled together. All copies must be defaced. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 3)

Institutions should have internal controls in effect which provide reasonable assurance regarding reliability of financial information and records. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 13)

Inaccurate Offender Trust System Balances

While reviewing receipts for the IWCR Trust Fund we noted instances where the third copy was only partially legible. When this occurred we traced the receipt number to an OTS report to determine the amount and the offender's IDOC number. We noted nine receipts did not agree with the amounts posted to the OTS. The differences ranged from \$0.01 to \$10.00. These discrepancies caused the Offender's Trust account balance to be inaccurate by the amount the receipt was over or under.

We also noted a December 2007 deposit of \$376.16 to the IMCR Trust Fund checking account that was not posted to the OTS. While not a shortage, this results in inaccurate balances in the OTS.

Institutions 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 the internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 13)

The computerized accounting system must provide input edits and controls to ensure that information entered into the system is accurate, that all appropriate information is entered into the system, and that the information is entered into the system only once. All information entered into the system must be authorized through effective manual or electronic controls. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 16)

OFFENDER TRUST FUNDS
INDIANAPOLIS MEN'S AND WOMEN'S COMMUNITY RE-ENTRY FACILITIES
INDIANA DEPARTMENT OF CORRECTION
REVIEW COMMENTS
February 29, 2008
(Continued)

Missing Cash Receipts

While reviewing receipts for the IWCR Trust Fund we noted instances where the third copy was only partially legible. We noted seven of these cash receipts in December 2006 totaling \$240.00 that we were unable to trace to an OTS report or offender's Trust account. In addition, IDOC's internal Information Technology staff could not find these receipts on the OTS system. Since these receipts were never entered into the OTS, there was no Trust Fund shortage.

Institutions 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 the internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 13)

SUBSISTENCE AND VICTIMS COMPENSATION FUNDS

As part of the work release program requirements, offenders are required to pay a variable portion of their earnings into a subsistence fund to cover the cost of their room and board. In addition, ten percent of their gross earnings are to be deposited into the Violent Crime Victims Compensation (VCVC) Fund. The VCVC Fund was established to provide monetary awards to the victims and families of victims of violent crimes.

We noted that from July 2005 to February 2006 monies for the subsistence and VCVC funds were withheld from the offenders' earnings but not remitted to the subsistence or VCVC funds. The total withheld but not remitted to the subsistence fund from the IMCR Trust Fund was \$262,926.39 and \$113,001.59 from the IWCR Trust Fund. The total withheld but not remitted to the VCVC Fund from the IMCR Trust Fund was \$85,280.46 and \$35,311.82 from the IWCR Trust Fund.

The lack of timely remittance of monies due the VCVC Fund may result in a delay of financial assistance to the victims and families of victims of violent crimes.

IC 11-10-8-6.5(b) requires that money collected for the work release subsistence special revenue fund be deposited in the fund not later than the fifteenth day of the month following the month in which it was received.

IC 11-10-8-6(a)(3) provides that ten percent (10%) of an offenders gross earnings are to be deposited in the violent crime victims compensation fund established by IC 5-2-6.1-40.

MONITORING OF INTERNAL CONTROLS

The IDOC's lack of adequate internal controls contributed to the situations described in the above comments. Evidence indicated that IDOC management was aware of at least some of these issues as early as 2007. Until IDOC implements new internal controls and evaluates them for effectiveness, the issues detailed in this report may have continued to occur subsequent to our review period.

OFFENDER TRUST FUNDS
INDIANAPOLIS MEN'S AND WOMEN'S COMMUNITY RE-ENTRY FACILITIES
INDIANA DEPARTMENT OF CORRECTION
REVIEW COMMENTS
February 29, 2008
(Continued)

The IDOC must establish a good internal control structure over its financial operations in order to maintain an accurate reconciled balance of both the IMCR and IWCR Trust Funds and to prevent the occurrence of Trust Fund shortages and other discrepancies in the future.

Institutions 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 the internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 13)

OFFENDER TRUST FUNDS
 INDIANAPOLIS MEN'S AND WOMEN'S COMMUNITY RE-ENTRY FACILITIES
 INDIANA DEPARTMENT OF CORRECTIONS

SCHEDULE A - UNDEPOSITED TRUST FUND RECEIPTS

	Indianapolis Men's Community Re-Entry (IMCR)			Indianapolis Women's Community Re-Entry (IWCR)			Total IMCR & IWCR	
	Date	Ck/Money Order	Cash	Total	Date	Ck/Money Order		Cash
Receipts	Jul 2005	\$ 102,791.53	\$	\$	Jun 2005	\$ 31,882.70	\$ 7,397.51	\$
	Aug 2005	94,911.95			Jul 2005	35,644.74	6,817.95	
	Sep 2005	96,053.35			Aug 2005	27,486.78	6,496.39	
	Oct 2005	93,293.92			Sep 2005	37,284.40	5,024.47	
	Nov 2005	98,211.41			Oct 2005	31,201.60	6,744.77	
	Dec 2005	29,645.62			Nov 2005	28,821.11	12,583.61	
	Jul - Dec 2005		913.93		Dec 2005	32,738.16	10,479.56	
					Jan 2006	33,043.83	9,952.50	
					Feb 2006	28,317.90	9,724.97	
					Mar 9, 2006	6,376.82	2,021.97	
Total Receipts		<u>514,907.78</u>	<u>913.93</u>	<u>515,821.71</u>		<u>292,798.04</u>	<u>77,243.70</u>	<u>370,041.74</u>
Deposits	Sep 2005	(160,291.60)			Jun 2005	(20,615.98)	(5,604.01)	
	Nov 2005	(183,783.97)			Jul 2005	-	-	
					Aug 2005	(34,044.96)	(5,079.63)	
					Sep 2005	-	-	
					Oct 2005	(33,401.45)	(4,482.34)	
					Nov 2005	(70,789.82)	(13,837.50)	
					Dec 2005	(20,277.65)	(7,589.27)	
					Jan 2006	(33,557.33)	(10,949.90)	
					Feb 2006	(67,514.80)	(14,342.40)	
					Mar 9, 2006	(12,144.28)	(3,264.24)	
Total Deposits		<u>(344,075.57)</u>	<u>-</u>	<u>(344,075.57)</u>		<u>(292,346.27)</u>	<u>(65,149.29)</u>	<u>(357,495.56)</u>
Receipts Not Deposited		<u>170,832.21</u>	<u>913.93</u>	<u>171,746.14</u>		<u>451.77</u>	<u>12,094.41</u>	<u>12,546.18</u>
DOC Internal Audit Recovery (Reissued Employer Payroll Cks)		<u>(89,343.10)</u>		<u>(89,343.10)</u>		<u>(122.42)</u>		<u>(122.42)</u>
Total Undeposited Receipts		<u>\$ 81,489.11</u>	<u>\$ 913.93</u>	<u>\$ 82,403.04</u>		<u>\$ 329.35</u>	<u>\$ 12,094.41</u>	<u>\$ 12,423.76</u>
								<u>\$ 94,826.80</u>

OFFENDER TRUST FUNDS
 INDIANAPOLIS MEN'S AND WOMEN'S COMMUNITY RE-ENTRY FACILITIES
 INDIANA DEPARTMENT OF CORRECTIONS

SCHEDULE B - OFFENDER CHECKS NOT POSTED TO OTS

Trust Fund Clerk	Indianapolis Men's Community Re-Entry			Indianapolis Women's Community Re-Entry			Total IMCR & IWCR
	Ck Date	Ck #	Ck Amount	Ck Date	Ck #	Ck Amount	
Melody Snelson	08-09-05	131832	\$ 367.10	07-20-05	54576	\$ 406.26	
	08-18-05	131925	635.67	07-21-05	54577	67.11	
	08-19-05	131929	1,190.99	08-12-05	54747	124.58	
	08-19-05	131930	316.09	08-12-05	54787	17.26	
	08-19-05	131931	1,315.86	09-01-05	54834	228.12	
	08-19-05	131934	129.24	09-02-05	54836	506.93	
	08-19-05	131936	890.12	09-10-05	54910	51.17	
	08-22-05	132033	909.84	10-04-05	55112	246.08	
	08-22-05	132035	275.05	10-21-05	55232	20.98	
	09-12-05	132231	138.35	11-04-05	55345	29.71	
	09-12-05	132232	54.83	11-23-05	55472	195.92	
	10-05-05	132420	60.32				
	10-18-05	132509	141.91				
	10-18-05	132510	95.42				
	10-31-05	132664	603.27				
	10-31-05	132665	1,169.02				
	11-10-05	132788	382.76				
	11-17-05	132783	50.00				
	11-17-05	132784	50.00				
	11-17-05	132785	50.00				
	11-17-05	132786	50.00				
	11-17-05	132787	80.00				
			\$ 8,955.84			\$ 1,894.12	\$ 10,849.96
Total Offender Checks Not Posted			\$ 8,955.84			\$ 1,894.12	\$ 10,849.96

OFFENDER TRUST FUNDS
INDIANAPOLIS MEN'S AND WOMEN'S COMMUNITY RE-ENTRY FACILITIES
INDIANA DEPARTMENT OF CORRECTION
EXIT CONFERENCE

The contents of this report were discussed on January 27, 2009, with Lisa Cottingham, Controller; and Joe Fistrorvich, Chief Financial Officer.

The contents of this report were mailed on January 27, 2009, to J. David Donahue, former Commissioner, Indiana Department of Correction; Earl Martin, former Superintendent; Dwight Graves, Men's Interim Superintendent; Bridget Collins, Women's Interim Superintendent; Gene Martin, Superintendent.

The contents of this report were mailed on February 2, 2009, to James Hendrix, former Superintendent.

Official responses have been made a part of this report and may be found on pages 15 through 20.



**STATE OF INDIANA
Department of Correction**

Indiana Government Center - South
302 W. Washington Street • Indianapolis, Indiana 46204-2738
Phone: (317) 232-5711 • Fax: (317) 232-6798 • Website: www.in.gov/idoc/

Mitchell E. Daniels, Jr.
Governor

Edwin G. Buss
Commissioner

March 19, 2009

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

Ladies and Gentlemen:

This letter is in response to the review comments of the audit report for the Indianapolis Men's and Women's Community Re-Entry Facilities dated February 28, 2009.

Your examination identified several issues with the manner in which trust funds were administered at the Indianapolis Men's and Women's Community Re-Entry facilities. Some of the issues related to the trust fund accounts can be traced back to 2005 when the administration of both accounts was transferred from two employees to one employee. In order to maintain financial integrity in both trust fund accounts and restore appropriate internal controls, the Department will assign another fiscal employee to the management of the trust accounts at the Indianapolis Community Re-Entry Centers. We believe the addition of this employee will provide the resources required to prevent future issues.

The management of the Indianapolis Community Re-Entry Centers changed during the audit period. In order to ensure compliance with the accounting regulations, the Department will work with the appropriate Superintendents and Assistant Superintendents to educate them regarding their responsibilities related to the trust funds.

We believe the personnel enhancements, training, monitoring and supervision actions described above will significantly resolve the issues at the Indianapolis Men's and Women's Re-Entry Centers. Additionally, our specific responses to the audit comments are listed below:

UNDEPOSITED TRUST FUND RECEIPTS

The audit discovered a substantial amount of deposits that were missing from the Re-Entry trust funds. If banking activity had been monitored on a daily basis by a second employee, the shortages would have been noticed immediately. The Re-Entry Centers now have electronic access to bank accounts, allowing for close review of daily activity. This review, along with timely completion of reconciliations, should prevent the undeposited receipt situation from occurring in the future.

OFFENDER CHECKS NOT POSTED TO OTS

At the end of each business day, the banking activity for the Offender Trust System should balance with the fund ledger. The Department is in the process of implementing the use of electronic banking software which will automatically post to the ledger at the time a check is written. The additional trust employee will be assigned the duty of entering all debits and credits into the ledger, while the other employee posts to the Offender Trust System. As a result, each accountant's daily work will be compared and any discrepancies resolved immediately. The assignment of these tasks will provide appropriate separation of duties.

NSF OFFENDER PAYROLL CHECKS

Daily banking activity will now be monitored electronically, on a daily basis, by a trust fund employee. The ability to detect an NSF check as quickly as possible will provide a greater opportunity to collect those dollars from the employer. In addition, offenders' accounts will be marked with a 10 day hold until the paychecks have cleared; no offender withdrawals will be permitted until the paychecks have cleared.

The collection process for the NSF checks is continuing. While the employers were originally contacted by telephone, DOC had little success with those contacts, in part due to employers that are no longer in business. Each employer has now been sent a registered collection letter. If there is no response to that correspondence, the matter will be turned over to the collection agency that is utilized by the Indiana Attorney General.

UNRECOVERED FRAUDULENT CHECKS

The Department, through the Indiana State Treasurer's office, has contacted the appropriate financial institution regarding potential recovery of the fraudulent checks from 2005. In the future, trust fund staff will review daily banking transactions to detect any such potential fraudulent activity.

OFFICIAL BOND COVERAGE

The Department has issued bids for the procurement of crime insurance for the appropriate employees who have contact with offender trust funds (as required by IC 4-26-6-9). This policy will cover employees at all correctional facilities within the State of Indiana.

LACK OF INTERNAL CONTROLS

The addition of a trust fund employee will create a separation of duties that will strengthen internal controls over the trust fund accounts. Account reconciliation will be performed by a third fiscal

employee, thereby providing another cross check on the work of the trust fund accountants and the ability to timely detect any errors.

Accounting Records

In the future, account reconciliations will be performed by the additional trust fund employee. Those reconciliations will be completed in a timely manner after the end of the month.

Trust Fund Financial Statements

In the future, trust fund financial statements will be completed in a timely manner by the additional trust fund employee.

Daily Deposits

Trust fund deposits are now being made daily.

Outstanding Checks

The Department will review the 118 checks to determine current status. If the checks are still outstanding, they will be forwarded to the Attorney General's office as unclaimed property as required by IC 32-34-1-26 & 27.

Unclaimed Property

Current Department policy provides that released offenders should receive the remaining trust fund balance within 60 days, and the account should subsequently be closed. If the offender has not cashed his/her check within one year, that amount should be forwarded to the Attorney General's office as unclaimed property.

The Department's ability to effectively comply with the unclaimed property statute is directly related to the implementation of a ledger system and timely reconciliation allowing accurate identification of outstanding checks. We believe that the internal control methods referenced in this letter will provide the information required to comply.

Trust Fund Interest Earned

Interest earned on the trust fund between November 2004 through February 2008 has been deposited to the Recreation Fund as required in IC 4-24-6-4. In the future, interest will be transferred from the Trust Account to the Recreation Fund on a monthly basis.

Improper Use of Prescribed Form

In order to properly record the receipt of cash from offenders upon their entrance to the facilities, a completely separate receipt book has been ordered. The receipts are numbered sequentially to provide for individual tracking of each receipt. State Form 9415 will no longer be used for this purpose.

Receipt Books

In the future, copies of receipts and voided receipts will be maintained according to the guidance set forth in the Accounting and Uniform Compliance Manual for State and Quasi Agencies.

Inaccurate Offender Trust System Balances

Current Department policy requires trust accountants to balance the credits/debits made to the Offender Trust System with the ledger on a daily basis. Implementation of a controlling account (or ledger) will provide daily reconciliation and detection of any errors and/or discrepancies.

Missing Cash Receipts

In the future, all trust fund receipts will be entered into the Offender Trust System on a daily basis.

SUBSISTENCE AND VICTIMS COMPENSATION FUNDS

Cash balances in the Men's and Women's Re-entry trust accounts will be reviewed. If adequate cash is available, appropriate transfers of subsistence and victim compensation funds will occur immediately. Monthly deposits of collected funds will be made in accordance with State Board of Accounts requirements.

The subsistence fund (work release special revenue fund) is established by Indiana Code 11-10-8-6.5. The revenue in that fund is generated by offender payroll deductions and can be used for the particular purposes that are indicated in the statute. At the conclusion of the full investigation regarding the appropriate amounts for the IMCR and IWCR Trust Funds, the Department proposes the use of the subsistence fund to meet that need.

MONITORING OF INTERNAL CONTROLS

The audit findings indicate that a good internal control structure must be established in order to maintain an accurate reconciled balance of the Re-Center Trust accounts. The Department successfully operates offender trust funds in other Indiana correctional facilities and the internal control structure of those operations will be emulated at the Indianapolis Community Re-Entry Centers. Our improvement of the internal control structure has already begun.

It is our desire to completely comply with Indiana laws and procedures related to offender trust funds and to maintain accountability for those funds entrusted to us. Please let me know if this response raises any additional questions or concerns.

Sincerely,

A handwritten signature in black ink, appearing to read "Edwin G. Buss". The signature is written in a cursive, flowing style.

Edwin G. Buss,
Commissioner

C: Mr. Daniel G. Ronay
Mr. Joseph P. Fistrovich
Mr. Robert Bugher
Ms. Lisa Cottingham

March 20, 2009

Daniel L. Heilman, Field Examiner
Indiana State Board of Accounts
302 West Washington St., Room E418
Indianapolis, IN 46204-2765

Re: IMRC/IWRC Audits

Your letter of March 12, 2009, and the accompanying enclosure were received. After further review, I must conclude there is little more I can add to what I have already provided. However, there is a matter requiring clarification I want to make in reference to page 4 under the heading "Undeposited Trust Fund Receipts", second paragraph.

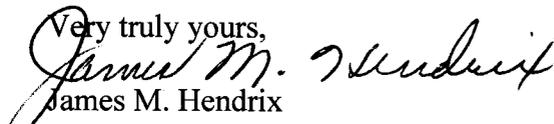
IDOC's internal audit staff was not solely involved in identifying or recovering the undeposited receipts until months into this matter. It wasn't until Judy Burkhardt, Accountant/IDOC was assigned to the task that the Department's fiscal division played any part in the audit and subsequent recovery of funds. Prior to Mrs. Burkhardt's assignment, only four staff from the centers were engaged in attempting to resolve this matter: Sherri Foster, Administrative Assistant; Angela Heitman, Secretary; Julie Marchand, Account Clerk; and me. Please understand, however, that Mrs. Burkhardt's efforts were instrumental in recovering the bulk of the \$89,465.52 cited in your report. But her efforts were not the only ones.

Although I cannot account for the reason why Mrs. Snelson stepped outside established accounting regulations and protocols, but to her defense, the Department's downsizing and subsequent merger of fiscal activities lead to her inability to manage the job. Almost overnight, her workload increased from 138 accounts to 224. Regrettably, Mrs. Snelson didn't ask for help.

I am not reducing myself to pointing blame at any person or entity. That's for someone else. Nevertheless, the failure of fiscal accountability at these two facilities was symptomatic of a change in management philosophies without any forethought to potential adverse consequences.

I compliment you and your staff and the Commissioner of Corrections and his staff for the attention and effort finally dedicated to this issue.

Very truly yours,


James M. Hendrix
3907 Fruitridge Glen Lane
Terre Haute, IN 47803

JMH

Cc: Daniel Ronay
File

OFFENDER TRUST FUNDS
INDIANAPOLIS MEN'S AND WOMEN'S COMMUNITY RE-ENTRY FACILITIES
INDIANA DEPARTMENT OF CORRECTION
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Melody Snelson, former IDOC Trust Fund Clerk:			
Undeposited Trust Fund Receipts, pages 4 and 5	\$ 184,292.32	\$	\$
Recovered by IDOC Internal Audit, pages 4 and 5		89,465.52	94,826.80
Offender Checks Not Posted to OTS, page 5	<u>10,849.96</u>	-	<u>10,849.96</u>
Totals	<u>\$ 195,142.28</u>	<u>\$ 89,465.52</u>	<u>\$ 105,676.76</u>

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AFFIDAVIT

STATE OF INDIANA)
)
MARION COUNTY)

I, Daniel Heilman, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the Indiana Indianapolis Men's and Women's Community Re-Entry Facilities, Department of Correction, for the period from March 1, 2005 to February 29, 2008, is true and correct to the best of my knowledge and belief.

Daniel Heilman
Field Examiner

Subscribed and sworn to before me this 8 day of April, 2009

Patricia A. Bonner
Notary Public

My Commission Expires: 10-06-2014

County of Residence: Hamilton

PATRICIA BONNER
Notary Public
SEAL
State of Indiana
My Commission Expires October 6, 2014