

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

FINANCIAL STATEMENT EXAMINATION REPORT  
OF  
INDIANA SUPREME COURT DISCIPLINARY COMMISSION  
July 1, 2008 to June 30, 2011



**FILED**  
05/06/2013



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Independent Accountant's Report.....	3
Financial Statement:	
Statement of Receipts, Disbursements, and Cash Balances - Regulatory Basis .....	6
Notes to Financial Statement.....	7
Examination Results and Comments:	
Bank Reconciliations .....	8
Personal Use of a State Owned Vehicle .....	8
Internal Controls Over Revenue Collections .....	8-9
Capital Asset Inventory.....	9
Outstanding Checks .....	9
Exit Conference.....	10
Official Response .....	11-12

### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Secretary	Donald R. Lundberg	07-01-08 to 12-31-09
	Seth T. Pruden (Interim)	01-01-10 to 06-20-10
	G. Michael Witte	06-21-10 to 06-30-13
Chairperson of the Commission	Sally Franklin Zweig	07-01-08 to 06-30-09
	Corinne R. Finnerty	07-01-09 to 06-30-10
	Fred Austerman	07-01-10 to 06-30-11
	R. Anthony Prather	07-01-11 to 06-30-12
	Maureen Grinsfelder	07-01-12 to 06-30-13
Chief Justice of the Supreme Court	Hon. Randall T. Shepard	03-04-07 to 03-04-12
	Hon. Randall T. Shepard (Acting)	03-05-12 to 03-23-12
	Hon. Brent E. Dickson (Interim)	03-24-12 to 05-14-12
	Hon. Brent E. Dickson	05-15-12 to 07-18-16



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE INDIANA SUPREME COURT DISCIPLINARY COMMISSION

We have examined the accompanying financial statement of the Indiana Supreme Court Disciplinary Commission (Commission), for the period of July 1, 2008 to June 30, 2011. The financial statement is the responsibility of the Commission's management. Our responsibility is to express an opinion on the financial statement based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statement and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note 1, the Commission prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. The basis noted above is a different basis than that used in the prior period.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position and results of operations of the Commission for the period of July 1, 2008 to June 30, 2011.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the Commission for the period of July 1, 2008 to June 30, 2011, on the basis of accounting described in Note 1.

The Commission's response to the Examination Results and Comments identified in our examination is described in the accompanying section of the report entitled Official Response. We did not examine the Commission's response and, accordingly, we express no opinion on it.

Bruce Hartman  
State Examiner

March 25, 2013

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## FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the Indiana Supreme Court Disciplinary Commission (Commission). The financial statement and notes are presented as intended by the Commission.

INDIANA SUPREME COURT DISCIPLINARY COMMISSION  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH BALANCES -  
REGULATORY BASIS  
For The Years Ended June 30, 2009, 2010, And 2011

	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
Cash, July 1	\$ 1,343,171	\$ 1,143,257	\$ 1,121,508
Receipts:			
Registration fees	1,677,010	1,787,555	1,995,015
Reinstatements fees	2,000	3,000	3,000
Filing fees	10,350	10,050	8,855
Hearing costs collected	18,582	8,235	32,158
Interest income	6,330	3,694	4,231
Miscellaneous	1,203	1,169	572
Total receipts	<u>1,715,475</u>	<u>1,813,703</u>	<u>2,043,831</u>
Disbursements:			
Personnel services	1,613,710	1,537,315	1,355,245
Travel	40,636	48,574	54,830
Investigations and hearings	38,198	50,361	26,112
Dues, subscriptions and fees	15,757	14,824	21,225
Postage and supplies	21,840	17,825	25,610
Utilities, rent and parking	139,095	137,492	138,131
Insurance and maintenance	12,734	16,007	21,005
Equipment	27,834	705	21,055
Miscellaneous	5,585	12,349	40,991
Total disbursements	<u>1,915,389</u>	<u>1,835,452</u>	<u>1,704,204</u>
Excess (deficiency) of total receipts over (under) total disbursements	<u>(199,914)</u>	<u>(21,749)</u>	<u>339,627</u>
Cash, June 30	<u>\$ 1,143,257</u>	<u>\$ 1,121,508</u>	<u>\$ 1,461,135</u>

The accompanying notes are an integral part of the statement.

INDIANA SUPREME COURT DISCIPLINARY COMMISSION  
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

As an agency of the judicial branch of government, the Indiana Supreme Court Disciplinary Commission (Commission) is responsible for the investigation and prosecution of claims of misconduct against lawyers licensed to practice law in Indiana and for protecting lawyers against unwarranted claims of misconduct.

The accompanying financial statement presents the financial information for the Commission.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The regulatory basis differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred.

Note 2. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk. The Commission's deposits were insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund.

INDIANA SUPREME COURT DISCIPLINARY COMMISSION  
EXAMINATION RESULTS AND COMMENTS  
June 30, 2011

***BANK RECONCILIATIONS***

During our review of the Indiana Supreme Court Disciplinary Commission (Commission), it was discovered that the agency did not perform monthly bank reconciliations from July 1, 2010 to June 30, 2011. As a result of the monthly bank reconciliations not being performed, an overage of \$1,452.63 in the bank balance when compared to their general ledger was not detected. The Commission needs to perform a reconciliation to determine the source of the overage and make the appropriate adjustment(s) to the ledger.

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

***PERSONAL USE OF A STATE OWNED VEHICLE***

We observed that the Indiana Supreme Court Disciplinary Commission did not follow certain required reporting procedures relating to the personal usage of state owned vehicles for one of its employees. We also observed that the agency did not establish internal policies concerning the recording and reporting the use of state vehicles.

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 payroll 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, 10.4.4)

Each agency that owns their own vehicles has the responsibility to establish internal policies on recording and reporting the use of state vehicles. In establishing those policies, agencies should keep in mind their responsibility to ensure the vehicles are used for state business and that commuting or other personal use is reported for tax purposes. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 10.4.4)

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 Manual for State and Quasi Agencies, Organizational Overview - Guidelines & Policy)

***INTERNAL CONTROLS OVER REVENUE COLLECTIONS***

Our testing of revenue collections revealed the following deficiencies in the internal control structure:

1. Collections were not adequately safeguarded prior to being deposited by keeping them in an unsecured location.
2. Revenues were not consistently ready for the next courier pickup to provide for timely deposit. When receipts are not deposited timely the possibility that funds may be misplaced or stolen increases.

INDIANA SUPREME COURT DISCIPLINARY COMMISSION  
EXAMINATION RESULTS AND COMMENTS  
June 30, 2011  
(Continued)

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

Controls over the receipting recording, and accounting for 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 Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview - Guidelines & Policy)

***CAPITAL ASSET INVENTORY***

The Indiana Supreme Court Disciplinary Commission does not maintain a capital asset inventory. Capital assets are not tagged upon receipt. Additionally, an 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. Results of inventories should be retained for audit purposes. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 8.3)

***OUTSTANDING CHECKS***

During our examination of the outstanding checks at the Indiana Supreme Court Disciplinary Commission, we found that the outstanding checks list contained checks which have been outstanding for more than one year after issued.

Indiana Code 32-34-1-20, 32-34-1-26, and 32-34-1-27 provide that checks which have been issued and are outstanding for one year after they were written are presumed to be abandoned and are to be remitted to the Attorney General's Office as unclaimed property.

INDIANA SUPREME COURT DISCIPLINARY COMMISSION  
EXIT CONFERENCE

The contents of this report were discussed on April 9, 2013, with G. Michael Witte, Executive Secretary, and Alicia V. Wilson, Office Manager. The Official Response has been made a part of this report and may be found on pages 11 and 12.

A copy of the examination results and comments were sent by email on April 9, 2013, to Donald R. Lundberg, Seth T. Pruden, Sally Franklin Zweig, Corinne R. Finnerty, Fred Austerman, R. Anthony Prather, and Maureen Grinsfelder.

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G. MICHAEL WITTE  
EXECUTIVE SECRETARY

CHARLES M. KIDD  
DEPUTY EXECUTIVE SECRETARY

April 9, 2013

Mr. Bruce Hartman  
State Board of Accounts  
302 Washington Street, Room E418  
Indianapolis, IN 46204-2765

Re: 2012 audit of Disciplinary Commission

Dear Mr. Hartman:

On April 9, 2013, an exit interview was conducted by Matt Stone. This letter serves as the official response of the Disciplinary Commission to the audit conducted by the State Board of Accounts in 2012.

#### BANK RECONCILIATIONS

Monthly reconciliations are now occurring and have been occurring since first brought to this agency's attention in 2012. The source of the bank balance overage of \$1,452.63 in comparison to our ledger has not been identified despite a reconciliation of the account. One more attempt will be made to reconcile this overage. If it cannot be located, then an adjustment will be made in our ledger to bring the account into balance.

#### PERSONAL USE OF STATE OWNED VEHICLE

A take home vehicle use written policy has been implemented by the Disciplinary Commission. The employee is required to report miles and usage on Form 49632 and submit it bi-weekly with payroll. Form 49632 has been utilized since August 3, 2012. Take home use of the vehicle is now reported as a taxable benefit to the employee.

#### INTERNAL CONTROLS OVER REVENUE COLLECTIONS

A new, more secure lock box has been purchased and is locked in another locked location. Attention is now given to timely deposits via courier in relation to the day of collection and the corresponding day of courier pick up.

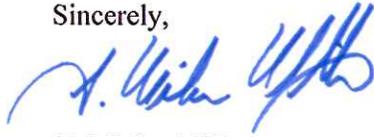
#### CAPITAL ASSET INVENTORY

Going forward, tagging and recording of the purchase of new physical inventory will be accomplished by the Disciplinary Commission as a result of this audit.

OUTSTANDING CHECKS

Of the several outstanding checks, one payee has been located and a new check issued. A second attempt at locating the payees of the other checks will occur. If the search is unsuccessful, then an adjustment will be made to the ledger and balance.

Sincerely,



G. Michael Witte  
Executive Secretary