

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

REVIEW REPORT

OF

INDIANA DEPARTMENT OF HOMELAND SECURITY

STATE OF INDIANA

February 1, 2007 to February 28, 2011



FILED
12/09/2011

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AGENCY OFFICIALS

Office

Official

Term

Executive Director

J. Eric Dietz
Joseph E. Wainscott, Jr.

03-28-05 to 03-16-08
03-17-08 to 01-13-13



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE INDIANA DEPARTMENT OF HOMELAND SECURITY

We have reviewed the receipts, disbursements, and assets of the Indiana Department of Homeland Security for the period of February 1, 2007 to February 28, 2011. The Indiana Department of Homeland Security's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Indiana Department of Homeland Security are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations, except as stated in the review comments.

STATE BOARD OF ACCOUNTS

June 28, 2011

INDIANA DEPARTMENT OF HOMELAND SECURITY
REVIEW COMMENTS
February 28, 2011

DAILY DEPOSITS AND INTERNAL CONTROLS OVER REVENUES

The Indiana Department of Homeland Security Fiscal Division, as a matter of process, receives revenue collections from various divisions on one day, posts the collections into their computerized permitting system the next day, and deposits the payments with the Treasurer of State two business days after receiving the payment. The process is further delayed by: 1. any issues which prevent the collections from being posted to the computerized permitting system, and 2. divisional processes and workloads prior to the division's remittance of the collections to the Fiscal Division.

The two areas which, as a matter of process, are delayed to remit collections to the Fiscal Division are the Elevators and Amusement Section and the Plan Review Section. The Elevators and Amusements Section holds applications and payments for a new elevator if a code variance is required pending approval by the Fire Prevention and Building Safety Commission, which meets monthly. The delay for the Elevators and Amusements Section may be a month or longer after the application is received by the division. The Plan Review Section is consistently backlogged by at least a couple of days to input new applications into the computerized permitting system.

In addition, neither section restrictively endorses checks immediately upon receipt and does not physically secure checks prior to remitting to the Fiscal Division.

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."

Checks should be restrictively endorsed with an endorsement stamp immediately upon receipt. This would occur upon opening the mail or otherwise receiving the instrument (check) . . . Safeguard the collections through locked drawers, cabinets or safes, particularly during breaks, lunchtime, and overnight. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 4.3.2)

INDIANA DEPARTMENT OF HOMELAND SECURITY
REVIEW COMMENTS
February 28, 2011
(Continued)

INTERNAL CONTROLS OVER DISBURSEMENTS

During our review of the disbursements of the Department of Homeland Security, we noted that 23 out of 50 (46%) disbursements tested were entered by Accounts Payable staff with an account number which did not appear reasonable given the actual nature of the disbursement. This is a concern over the internal controls for the recording of the financial activities.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An agency's control environment consists of the overall attitude, awareness and actions of management and the governing board or commission. This would include establishing and monitoring policies for developing and modifying accounting systems and control procedures. (Accounting and Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview)

CAPITAL ASSET INVENTORY

The capital asset inventory of the Indiana Department of Homeland Security is not complete as to retirements and custodian changes. Additionally, a complete annual physical inventory of assets owned has not been conducted.

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

INDIANA DEPARTMENT OF HOMELAND SECURITY
EXIT CONFERENCE

The contents of this report were discussed on November 22, 2011, with Joseph E. Wainscott, Jr., Executive Director, and Caitlin McKenna, Policy Development and Research Branch Chief and Interim Chief Financial Officer. The Official Response has been made a part of this report and may be found on pages 7 through 9.

The contents of this report were emailed on November 7, 2011, to J. Eric Dietz, former Executive Director.



MITCHELL E. DANIELS, Jr., Governor
STATE OF INDIANA

DEPARTMENT OF HOMELAND SECURITY JOSEPH E. WAINSCOTT, JR., EXECUTIVE DIRECTOR

*Indiana Department of Homeland Security
Indiana Government Center South
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November 28, 2011

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

Re: State Compliance Audit of Indiana Department of Homeland Security, January 2007
– January 2011

Dear Mr. Hartman,

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

- a. **Foundation – Internal Controls Over Disbursements.** The review comments read:

“We noted that 13 out of 15 (87%) disbursements tested from the Foundation’s fund were entered by Accounts Payable staff with an account number which did not appear reasonable given the actual nature of the disbursement. This is a concern over the internal controls for recording of the financial activities.”

When the state transitioned to Encompass, the entire account structure was re-organized. IDHS Staff continued to record vouchers using the transitioned account number, without any for knowledge of the account number changes. When Jennifer audited she determined we were applying the transitioned account number for federal grants instead of the new account number for state funded grants.

This situation has now been rectified and all A/P and Procurement staff are now informed as to what to look for and apply to these disbursements.

This has no effect on the actual disbursements, nothing was paid incorrectly, and this does not affect the Foundation Fund.

- a. **Operating Account – Daily Deposits and Internal Controls Over Revenues.** The review comments read:

“The Elevators and Amusements Section holds applications and payments for a new elevator if a code variance is required pending approval by the Fire Prevention and Building Safety Commission, which meets monthly. The delay for the Elevators and Amusements Section may be a month or longer after application is received by the division. The Plan Review Section is consistently

backlogged by at least a couple of days to input new applications into the computerized permitting system.

In addition, neither section restrictively endorses checks immediately upon receipt and does not physically secure checks prior to remitting to the Fiscal Division.”

The daily deposit issues were unknown to IDHS Fiscal. Once identified, the appropriate steps were taken to ensure this no longer happens. IDHS IT is working on a log in process for Plan Review which will enable them to log in and assign a project number for the payment so it can be submitted to Fiscal within 24 hours of receipt. All other receipts are being entered in the DFBS system and deposited with the Treasurer of State within 24 hours. To further ensure compliance, all checks received in the mailroom are stamped with the date they are received.

- b. **Operating Account – Internal Controls Over Disbursements.** The review comments read:

“During our review of the disbursements of the Department of Homeland Security, we noted that 23 out of 50 (46%) disbursements tested were entered by Accounts Payable staff with an account number which did not appear reasonable given the actual nature of the disbursement. This is a concern over the internal controls for recording of the financial activities.”

This is the same issue as the comment regarding the Foundation. At the requisition level, the account number is entered when the vendor is selected. This account classification is entered by the vendor, not AOS or SBA, so it is often incorrect. This account number is not visible to IDHS staff until the PO is issued. When the PO is issued, the Procurement Staff is then able to change the account number to correctly identify the purchase. The Accounts Payable staff also has visibility of this account number when the payment is being prepared for the Auditor of State. To correct an account number at A/P Processing is extremely time consuming and requires all prior activity to be cancelled all the way back to the PO stage of processing. There is no immediate plan to correct this account issue at the vendor level by AOS, SBA or GMIS (IDOA) of which IDHS is aware.

- c. **Operating Account – Capital Asset Inventory.** The review comments read:

“The capital asset inventory of the Indiana Department of Homeland Security is not complete as to retirement and custodian changes. Additionally, a complete annual physical inventory of assets owned has not been conducted.”

Vehicles and contents, the trailers for IBEAM and DMORT, the warehouse on 30th street, the Search and Rescue Facility in Atterbury, and Five Points have been inventoried annually. We are currently in the process of doing a physical inventory of all items located at IGCS. To assist with this, an asset inventory module will be deployed in the iGMS on November 15, 2011. This will make inventory information (from a feed from ENCOMPASS) immediately available for each employee. The system will allow employees to review and affirm their current asset list. Additionally, employees will be able to note assets which are no longer in their controls due to disposition, transfer, or other circumstance. Data entered into the iGMS will be updated in the ENCOMPASS asset listing by the IDHS Asset Manager.

Thanks again for the assistance of the State Board of Accounts in connection with these issues. We are grateful for your assistance in helping IDHS to bring these areas into compliance with State Accounting Standards.

Please feel free to call me at 317.233.8501 should you have any questions or continuing concerns.

Sincerely,

Caitlin McKenna

Caitlin McKenna
Chief Financial Officer
Indiana Department of Homeland
Security

cc: Joseph E. Wainscott, Jr.
Jason Hutchens
Nancy Stevens
Rhonda Evans