

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

REVIEW REPORT  
OF  
INDIANA DEPARTMENT OF CORRECTION

December 1, 2008 to January 31, 2012



**FILED**  
07/20/2012



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Agency Officials .....	2
Independent Accountant's Report.....	3
Other Reports.....	4
Review Comments:	
Central Office:	
Employer Provided Vehicle Use .....	5
Subsistence Fund Transfers .....	5
Violent Crime Victims Compensation Fund .....	5
Late Payment Penalty .....	6
PEN Products Division:	
Late Payment Penalty .....	6
Exit Conference.....	7
Official Response .....	8-10

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commissioner, Indiana Department of Correction	J. David Donahue Edwin G. Buss Bruce Lemmon	01-10-05 to 07-31-08 08-01-08 to 01-16-11 01-17-11 to 01-13-13



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

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

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE INDIANA DEPARTMENT OF CORRECTION

We have reviewed the activities related to the receipts, disbursements, and assets of the Indiana Department of Correction for the period of December 1, 2008 to January 31, 2012. Indiana Department of Correction'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. Federal programs are included in the scope of our statewide single audits as reflected in the Statewide Single Audit Reports.

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

The Indiana Department of Correction's response to the Review Comments identified in our review is described in the accompanying section of the report entitled Official Response. We did not review the Indiana Department of Correction's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Indiana Department of Correction's management and others within the entity and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office reviewed.

STATE BOARD OF ACCOUNTS

May 23, 2012

DEPARTMENT OF CORRECTION  
OTHER REPORTS

Separate review reports are prepared for the following institutions:

Branchville Correctional Facility  
Camp Summit  
Chain O'Lakes Correctional Facility  
Correctional Industrial Facility  
Edinburgh Correctional Facility  
Henryville Correctional Facility  
Indiana State Prison  
Indiana Women's Prison  
Indianapolis Re-entry Educational Facility  
Logansport Juvenile Correctional Facility  
Madison Correctional Facility  
Madison Juvenile Correctional Facility  
Miami Correctional Facility  
Pendleton Correctional Facility  
Pendleton Juvenile Correctional Facility  
Plainfield Correctional Facility  
Putnamville Correctional Facility  
Reception Diagnostic Center  
Rockville Correctional Facility  
South Bend Juvenile Correctional Facility  
Wabash Valley Correctional Facility  
Westville Correctional Facility

INDIANA DEPARTMENT OF CORRECTION  
REVIEW COMMENTS  
JANUARY 31, 2012

**CENTRAL OFFICE**

***Employer Provided Vehicle Use***

The Indiana Department of Correction (IDOC) allows certain employees to commute to and from work in state owned vehicles. Employees who commute in state vehicles are required to track the number of one way commutes and report those commutes on State Form 49632, Employee Statement of Employer Provided Vehicle Use. We found that DOC employees did not submit State Form 49632 timely. Some certified reports were submitted weeks late while others were submitted prior to the pay period in which the commuting occurred.

Per the Indiana Vehicle Fleet Management Policy, the Internal Revenue Service requires payroll tax withholding and compensation reporting (W-2) for employees using state owned vehicles for non-business or commuting purposes. These employees must complete and certify Statements of Employer Provided Vehicle use each pay period. Employees are required to maintain records and report on the number of one way (or round trip) commutes between the employee's home and place of work for each payroll period. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 10.4.1)

***Subsistence Fund Transfers***

Indiana Department of Correction (IDOC) contracts with three separate vendors for work release services. Offenders at work release facilities are required by IC 11-10-8-6(a)(5) to pay room and board from their wages. IDOC does not require the vendors to withhold and to remit to the State the costs for room and board from the earnings of the offenders residing at the contracted work release facilities. Therefore, IDOC is not in compliance with IC 11-10-8-6(a)(5).

IC 11-10-8-6(a)(5) states distribution from an offender's earnings shall include "the expense of room and board, as fixed by the department and the budget agency, in facilities operated by the department, or, if the offender is housed in a facility not operated by the department, the amount paid by the department to the operator of the facility or other appropriate authority for room and board and other incidentals as established by agreement between the department and the appropriate authority.

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 State and Quasi Agencies, Organizational Overview)

***Violent Crime Victims Compensation Fund***

As stated in the prior Report B34323, the Indiana Department of Correction did not properly monitor the work release facilities, state ran and contracted, to verify that the correct amounts were transferred into the Violent Crime Victims Compensation Fund. Transfers were not made in compliance with Indiana Code 11-10-8-6(a)(3).

Indiana Code 11-10-8-6(a)(3) states that "Ten percent (10%) of the offender's gross earnings, to be deposited in the violent crime victims compensation fund established by IC 5-2-6.1-40."

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 State and Quasi Agencies, Organizational Overview)

INDIANA DEPARTMENT OF CORRECTION  
REVIEW COMMENTS  
JANUARY 31, 2012  
(Continued)

***Late Payment Penalty***

Auditor of State accounting records reflect late payment penalties paid to vendors and charged to accounts of the Indiana Department of Correction, New Castle Correctional Facility, and Plainfield Educational Re-Entry as a result of untimely payment of claims. Total penalties for the fiscal year 2011 were \$195,924.44 and for the current fiscal year through April 30, penalties were \$1,842.18. These penalties are an unnecessary use of public funds.

Indiana Code 5-17-5 requires a state agency to ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, goods and services, equipment, and travel whenever the state agency . . . fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, 6.4.7.4)

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 for State and Quasi Agencies, Organizational Overview – General Guidelines and Policy, IV. Summary of Agency Accounting Responsibilities)

***PEN PRODUCTS DIVISION***

***Late Payment Penalty***

Auditor of State accounting records reflect late payment penalties paid to vendors and charged to accounts of PEN Products as a result of untimely payment of claims. Total penalties for fiscal year 2011 were \$76,324.52 and for the current fiscal year through April 30 penalties were \$15,796.90. These penalties are an unnecessary use of public funds.

Indiana Code 5-17-5 requires a state agency to ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, goods and services, equipment, and travel whenever the state agency . . . fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, 6.4.7.4)

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 for State and Quasi Agencies, Organizational Overview – General Guidelines and Policy, IV. Summary of Agency Accounting Responsibilities)

INDIANA DEPARTMENT OF CORRECTION  
EXIT CONFERENCE

The contents of this report were discussed on June 5, 2012, with Bruce Lemmon, Commissioner, Indiana Department of Correction. The Official Response has been made a part of this report and may be found on pages 8 through 10.

INDIANA DEPARTMENT OF CORRECTION

RESPONSES TO AUDIT FINDINGS

JUNE 20, 2012

CENTRAL OFFICE

Employer Provided Vehicle Use

The Indiana Department of Correction Payroll Department does obtain and keep on record State Form 49632, Employee Statement of Employer Provided Vehicle Use, for all employees who utilize state owned vehicles. Because some of these forms were collected after the relevant payroll period, the IDOC will put a communication and management process in place whereby these forms will be due to the IDOC Payroll Department on the Wednesday after the pay period. If State Form 49632 is not submitted by then, the Payroll Department will send a reminder email to staff and copy the Controller. If, after two more days, State Form 49632 is still not received, another email will be sent copying the Controller and Chief of Staff. The IDOC believes that this process will reduce the amount of tardy or incomplete State Form 49632 for employees that drive state owned vehicles.

The IDOC has implemented PeopleSoft Time and Labor at Central Office and at most of the statewide facilities. There is a process in place, where the employer provided vehicle use information can be recorded biweekly in PeopleSoft such that the employee only has to fill out his/her timesheet electronically. The IDOC recommends a review of the State of Indiana Accounting Manual to allow utilization of PeopleSoft Time and Labor reporting of commuting instead of the paper State Form 49632.

Subsistence Fund Transfers

The Indiana Department of Correction does not require vendors to withhold costs for room and board from offenders' wages. However, given that the State only pays a portion of the vendor's total operating expenses, it would be in the vendor's best interest to withhold these costs from the offenders' wages. Additionally, although there is no formal IDOC waiver allowing the vendors to withhold and not remit these costs to the State, the IDOC believes the contractual language to be sufficient in lieu of a "waiver" document. The contracts state that the vendors must follow all State statutes and IDOC policies.

### Violent Crime Victims Compensation Fund

The Indiana Department of Correction is monitoring the Inmate Trust function of its Work Release facilities to ensure that the proper withholding of offender wages for the Violent Crime Victims Compensation Fund are being disbursed to the Criminal Justice Institute monthly.

Each Work Release facility is required to deduct ten percent (10%) of the offenders' gross earnings every month, to be deposited in the Violent Crime Victims Compensation fund established by IC 5-2-6.1-40. Inmate Trust is responsible for the calculation and the withholding of these funds from each offender's monthly gross earnings. The withheld funds are to be deposited into a subsidiary ledger. On the last business day of the month, the total of the withholdings being held in the subsidiary ledger will be disbursed. These checks will be sent to the IDOC Central Office. The checks will be logged, and each facility will be held accountable for these funds every month. The checks will then be forwarded to the Criminal Justice Institute from the IDOC Central Office.

If a monthly check is not received at Central Office, the facility will be contacted immediately and notified to remit the funds without further delay.

### Late Payment Penalty

The Indiana Department of Correction agrees with and is fully aware of the \$1,842.18 in late fee penalties incurred for the Indiana Department of Correction, New Castle Correctional Facility, and Plainfield Educational Re-Entry for the time period of July 1, 2011 through April 30, 2012. As noted in the audit finding, during an entire fiscal year, FY11, \$195,924.44 of late fee penalties was incurred and paid to vendors. From FY11 to FY12, IDOC late fee penalties decreased by 99.1%. Also, between these three Business Units, annual spend is over \$277m/yr. As a percentage of total budget, IDOC's FY12 late fee penalties are 0.0006%. IDOC agrees that these penalties are an unnecessary use of public funds and will continue working diligently to reduce this spend through greater accountability and vigilance over State taxpayer dollars spent.

## PEN PRODUCTS DIVISION

### Late Payment Penalty

The elevated levels of late payments incurred in Fiscal Year 2011 were primarily the result of \$2.6 million of Fiscal Year 2010 purchase orders not rolling over into 2011 and bridging problems between PeopleSoft and SysPro. These issues have been resolved and the late penalties have declined as of a result of these fixes.

The dollar amount of the Fiscal Year 2012 late penalties are unacceptable and PEN is implementing the following changes in their business processes to improve operating efficiencies and avoid late charges in the future.

- PEN is in the process of centralizing purchasing of raw materials and items for resale which represents in excess of 80% of PEN's purchase order dollars. The satellite locations will be responsible for purchasing consumable supplies, utilities and specialty papers for PEN's printing operation.
- PEN Central Office Fiscal Accounts Payable department has assumed full responsibility for processing invoices for purchase orders originating from the Central Purchasing group. This will shift the bulk of the vendor payment processing from 5 satellite locations down to one. PEN has changed the "remit to" address for all centralized purchases to PEN Central Office Accounts Payable department.
- PEN is implementing a business process to create and track electron payables packets including all documents required to process payables. This process will cut out the time in has taken in the past to physically send documents from the satellite locations to the PEN Central Office.
- PEN has identified "due on presentation" vendors requiring special processing, such as Knowledge Services and UPS, due to the 30-day trigger on late fees.

Printed Name: Commissioner Lemmon

Bruce Lemmon

Signature:



Title: Commissioner, Indiana Department of Correction

Date: June 20, 2012