

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

March 1, 2011 to February 28, 2014



FILED
08/22/2014

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AGENCY OFFICIALS

Office

Official

Term

Executive Director

Joseph E. Wainscott
John H. Hill

03-17-08 to 01-13-13
01-14-13 to 01-08-17



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE INDIANA DEPARTMENT OF HOMELAND SECURITY

We have reviewed the activities related to the receipts, disbursements, and assets of the Indiana Department of Homeland Security for the period of March 1, 2011 to February 28, 2014. 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. 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 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 and Quasi Agencies, and applicable laws and regulations, except as stated in the Review Comments.

The Indiana Department of Homeland Security'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 Homeland Security'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 Homeland Security's management, Executive Director, 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 Indiana State Board of Accounts and of the office reviewed.

STATE BOARD OF ACCOUNTS

June 25, 2014

INDIANA DEPARTMENT OF HOMELAND SECURITY
REVIEW COMMENTS
February 28, 2014

INTERNAL CONTROLS OVER TRAVEL CARDS

The following deficiencies in the internal controls over travel card disbursements were identified:

- Five out of ten monthly Travel Card vouchers tested contained transactions that were not in compliance with the Travel Card rules. Four of the ten monthly Travel Card vouchers tested contained disbursements for luggage fees.
- One of the ten monthly Travel Card vouchers contained two transactions that were charged to the Card by a person other than the cardholder. By signing the application and the appropriate Cardholder User Agreement, cardholders agree to not allow anyone to use their card.
- The two transactions referenced in item 2 were non-travel purchases which should not have been charged to a Travel Card.

Each agency, department, quasi, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standard setting bodies and also with various accounting guides, manuals and other publications. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview - General Guidelines & Policy, IV Summary of Agency Accounting Responsibilities)

As each Procurement Card and/or Travel Card is linked to a specific Agency and individual employee, the card cannot be transferred from one employee to another or from Agency to Agency with the employee. (State of Indiana Procurement Card and Travel Card Agency Program Administrator and Cardholder User Manual, page 9)

By signing the application and the appropriate Cardholder User Agreement, cardholders agree to not allow anyone to use their card. (State of Indiana Procurement Card and Travel Card Agency Program Administrator and Cardholder User Manual, page 11)

Due to State Policy, the following are prohibited to charge on the card: Restaurants or food, Luggage fees, Parking lots or garages, Entertainment. (State of Indiana Procurement Card and Travel Card Agency Program Administrator and Cardholder User Manual, page 17)

A Procurement Card and Travel Card must not be loaned to another person for use. (State of Indiana Procurement Card and Travel Card Agency Program Administrator and Cardholder User Manual, page 22)

CAPITAL ASSET INVENTORY

As stated in the prior report, the capital asset inventory is not complete as to retirements. Additionally, although progress has been made since the prior review, a complete annual physical inventory of assets owned has not been completed.

INDIANA DEPARTMENT OF HOMELAND SECURITY
REVIEW COMMENTS
February 28, 2014
(Continued)

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 of \$500 or more. 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)

Each year a physical inventory is to be taken and compared to the master listing from the ENCOMPASS Asset Management system. This helps to ensure the asset inventory is accurate and that assets have not left the agency without authorization. It also aids in identifying unused or obsolete assets. Evidence of the physical inventory must be maintained in the agency's records. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 8.4.6)

DAILY DEPOSITS AND INTERNAL CONTROLS OVER REVENUES

A Cash Book, into which all deposits of the day are recorded on the day of receipt, is not maintained by all divisions of the agency that receive public funds. Due to this, we were unable to verify if funds were deposited daily as required. We did do a test to see if funds were deposited daily by the fiscal division and our test identified one instance where the funds were not deposited by the next business day. Additionally the agency does not restrictively endorse checks immediately upon receipt.

A similar comment appeared in the prior report.

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."

Indiana Code 5-13-5-1(a) states:

"Every public official who receives or distributes public funds shall:

- (1) keep a cash book into which the public officer shall enter daily, by item, all receipts of public funds; and
- (2) balance the cash book daily to show funds on hand at the close of the day."

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). (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 4.3.2)

INDIANA DEPARTMENT OF HOMELAND SECURITY
EXIT CONFERENCE

The contents of this report were discussed on June 25, 2014, with John H. Hill, Executive Director, and Leann Walton, Chief Financial Officer. The Official Response has been made a part of this report and may be found on pages 7 and 8.

This report was provided on July 22, 2014, via email, to Joseph E. Wainscott, former Executive Director.



MICHAEL R. PENCE, Governor
STATE OF INDIANA

INDIANA DEPARTMENT OF HOMELAND SECURITY
302 West Washington Street
Indianapolis, IN 46204

"OFFICIAL RESPONSE"

David Jones
State Auditor
Indiana State Board of Accounts
302 W. Washington St. Rm. E418
Indianapolis, IN 46206

RE: State Compliance Audit of Indiana Department of Homeland Security, March 1, 2011 – February 28, 2014

Dear Mr. Jones,

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.

INTERNAL CONTROLS OVER TRAVEL CARDS, the audit review comments read:

During our review of the Travel Cards of the Indiana Department of Homeland Security, we noted the following deficiencies in the internal controls over Travel Card disbursements:

- 1) Five out of ten monthly Travel Card vouchers tested contained transactions that were not in compliance with the Travel Card rules. Four of the ten monthly Travel Card vouchers tested contained disbursements for luggage fees.
- 2) One of the ten monthly Travel Card vouchers contained two transactions that were charged to the Card by a person other than the cardholder. By signing the application and the appropriate Cardholder User Agreement, cardholders agree to not allow anyone to use their card.
- 3) The two transactions reference in item 2 were non-travel purchases which should not have been charged to a Travel Card.

Upon taking the CFO position with IDHS, there were processes in place regarding Purchasing and Travel cards. Staff followed these processes with the assumption that they were the correct guidance as it had been done that way since the inception of the program at IDHS. However the processes allowed for cards to be copied and staff having access to card numbers of other employees, which caused significant issues. These processes have been removed from current business practice.



Since this time IDHS has submitted an internal Procurement and Travel process to IDOA and we are waiting for their approval so we can train staff immediately once they pick their cards up from IDOA. This will prevent anyone from sending their card with another staff member, allowing purchases for items that are non-allowable on the card or mixing the two cards up and making a purchase.

CAPITAL ASSET INVENTORY the audit review comments read:

As stated in our prior report (B39921) the capital asset inventory of the Indiana Department of Homeland Security is not complete as to retirements. Additionally, although progress has been made since the prior review, a complete annual physical inventory of assets owned has not been completed.

IDHS' fixed asset inventory coordinator is approximately 95% complete with a complete physical inventory of the assets. This should be completed within two months and will be maintained by monthly physical inventory of assets that will allow for all assets to be inventoried by the end of the fiscal year.

DAILY DEPOSIT AND INTERNAL CONTROLS OVER REVENUES the audit review comments read:

As stated in our prior report (B39921), the agency does not consistently deposit revenues with the Treasurer of State within one business day following receipt. In addition, as we stated in the prior report, the agency does not restrictively endorse checks immediately upon receipt.

This issue has been resolved by the agency by having all mail come directly to the Finance Department, it is opened, the checks are removed, copied, and the copies replace the originals. The mail is then forwarded to the appropriate department for further processing. The check is endorsed immediately, dated stamped in for arrival in the division, and processed through the Accounts Receivable section within the required 24 hour timeframe per Indiana Code.

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 identify the deficiencies and allowing us to bring these areas into compliance with the State Accounting Standards.

Please feel free to contact me at 317-234-7008 should you have any questions or continuing concerns.

Sincerely,



Leann Walton
Chief Financial Officer
Indiana Department of Homeland Security

cc: John H. Hill
Stephanie Rencher