

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

AUDIT REPORT

OF

HANCOCK COUNTY SHERIFF - SPECIAL

HANCOCK COUNTY, INDIANA

January 1, 2007 to August 31, 2010



FILED

01/12/2011

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
County Officials	2
Transmittal Letter	3
Audit Results and Comments:	
Internal Controls	4-6
Inappropriate Receipt Documentation for Travel Expenditures	6-7
Shortage of Buy Money	7
Shortage of Money Pertaining to Accountable Items	8
Unallowable Commissary Fund Purchases.....	8-10
Unreported Income	10
Unauthorized Contract.....	10-11
Administrative Leave	11
Bond Coverage.....	11
Audit Costs	12
Exit Conference.....	13
Summary	14
Affidavit	15

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Vicki Saunders Linda Grass Rosemary Melvin (Interim) Robin Lowder	01-01-04 to 12-31-07 01-01-08 to 06-22-09 06-23-09 to 07-01-09 07-02-09 to 12-31-11
Sheriff	Calvin Gray	01-01-07 to 12-31-10
President of the Board of County Commissioners	Jack Heiden Derek Towle	01-01-07 to 12-31-08 01-01-09 to 12-31-10
President of the County Council	William Bolander	01-01-07 to 12-31-10



STATE OF INDIANA
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TO: THE OFFICIALS OF HANCOCK COUNTY

We have audited the records of the Hancock County Sheriff for the period from January 1, 2007 to August 31, 2010, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments. The financial transactions of this office are reflected in the Annual Reports of Hancock County for the years ended 2007, 2008, 2009 and 2010.

STATE BOARD OF ACCOUNTS

November 22, 2010

HANCOCK COUNTY SHERIFF - SPECIAL AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

During the course of our audit we identified several areas at the Hancock County Sheriff's Department where internal controls were not in place or not working effectively. Internal controls are important for any unit of government to establish in order to provide reasonable assurance of the financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. A proper internal control structure will mitigate the risk of improper activities either due to error or fraud. We identified three main areas where that lack of internal controls led to questionable financial information, inefficient operations, and non compliance with laws and regulations.

- **Oversight of Cash Funds:** There was not enough oversight involved in the administration of the cash funds at the Sheriff department. During the course of our audit we identified two separate cash funds that were not monitored well. The Sheriff's buy money was handled in cash. The cash on hand was not reconciled to the buy money ledger and in 2010 a buy money ledger was not maintained. The Sheriff's Department also had a "brass fund," in which cash was maintained at the Sheriff's Department to be used for flower purchases and other items. An appropriate ledger was not kept for this fund and this money was never turned over to the County Auditor to ensure proper segregation of duties for any disbursements. The lack of controls pertaining to the cash funds led to an increased risk of fraud and error and poor accountability.
- **Approved Written Policies:** There is a lack of approved written policies at the Sheriff's Department. In almost every area we investigated, the Sheriff's Department had a separate informal policy that was not written or approved. In many instances, nothing could be provided for audit that would allow us to ensure that activities were allowable and being properly executed based on management's objectives. We found this to be an issue in the following areas:
 - **Clothing Allowance** – Based on a verbal policy, the Sheriff's Department Detectives and the Sheriff are to receive \$500 reimbursement for clothing to wear on the job. A written policy could not be provided to substantiate this agreement. We identified that the clothing allowance was paid from 2007 to 2010; however, in some cases the Sheriff and other Detectives were paid more than the \$500 allowance. Without properly approved policies, we were unable to determine what was allowable by management.
 - **Shoe stipends and reimbursements for uniforms** - In 2010, jail employees were given a shoe stipend of up to \$90 and reserve officers started receiving reimbursement for uniforms. There were no formal written policies provided for audit regarding these additional items nor were they a part of the county salary ordinance.
 - **Policies related to Undercover Operations** – Based on a verbal policy, undercover officers are to receive \$50 day. A written policy could not be provided that substantiated this amount. A register was presented for audit which contained activity related to an undercover operation. The undercover officer received cash payments periodically to fund the undercover operation which were included as receipts on the ledger. Cash monies were used by an undercover investigator for three purposes:

HANCOCK COUNTY SHERIFF - SPECIAL
AUDIT RESULTS AND COMMENTS
(Continued)

\$50 daily allowance for the undercover officer; supplies purchased by the undercover officer; and drug buys. The ledger showed cash remaining at the end of the operation, and this money was never returned. Without a policy in place to indicate the proper operations of this money, we were unable to determine if the money should have been returned to the County following the operation.

- **Per Diem** - In some instances we were provided with a County policy and then found that the Sheriff was following a different policy, such as with per diem rates. The Sheriff's Department paid per diem to officers in a travel status at \$35 per day in 2007, 2008, 2009, and thru May 2010. The County policy in place during that time was set at a maximum of \$26 per day. There was not a separate per diem policy provided for audit pertaining to the Sheriff's Department. On May 2, 2010, the County changed their per diem rate to a maximum of \$52 per day via ordinance 2010-2F. The Sheriff's Department changed their informal policy and paid per diem at \$52 per day after May 2010. There were also numerous instances in which the Sheriff Department issued per diem checks in advance of the trip. The County policy calls for per diem to be reimbursed. We also identified per diem stipends for multiple officers issued on one check. The check would be written to one officer for multiple officers' per diem and that officer would then have the responsibility of getting the appropriate per diem amount to the other officers. Lastly, the county policy sets maximum amounts for per diem reimbursement based on specific dollar limits for breakfast, lunch and dinner. The Sheriff Department has been paying a set amount regardless of what was actually spent on the individual meals.

Having policies to abide by are crucial to an effective internal control structure. The lack of detailed policies in this case allowed for questionable activities to occur that might not have been reflective of management's goals and objectives.

- **Lack of Internal Controls over Credit Cards and Credit Card Expenditures** – The Sheriff Department has three credit cards in use with the same account number. The credit cards were used for various expenditures throughout the audit period. Several different Sheriff personnel used the credit card at different times. There was no process in place to ensure who was using the card and for what purpose. A majority of the expenditures charged to the Sheriff's credit card were for travel expenditures. We identified several concerns with the travel expenditures made with the credit card. The documentation provided for these expenditures was lacking in many instances, including lack of documentation for the business purpose of the travel expenditure and lack of documentation for extradition expenses.
 - **Lack of Documentation of the Business Purpose of the Travel Expenditure** – There were several travel related expenditures identified for which we could not determine the business purpose. In most cases, there was little, to no, documentation as to the reason for the travel. We attempted to confirm the reason for the travel with unit officials; however, the end conclusion was that some travel expenditures charged to the credit card were still considered questionable. Without any documentation as to the business purpose of the travel expenditure, we could not ensure compliance with appropriate laws concerning payment out of the county and commissary funds, nor could we ensure that the travel expenditure was attributable to county business. The total amount of travel expenditures for which the business purpose of the expenditure was called into question totaled \$10,285.74.

HANCOCK COUNTY SHERIFF - SPECIAL
AUDIT RESULTS AND COMMENTS
(Continued)

- o **Lack of documentation to verify extradition expenditures** - Some of the items charged to the credit card were attributable to extraditions. The total amount of extradition expenditures charged to the credit card equaled \$11,201.78. The internal controls for extradition cases that the Sheriff's Department handles directly were non-existent. There was little documentation supporting the reason for the inmate transportation or documentation supporting the location or facility that the prisoner is picked up from. This called entire extradition trips into question. Numerous trips were taken by Sheriff personnel for extraditions. The only way to verify the validity of these extraditions was to inspect the jail log. This is a cumbersome and complicated process and we were unsuccessful in tracking these extraditions. Due to the lack of documentation and controls over the extradition trips and the associated expenses charged, the authenticity and allowability of these expenses were considered questionable.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

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. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

INAPPROPRIATE RECEIPT DOCUMENTATION FOR TRAVEL EXPENDITURES

We investigated all travel expenditures for the period January 1, 2007 through July 26, 2010, including hotel stays, meals, and gas that were charged to the credit card. In total, the travel expenditures for the period investigated were \$52,841.65. Based on evidence provided for audit, we categorized these travel expenditures as either for training, extraditions, or an unknown business purpose. There were several charges to the credit card which did not contain appropriate receipt documentation. There were no receipts provided for the 2007 credit card expenditures and many other missing receipts for the other years investigated. Below is a summary of total expenses lacking appropriate receipt documentation:

<u>Purpose</u>	<u>Total Amount of Expenditures</u>	<u>Receipts Not Provided</u>
Training	\$ 31,354.13	\$ 17,988.65
Extraditions	11,201.78	4,959.55
Unknown	10,285.74	3,450.45
Totals	<u>\$ 52,841.65</u>	<u>\$ 26,398.65</u>

HANCOCK COUNTY SHERIFF - SPECIAL
AUDIT RESULTS AND COMMENTS
(Continued)

All claims, invoices, receipts, accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

We have requested Hancock County Sheriff, Calvin Gray, to reimburse Hancock County \$26,398.65 due to inappropriate receipt documentation for travel expenditures. (See Summary, page 14)

SHORTAGE OF BUY MONEY

The Buy Money Fund was short \$9,940.84 as of August 4, 2010. There is a ledger associated with the Buy Money Fund. A ledger was maintained for 2007, 2008 and 2009 but no ledger was maintained for 2010. There are also "Requests for Official Funds" forms used in association with the drug Buy Fund. These forms document when cash monies are withdrawn from the fund. The forms are dated and signed by the disbursing officer and the receiving officer. The amount of money and reason for use of the money is documented. These forms also document any monies returned in instances when smaller quantities of drugs are purchased than originally intended. These forms were presented for 2010 and were used to determine the amount of drug purchases made from the fund in 2010. After consideration of the monies assigned to the fund and the drug purchases made from the fund it was determined that the fund was short by \$9,940.84.

A policy was provided for audit which indicates that the Hancock County Drug Enforcement Supervisor will "review, analyze, document, and approve the use of official funds in accordance with the Hancock County Drug Enforcement Section policy." The Hancock County Drug Enforcement Supervisor is Sergeant Brian Ellison.

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

We have requested Sergeant Brian Ellison, to reimburse Hancock County \$9,940.84 due to the shortage of the buy money. (See Summary, page 14)

HANCOCK COUNTY SHERIFF - SPECIAL
AUDIT RESULTS AND COMMENTS
(Continued)

SHORTAGE OF MONEY PERTAINING TO ACCOUNTABLE ITEMS

The Sheriff's Department sold used metal shell casings and equipment for scrap in 2008 and 2009. These proceeds were not deposited in any bank account or turned into the County Auditor to be deposited in the Sheriff's Department funds. Instead, these monies were held internally in a separate fund, identified as the "brass fund," that was used for paying for sympathy flowers on behalf of Sheriff Employees. There was no enabling statute or County ordinance or resolution to establish the fund. The entire amount of these monies should have been deposited in the County General Fund or another fund if a county ordinance was created to establish the new fund.

There was not a ledger to account for the activity of this fund; however, receipts from the metal vendors were maintained and invoices or memorandums were retained for the disbursements. The documentation provided identified more in disbursements than money received. Receipts provided for audit for this fund totaled \$1,654.81. Provided for audit were invoices totaling \$782.44 which included payments to various vendors for flowers and some party items. At the time of our audit, there was \$5.86 left on hand, which results in a shortage of \$866.51.

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

We have requested Hancock County Sheriff, Calvin Gray, to reimburse Hancock County \$866.51 due to the shortage of collections pertaining to the accountable items. (See Summary, page 14)

UNALLOWABLE COMMISSARY FUND PURCHASES

Review of the commissary ledger and credit card charges revealed several expenditures that would not be allowable out of the Commissary Fund. Review of the commissary ledger identified expenditures for staff pictures, retirement parties and donations. Review of credit card expenditures identified that \$426.39 was paid out of the Commissary Fund for extraditions. Extraditions are not an allowable expense out of the Commissary Fund. Lastly, we identified credit card expenditures charged to "Cambridge Who's Who" in the amount of \$797.95. There was no business purpose provided for these purchases. Below is a summary of the unallowable expenditures made from the Commissary Fund:

HANCOCK COUNTY SHERIFF - SPECIAL
AUDIT RESULTS AND COMMENTS
(Continued)

Sheriff Retirement Rings	\$ 9,119.56
Retirement Parties	4,647.27
Donation to the Tigers Softball Club	300.00
Extradition Expenses Paid from the Commissary Account	426.39
Cambridge Who's Who	<u>797.95</u>
 Total of Unallowable Commissary Expenses	 <u><u>\$ 15,291.17</u></u>

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

IC 36-8-10-21 states in part:

" . . . (d) The sheriff, or the sheriff's designee, at the sheriff's or the sheriff's designee's discretion and without appropriation by the county fiscal body, may disburse money from the fund for:

- (1) merchandise for resale to inmates through the commissary.
- (2) expenses of operating the commissary, including, but not limited to, facilities and personnel.
- (3) special training in law enforcement for employees of the sheriff's department;
- (4) equipment installed in the county jail;
- (5) equipment, including vehicles and computers, computer software, communication devices, office machinery and furnishings, cameras and photographic equipment, animals, animal training, holding and feeding equipment and supplies, or attire used by an employee of the sheriff's department in the course of the employee's official duties;
- (6) an activity provided to maintain order and discipline among the inmates of the county jail;
- (7) an activity or program of the sheriff's department intended to reduce or prevent occurrences of criminal activity, including the following:
 - (A) Substance abuse.
 - (B) Child abuse.
 - (C) Domestic violence.
 - (D) Drinking and driving.
 - (E) Juvenile delinquency;

HANCOCK COUNTY SHERIFF - SPECIAL
AUDIT RESULTS AND COMMENTS
(Continued)

- (8) expenses related to the establishment, operation, or maintenance of the sex and violent offender registry web site under IC 36-2-13-5.5; or
- (9) any other purpose that benefits the sheriff's department that is mutually agreed upon by the county fiscal body and the county sheriff."

We have requested Hancock County Sheriff, Calvin Gray, to reimburse Hancock County \$15,291.17 due to the unallowable Commissary Fund purchases. (See Summary, page 14)

UNREPORTED INCOME

The Hancock County Sheriff receives a portion of the payment received for the collection of tax warrants. These are paid to the Sheriff through a vendor check and are not run through the payroll system. These payments to the Sheriff were not reported by the County to the Internal Revenue Service as income earned. The following is a schedule of those payments by year for Sheriff Calvin Gray:

2007	\$ 32,058.70
2008	29,728.69
2009	<u>6,133.51</u>
Total	<u>\$ 67,920.90</u>

The former Sheriff earned \$163.38 in compensation for 2007 which was also not reported by the County to the Internal Revenue Service.

Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 5)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

UNAUTHORIZED CONTRACT

Rental payments totaling \$9,000 were made to Johnson's Towing in 2010. The first two rental payments of \$3,000 each were made without a written contract. These payments were made on March 16, 2010 and May 25, 2010. There was an invoice associated with the May 2010 payment that indicated that the \$3,000 payment was for three months rent. No invoice was provided for the March payment. In November 2010 a memorandum was signed by Colonel Donnie Munden, Acting Sheriff, and the owner of Johnsons Towing, confirming the original arrangement of a month to month lease at \$1,000 per month. The letter also indicated that a final payment of \$3,000 was enclosed and the rental arrangement was ending as of November 2010.

HANCOCK COUNTY SHERIFF - SPECIAL
AUDIT RESULTS AND COMMENTS
(Continued)

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

Every effort should be made by the governmental unit to avoid unreasonable or excessive costs. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

ADMINISTRATIVE LEAVE

A jail officer was granted six weeks of administrative leave with pay by the Sheriff in 2010. The Sheriff was using a departmental policy manual called the jail rules and regulations manual as the justification for granting the administrative leave. The jail rules and regulations manual allows the Sheriff to place employees on leave with or without pay for "purposes in the best interest of the department."

The County Payroll Clerk was not made aware that the jail officer was not working. It is the normal practice that the County Payroll Clerk receives a summary of time worked as opposed to the detailed time sheets. These summaries indicated that the jail officer worked the entire pay period. There were detailed time sheets documenting the fact that the jail officer was on administrative leave but these were kept at the jail and the payroll clerk was not aware of the administrative leave.

The administrative leave section of the jail rules and regulations manual does not discuss the practical application of the policy in the context of good internal controls. We would suggest that a more detailed policy be approved by the board of county commissioners that outlines the circumstances in which administrative leave with pay would be applicable, what paperwork should be on file related to the authorization of paid administrative leave, and how the county payroll clerk would be notified when a Sheriff employee is placed on paid administrative leave.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

BOND COVERAGE

The following is a schedule of bond coverage the County obtained on Sheriff Calvin Gray.

<u>Surety</u>	<u>Period of Coverage</u>	<u>Bond Number</u>	<u>Bond Amount</u>
Western Surety Company	03-23-07 to 03-23-08	070003979	\$ 15,000
Western Surety Company	03-03-08 to 03-03-09	080002353	15,000
Western Surety Company	03-03-09 to 03-03-10	090003937	15,000
Western Surety Company	03-03-10 to 03-03-11	100002354	30,000

Sergeant Brian Ellison was covered by the County's general blanket bond. The bond covers 198 full-time employees and 53 part-time employees. The following is a schedule of the blanket bond coverage.

<u>Surety</u>	<u>Period of Coverage</u>	<u>Bond Number</u>	<u>Bond Amount</u>
Western Surety Company	Continuous	080006995	<u>\$ 50,000</u>

HANCOCK COUNTY SHERIFF - SPECIAL
AUDIT RESULTS AND COMMENTS
(Continued)

AUDIT COSTS

Additional costs were incurred by the State of Indiana during the current audit due to misappropriation of funds by Sheriff Calvin Gray and Detective Sergeant Brian Ellison.

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 Counties, Chapter 1)

HANCOCK COUNTY SHERIFF - SPECIAL
EXIT CONFERENCE

The contents of this report were discussed on November 15, 2010, with Robin Lowder, Auditor; Derek Towle, President of the Board of County Commissioners; Donnie Munden, Interim Sheriff; Susan Powers, Jail Matron; and Ray Richardson, County Attorney. The officials concurred with our findings.

The contents of this report were discussed on November 17, 2010, with Calvin Gray, Sheriff, and Tyler D. Helmond, Personal Attorney.

The contents of this report were discussed on November 17, 2010, with Brian Ellison, Detective Sergeant, and James McNew, Personal Attorney.

The contents of this report were discussed on November 22, 2010, with John Jester, Greenfield Chief of Police; Andy Craig, Hancock County Police Major; and Neal Freeman, FBI Detective.

The contents of this report were discussed over the telephone on November 24, 2010, with William Bolander, President of the County Council.

HANCOCK COUNTY SHERIFF - SPECIAL
SUMMARY

	Charges	Credits	Balance Due
Calvin Gray, Sheriff: Inappropriate Receipt Documentation for Travel Expenditures, pages 6 and 7	\$ 26,398.65	\$ -	\$ 26,398.65
Brian Ellison, Sergeant: Shortage of Buy Money, page 7	9,940.84	-	9,940.84
Calvin Gray, Sheriff: Shortage of Money Pertaining to Accountable Items, page 8	866.51	-	866.51
Calvin Gray, Sheriff: Unallowable Commissary Fund Purchases, pages 8 through 10	15,291.17	-	15,291.17
Totals	\$ 52,497.17	\$ -	\$ 52,497.17

