

State Board of Accounts Special Investigations





What is State
Board of Accounts
Special
Investigations and
What you need to
know about
IC 5-11-1-27(j) and
(k)(1)

We Investigate
Allegations of
Misappropriations
of Funds – Why?



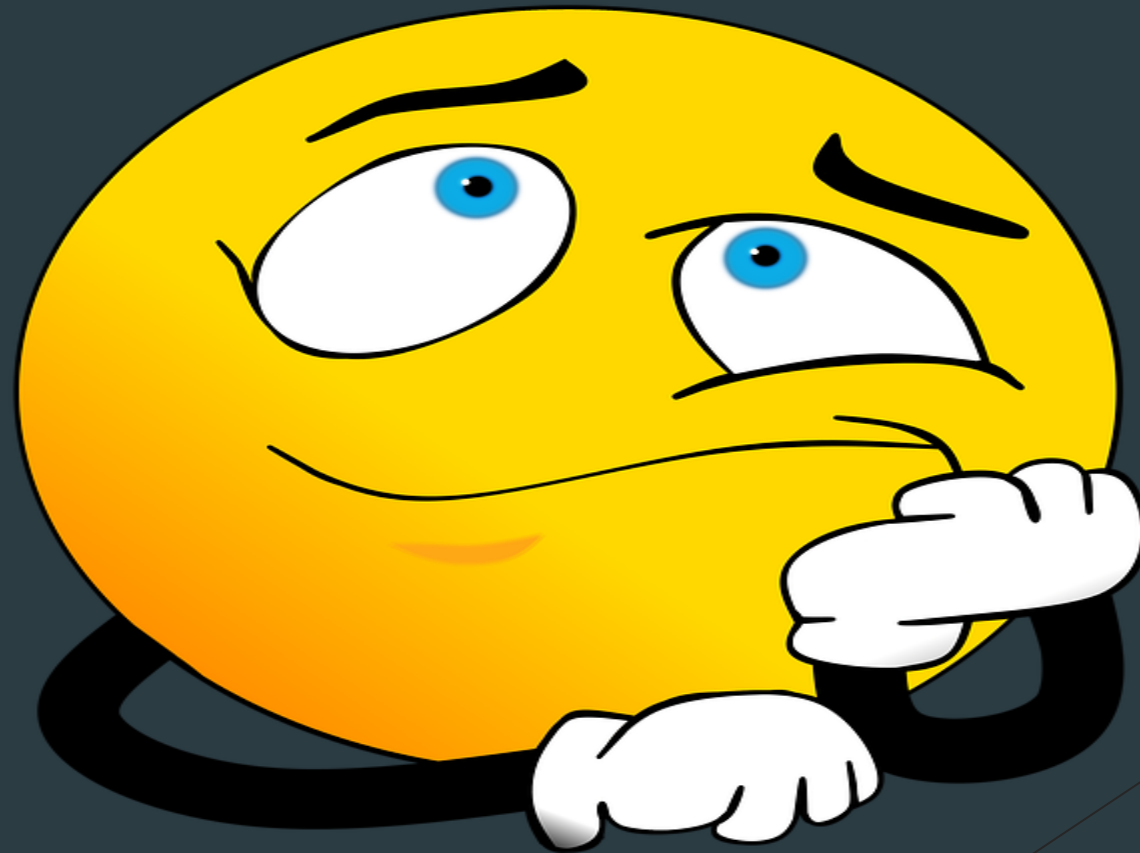
Because of Indiana Code

5-11-1-27(j) which states, in part:

. . . For all material variances, losses, shortages, or thefts, the state board of accounts shall:

- (1) determine the amount of funds involved and report the amount to the appropriate government and law enforcement officials; . . .

So HOW Does it begin?
With an Allegation of Course!



Where do Allegations Come From? What's the Sources?

- Public
- Employees
- Law Enforcement
- Office Holders
- State Board of Accounts Auditors
- News Media
- Some are Anonymous

ALL ARE KEPT CONFIDENTIAL

HOW are they Reported?



HOW are they Reported?

Old School:

Phone Call to:

- Director – like Chase Lennon or Jonathan Wineinger
 - Ed Wheele
- Special Investigations Supervisors:
 - (Tammy Baker or Michelle Janosky)
- Special Investigators
- Field Examiners/Auditors

Letter to the Office

New Technology:

Email to:

- Director – like Chase Lennon, Jonathan Wineinger
 - Ed Wheele
- Special Investigations Supervisors (Baker or Janosky)
- Special Investigators
- Field Examiners/Auditors

New Technology:

Indiana Government Website for State Board of Accounts:

[SBOA: Indiana State Board of Accounts](#)

Further per Indiana Code 5-11-1-27(k)(1):

A public officer who **has actual knowledge of** or **reasonable cause** to believe that there has been a misappropriation of public funds or assets of the public office, including:

- (1) information obtained as a result of a police report;
- (2) an internal audit finding; or
- (3) another source indicating that a misappropriation has occurred;

shall immediately send **written** notice of the misappropriation to the state board of accounts and the prosecuting attorney serving in the area governed by the political subdivision.

SBOA

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Fraud Reporting form

This form can be used by both local officials and citizens to report fraud or noncompliance with local, state, or federal laws and regulations. This information will be considered when planning and performing audits or other engagements for units that receive public funds.

*If an official - you may use this form to report erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property per IC 5-11-1-27(j).

*If a citizen - you may use this form to report known/suspected fraud or noncompliance with local, state, or federal laws and regulations.

*For those who wish to submit an anonymous complaint, you may place the word "Anonymous" in both the first and last name fields. Please fill out the contact information completely in the event that we wish to follow up to obtain more information.

Name: *

First Name

Last Name

Email: *

Confirm Email: *

Phone: *

Unit Name: *

Unit County:

Now back to US – Special Investigations – What we do



. . . .For all material variances, losses, shortages, or thefts, the state board of accounts shall:

- (1) determine the amount of funds involved and report the amount to the appropriate government and law enforcement officials; . . .

SBOA Special Investigations Role

- ▶ First, we will perform an assessment or mini-investigation to determine validity, likelihood of a misappropriation of funds, and determine records available for an investigation.
- ▶ Next steps: Where appropriate, conduct a focused investigation on the activities related to the potential criminal activity



Things to Keep in Mind:

- ▶ The matter will take time to resolve
- ▶ Emotions can run high, especially if it involves a long-term trusted employee
- ▶ Investigations are conducted with the highest level of professionalism
- ▶ Mismanagement, sloppiness, and ethical lapses are not criminal



SBOA Special Investigations Role – Further Compliance with IC 5-11-1-27(j)

- ▶ Per Indiana Code 5-11-1-27(j):
 - (1) determine the amount of funds involved and report the amount to the appropriate government and law enforcement officials;
 - (2) determine the internal control weaknesses that contributed to or caused the condition; and
 - (3) make written recommendations to the appropriate legislative body or appropriate official overseeing the internal control system addressing:
 - A. the method of correcting the condition; and
 - B. the necessary internal control policies and internal control procedures that must be modified to prevent a recurrence of the condition.

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Now this is Likely What
Everyone Looks: More
Current Special
Investigations Reports



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What Everyone Waits For: Recent Special Investigation Reports - Employees

1. Metropolitan School District Wayne Township, Former Extra-Curricular Treasurer - Collections Not Deposited \$82,142.16 and Unauthorized disbursements to herself and her adult daughter \$53,355.

1. Investigation Costs for SBOA: \$95,529.60



What Everyone Waits For: Recent Special Investigation Reports - Contractors

1. Gnow Bone Regional Sewer District
 1. Unsupported Bank Transfers by CPA/Contractor \$37,159.50
 2. Special Investigation Costs - \$17,598.82

AND

2. Helmsburg Regional Sewer District:
 1. Unsupported Bank Transfers by CPA/Contractor \$22,050.00
 2. Special Investigation Costs - \$17,045.10

. . . the District Board gave Muzzillo control over billing customers, receiving and depositing customer payments, and recording activity on the customer accounts. There was little or no oversight from the District Board on an ongoing basis. Due to this lack of segregation of duties, Muzzillo was able to: □ Transfer District funds to his personal and business bank accounts. □ Write and sign checks on the business account. □ Transfer funds between separate governmental units he handled.



What Everyone Waits For: Recent Special Investigation Reports - Beneficiaries

1. City of Indianapolis - Two Separate Reports: Police Pension Payments (1953 Pension Plan)
 1. Pensioner's Surviving Spouses passed away, pension payments directly deposited to a joint account or single account. When Survivors passed away it was not reported.
 1. Beverly McAdams the joint account holder collected \$245,352.12 in pension payments from 2007 to 2019.
Special Investigation Costs - \$8,557.12
 2. Estate of Joanne Flowers collected \$285,854.80
Special Investigation Costs - \$8,963.25

AND

2. City of Michigan City (1925 Police Pension Plan):
 1. Pensioner's Surviving Spouse passed away, pension payments directly deposited to Surviving Spouse's account transferred or used to pay expenses totaling \$75,399.31 - Pamela Westphal
Special Investigation Costs - \$2,800.12

The Cities did not have controls in place to verify existence and eligibility of pensioners still receiving benefits from these pension funds including reviewing and monitoring obituaries. Each City was relying upon the families of pensioners to make notifications of death.



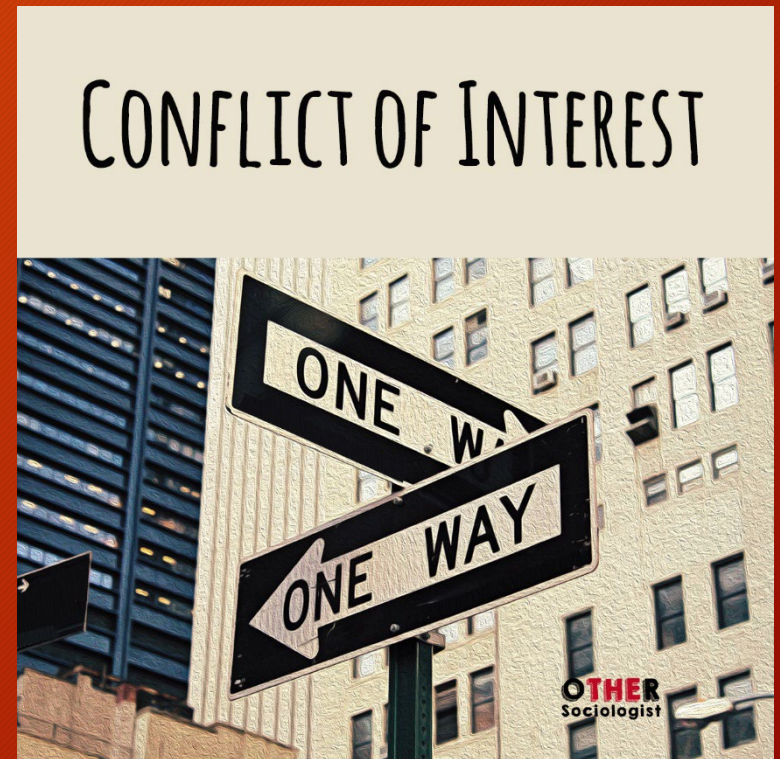
What Everyone Waits For: Recent Special Investigation Reports - Related Party Transactions?

1. City of Portage - Unauthorized Payments
 1. Payments made in 2015 and 2016 to companies owned and operated by the subsequent spouse of the Clerk-Treasurer for services including reconciling the bank accounts; however, evidence supporting bank reconcilments were performed in 2015 and 2016 was not provided, also written statements were made in the audit report to indicate the 2016 bank reconciliation was not performed until 2018. Total payments to contractor for 2016 bank reconcilments: \$8,000
 2. Special Investigation Costs - \$6,564.55

AND

2. Clinton County - Unauthorized Payments:
 1. Unauthorized payments from the Commissary Fund, lack of conflict of interest disclosure, and lack of following County's Nepotism Policy totaling \$219,634.65
 2. Special Investigation Costs - \$109,725.82

The Units did not have policies and procedures (Internal Controls) in place for monitoring and determining compliance with nepotism and conflict of interest policies.



Recent Special Investigation Reports BUT As a Compliance Report?? - Electronic or Cyber losses

- Clerk-Treasurer City of Hartford City
- January 1, 2019 to March 31, 2020

- UNAUTHORIZED BANK WITHDRAWALS - Between December 13, 2019 and December 31, 2019, SEVEN unauthorized bank transfers totaling \$75,563.19. The City was able to re-coop \$44,499.59, leaving the City's loss at \$31,063.60.

- HOW? Calvin Cline in the State of Washington was able to pay his credit card debt with City Funds.

- WHY? Bank reconcilements were not performed timely or accurately. No one was reviewing the reconcilements, so the unauthorized transactions were not reported to the bank timely.

Recent Special Investigation Reports BUT As a Compliance Report (Continued)

- Clerk-Treasurer City of Hartford City
- January 1, 2019 to March 31, 2020
- Continued:

- Per our Internal Controls Comment:
 - The City did not have internal controls in place . . . for changes due to technology. Per the Cities and Towns Bulletin and Uniform Compliance Guidelines from June, 2016, “With new technology . . . Use their smartphones to remote. . . Positive pay procedures for warrants, electronic funds transfers, or wire transfers, along with careful monitoring of the unit’s daily bank transactions, would help mitigate this risk. . .” Discuss options with your bank.

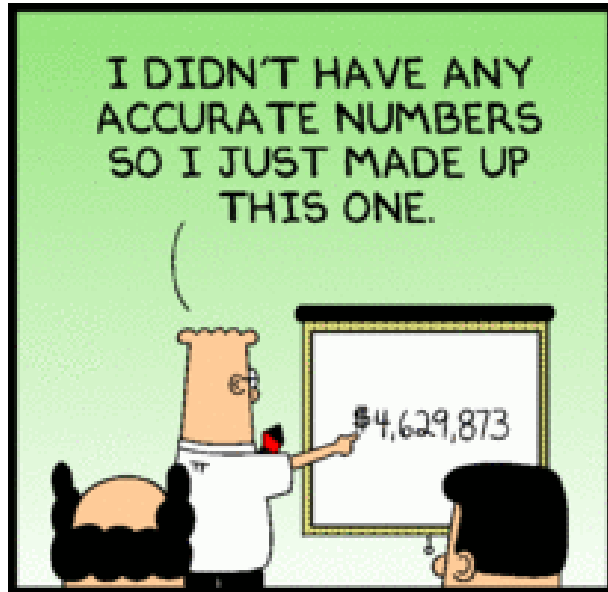
Costs



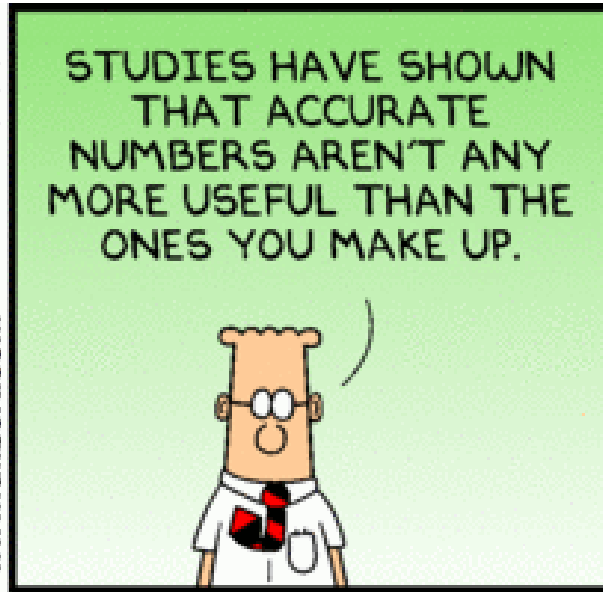


Monetary Costs:

- **Cost of Unit time**
- **Cost of investigators**
- **Cost of Attorneys**
 - **Cost of Court**



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Are there Other Costs?

Other Costs

**The Non-Monetary Cost
and the
Most Valuable Cost:**

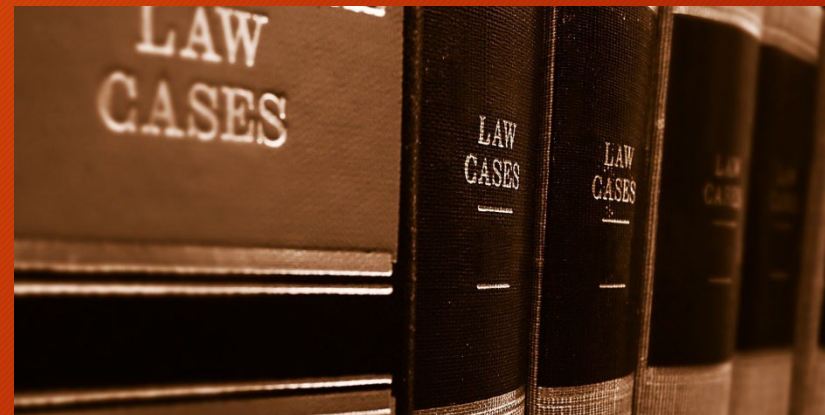
**THE LOSS OF PUBLIC
TRUST!**

Summary or Take Aways



Take Aways

- Indiana Code sets up requirements for Special Investigations:
 - Reporting by Officials
 - Investigation by State Board of Accounts
 - Reporting by State Board of Accounts to
 - Government Officials
 - Law Enforcement
 - Collection of State Board of Accounts Investigation Costs



Take Aways

2. Each Governmental Unit Determines Materiality for Reporting Misappropriations or Irregularities per Indiana Code



Take Aways - MOST IMPORTANT

A GOOD SYSTEM OF INTERNAL CONTROLS, WHICH INCLUDES MONITORING AND UPDATING CONTROLS FOR CHANGES IS THE BEST WAY TO PREVENT AND DETECT.

INTERNAL CONTROLS IS NOT ONE AND DONE!

TRUST IS NOT AN INTERNAL CONTROL!

TRUST BUT VERIFY

Bad things
happen
when you
trust the
wrong
people.
unknown
livelifehappy.com

Take Aways - MOST IMPORTANT

- Let Others Know you're looking - Sometimes that is the best deterrent if others know you're looking - ask questions when reviewing documents/bank reconcilements even if you know the answers!

