

2010 ANNUAL REPORT
OFFICE OF THE INDIANA INSPECTOR GENERAL



RECOMMENDING CHANGE

We first established the Indiana Code of Ethics in 2005. Since then, we have trained, advised, and enforced the Code.

42 IAC 1-5-1 Gifts; travel expenses; waivers
42 IAC 1-5-2 Donor restrictions
42 IAC 1-5-3 Honoraria
42 IAC 1-5-4 Political activity
42 IAC 1-5-5 Moonlighting
42 IAC 1-5-6 Conflicts of interest; decisions and voting
42 IAC 1-5-7 Conflicts of interest; contracts
42 IAC 1-5-8 Additional compensation
42 IAC 1-5-9 Bribery
42 IAC 1-5-10 Benefiting from confidential information
42 IAC 1-5-11 Divulging confidential information
42 IAC 1-5-12 Use of state property
42 IAC 1-5-13 Ghost employment
42 IAC 1-5-14 Post-employment restrictions
42 IAC 1-5-15 Nepotism

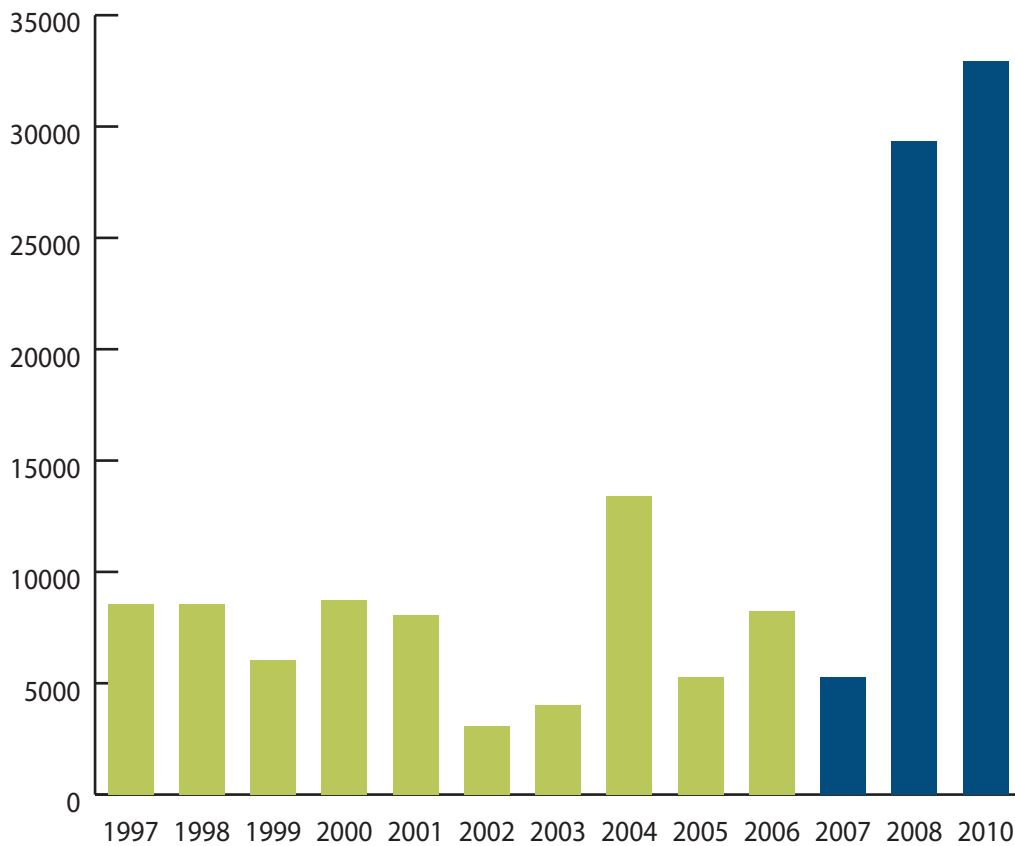
But we have additionally recommended over 40 other changes to existing laws and operating procedures. In 2010, recommendations to the Indiana Legislature included the following:

- The criminal conflict of interest statute (IC 35-44-1-3) be clarified to specify the applicable definitions, offenses, and defenses.
- The depository rule statute (IC 5-13-6-1) be clarified to delete one of the duplicative provisions and reinforce its application.
- The official misconduct statute (IC 35-44-1-1) be amended to specify the scope of its application.

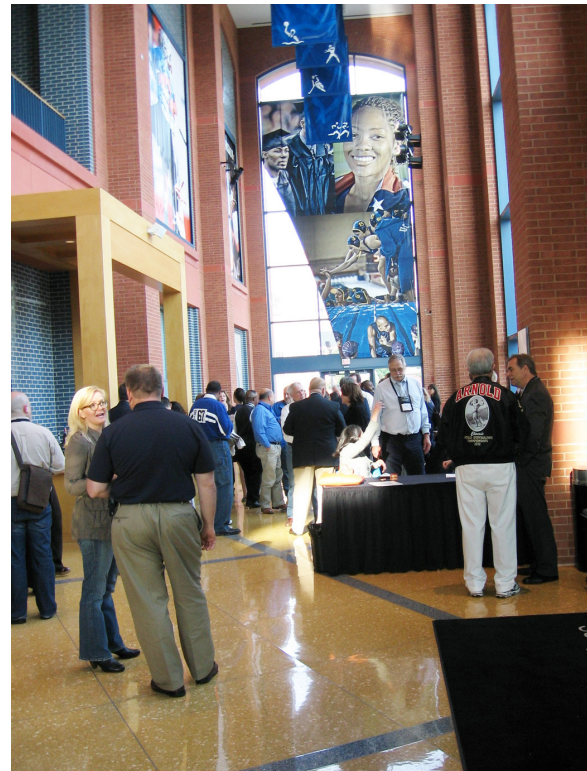
In 2010, the following recommendations were implemented by state agencies:

- The Office of Management and Budget provided educational materials to state agencies receiving ARRA funds to prevent violation penalties.
- The Department of Revenue implemented policies to maintain required cash books and make timely deposits to prevent fraud.
- The Department of Workforce Development met with federal inspectors general in Chicago to discuss and resolve compliance issues.
- The State Personnel Department updated its State Employees' Community Campaign Coordinator Manual in order to define rules regarding the use of state time and charitable giving by state employees.

State employees across many agencies completed computerized ethics training in 2010. Created by State Ethics Director Cynthia Carrasco, this training program remains one of the premier training modules in state government. Many hours of hard work by agency and Inspector General employees made this a continued success, resulting in more employees trained than ever before.



**Beginning in 2008, ethics training is now conducted every two years.*



EDUCATION

ASSOCIATION OF INSPECTORS GENERAL NATIONAL SPRING CONFERENCE



The Indiana OIG also hosted the Spring National Conference for the Association of Inspectors General (AIG) in May. The AIG is the single entity which consolidates inspector general offices across the nation. Indiana was privileged to have Indianapolis selected as the host city for this conference. Attendees came from states across the nation, including New York, California, Texas, Florida, and Hawaii.



Governor Daniels attended and was a featured speaker at the conference. He also met with graduate students from the John Jay College of Criminal Justice who traveled from New York City to attend the conference.

EDUCATION

LEGAL ETHICS CONFERENCE

The third annual Legal Ethics Conference concluded the year in November of 2010. Over 300 attorneys and investigators from state government and the private sector attended.

Featured speakers included:

- Governor Mitch Daniels
- Chief Judge Margret Robb, Indiana Court of Appeals
- Terry Curry, Marion County Prosecuting Attorney
- Michael Witte, Executive Secretary, Indiana Supreme Court Disciplinary Commission
- Steve Johnson, Executive Director, Indiana Prosecuting Attorneys Council
- Patricia Orloff Erdmann, Chief Counsel for Litigation, Indiana Attorney General
- Andrew Sparks, Assistant U.S. Attorney, Eastern District of Kentucky
- David Pippen, Chief Legal Counsel, Office of the Governor
- Kristi Shute, Attorney, Indiana Inspector General

Sherri Rinderer of the Family Social Services Administration and Ed King of the Indiana Department of Transportation received awards for meritorious service from Governor Daniels.





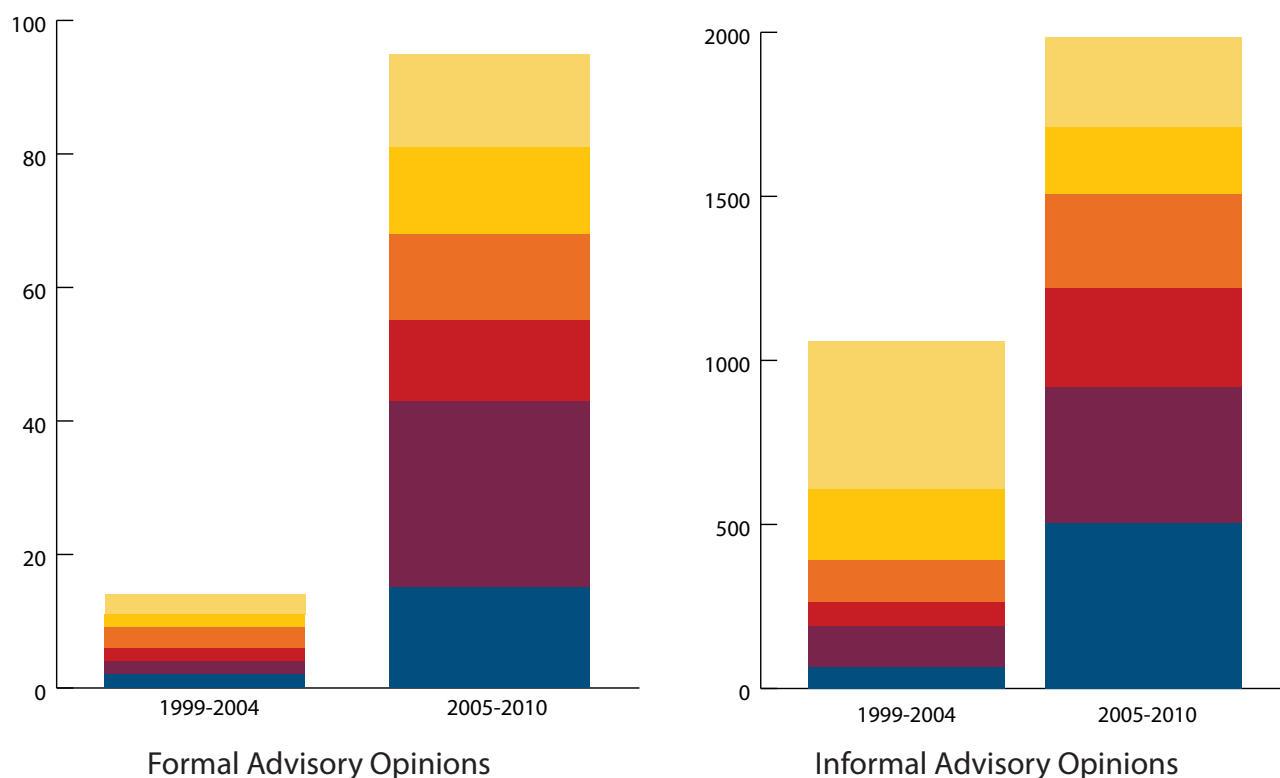
ADVICE

ADVISORY OPINIONS

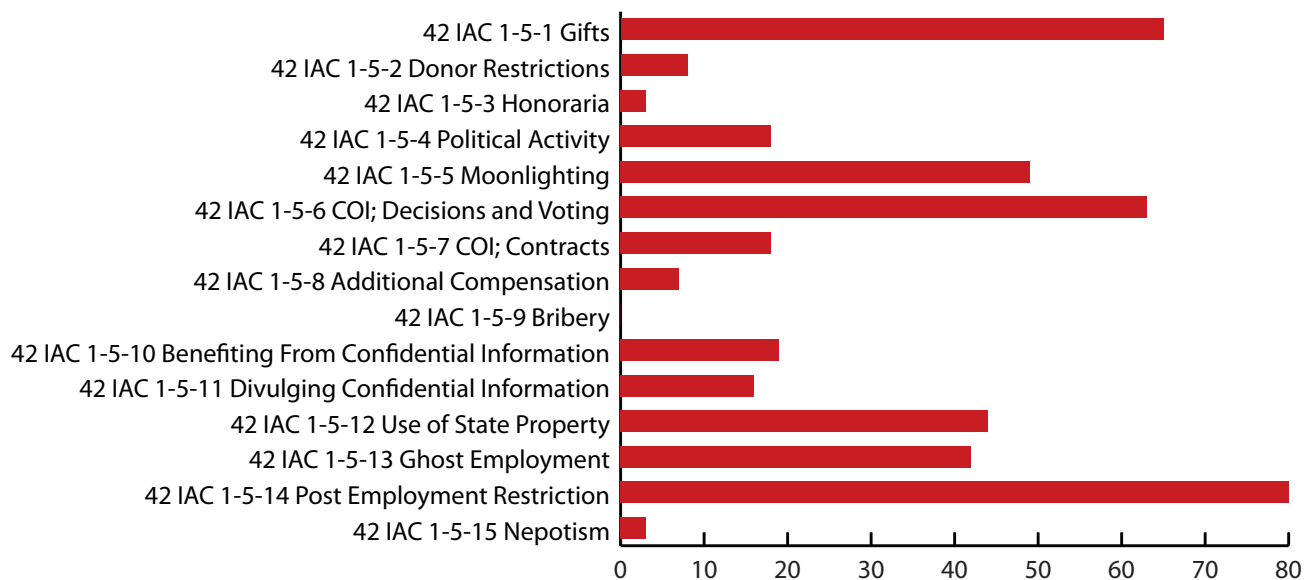
The number of advisory opinion requests received from state workers continued to flourish in 2010.

Formal advisory opinions are issued by the State Ethics Commission and are the ultimate authority regarding the interpretation of the Code of Ethics. The Ethics Commission continued to be extremely active and influential, delineating interpretations that are relied upon in investigations and the issuance of informal advisory opinions. Formal advisory opinions continue to be annotated, by rule, on the OIG website.

Informal advisory opinions are written, confidential commitments by staff attorneys of the OIG regarding the application of the Code of Ethics.



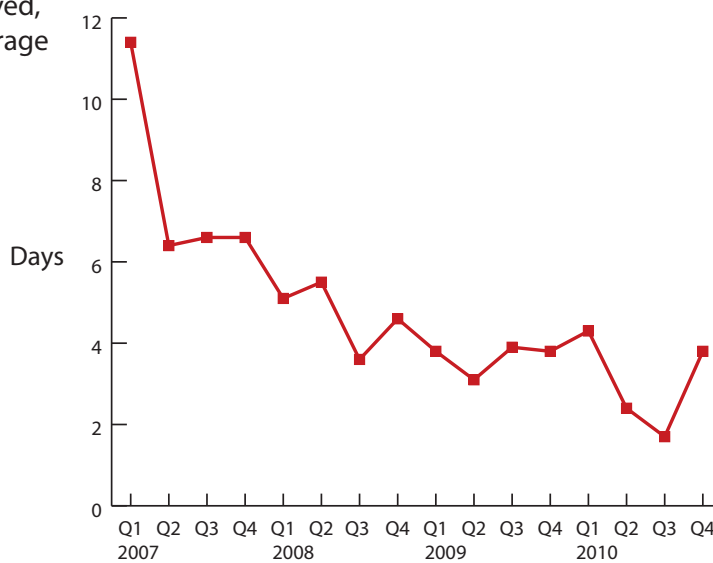
To encourage state employees to seek preventative advice, informal advisory opinions are confidential to the state employees, much like an attorney-client or patient-physician privilege. The 2010 informal advisory opinions issued by generic topic were as follows:



The speed of response to informal advisory opinions in 2010 was not only maintained, but improved. From the time the request was received, to the time that the opinion was issued, the average response time was reduced to just three days.

Yearly Averages (days):

2007: 7.75
 2008: 4.70
 2009: 3.65
 2010: 3.05



The year 2010 saw the impact of the American Recovery and Reinvestment Act (ARRA/Stimulus) on Indiana and the nation. Passed and initiated in 2009, ARRA greatly affected the operations of the Office of Inspector General, the Indiana State Board of Accounts (SBOA), and the many state agencies which receive ARRA funds.

Led by the SBOA, an inquiry was immediately launched regarding the oversight of these funds. Perhaps never before have so many funds passed so quickly through state government. Approximately \$4.3 billion in ARRA funds is scheduled to come through Indiana entities, a substantial amount considering the state's total annual amount of general appropriations is \$14.1 billion.

Our approach to ARRA has been in two basic areas. The first approach was through an initial audit of the funds by the SBOA with the assistance of the OIG. At least 50 reports were published in 2009 and can be viewed on the OIG website.

Second, in 2010 the SBOA reviewed the actual spending of these funds and reported their findings to the OIG. Visual inspections of various projects were also made by OIG special agents resulting in over 50 more published reports. These may also be viewed on the OIG website.

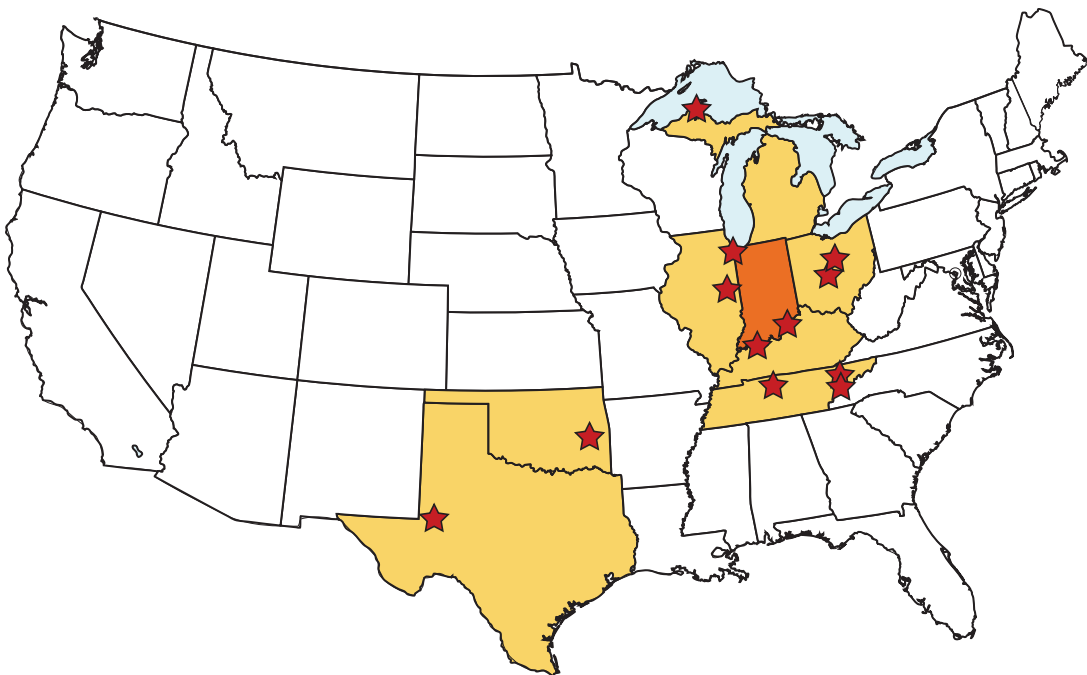
Agency ARRA managers also attended many training programs led by Cris Johnston, coordinator of Indiana's administration of ARRA funds and the Director of the Government Efficiency and Financial Planning Group (GEFP).

In addition to ARRA activity, the OIG conducted follow-up reviews of various agencies for compliance with previous SBOA findings, and conducted random reviews of state agency operations. Examples include the following:

- Review of transportation and preservation of evidence between Indiana State Police posts.
- Review of the Indiana Department of Correction (DOC) Plainfield Prison for appropriate recreation fund spending.
- Review of bonding requirements at the DOC Women's Community Re-Entry Institute.
- Review of attendance report compliance by the Indiana Family and Social Services Administration (FSSA), finding that a written audit plan was formulated by FSSA on April 7, 2009 was being implemented.
- Review of DOC PEN Products, finding that two unused funds had been properly reverted back to the State Budget Agency.
- Review showing Indiana State Fair Commission had properly reconciled its funds.

Full reports on these reviews may be found on the OIG website.

OIG investigations have been conducted in many Indiana counties, and even outside state lines.



INVESTIGATIONS

SCREENING

OIG investigations begin with screening. Screening is an evaluation of whether to move a request to investigate into full investigation. Speed in screening is important to the person requesting an investigation as well as to efficient operations of the OIG. Often, legal research and preliminary fact finding is conducted in order to determine whether a case warrants a full investigation with the resources available. We are constantly evaluating how to screen faster and with more accuracy. In 2010, the average number of days before screening was completed was 13. With an average of 370 requests to investigate each year and six special agent investigators, we continually strive to seek a balance in being quick, selective, and prolific.

Average Number of Days to Screen a Case

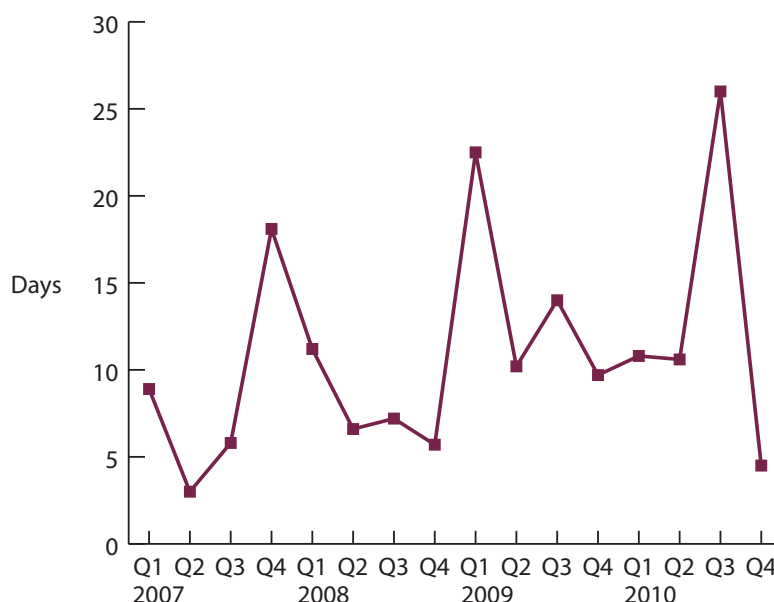
Yearly Averages:

2007: 8.95

2008: 7.68

2009: 14.1

2010: 13.0



Annual Requests to Investigate

2005: 605

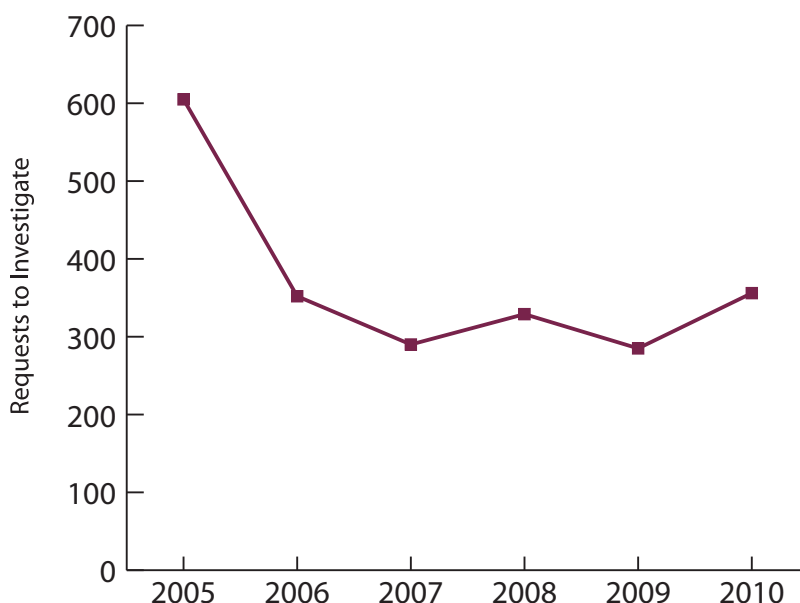
2006: 352

2007: 290

2008: 329

2009: 285

2010: 356

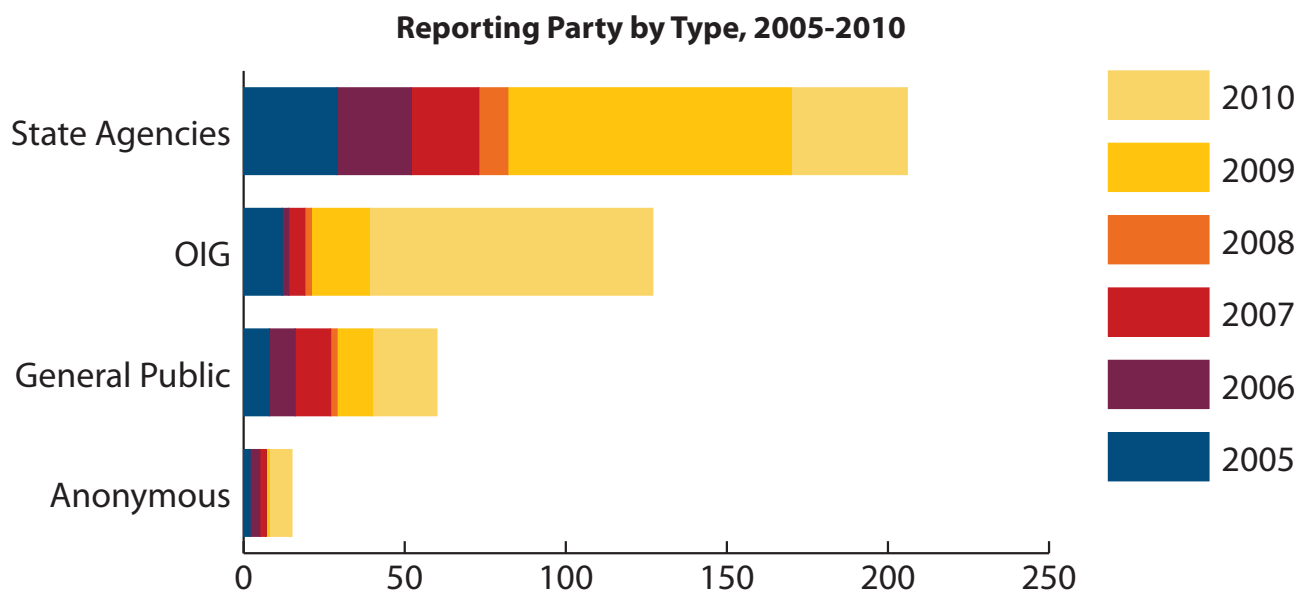
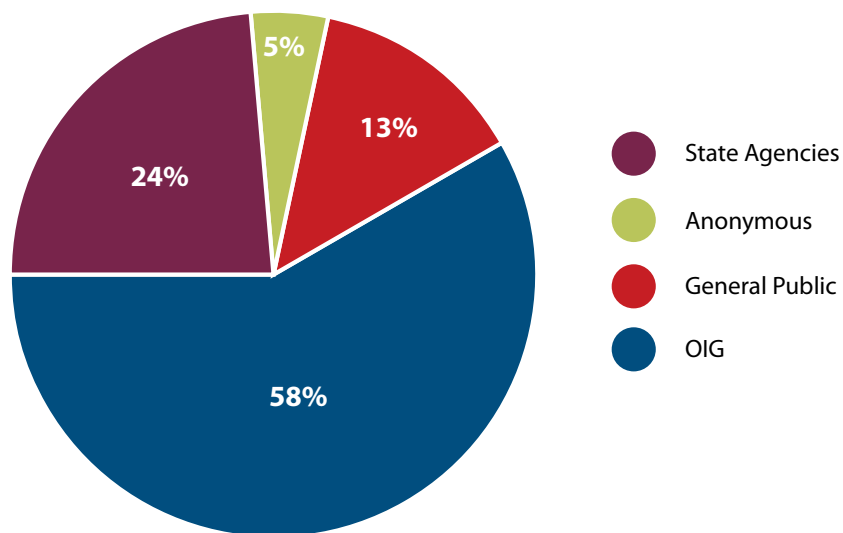


INVESTIGATIONS

REPORTING PARTY

The Reporting Party (RP) is the person who reports a case to the OIG and requests an investigation. The RP is important for many reasons. Although the 2010 data is somewhat skewed due to the fact that all ARRA investigations were initiated by the OIG and SBOA, the following RP data for 2010 is instructive, showing that the reporting of wrongdoing by other state agencies remains strong. The fact that agencies are self-reporting wrongdoing in this manner demonstrates what we consider to be a continued healthy relationship and trust between the many state agencies and the OIG.

Of 151 cases in 2010 which moved into investigation, the reporting parties for these cases are as follows:


















INVESTIGATIONS

CONCURRENT JURISDICTION

One of the benefits of the Indiana OIG model is the ability to simultaneously address criminal, ethics, and efficiency matters. The other state inspectors general do not have similar concurrent criminal and ethics jurisdiction. The Indiana model permits training efforts to be uniform and investigations to continue without interruption when a set of facts often involves all three areas of law.

The below chart demonstrates how specific OIG investigations often implicate the different areas and migrate between criminal, ethics, and efficiency issues. The full investigative reports may be found on the OIG website.

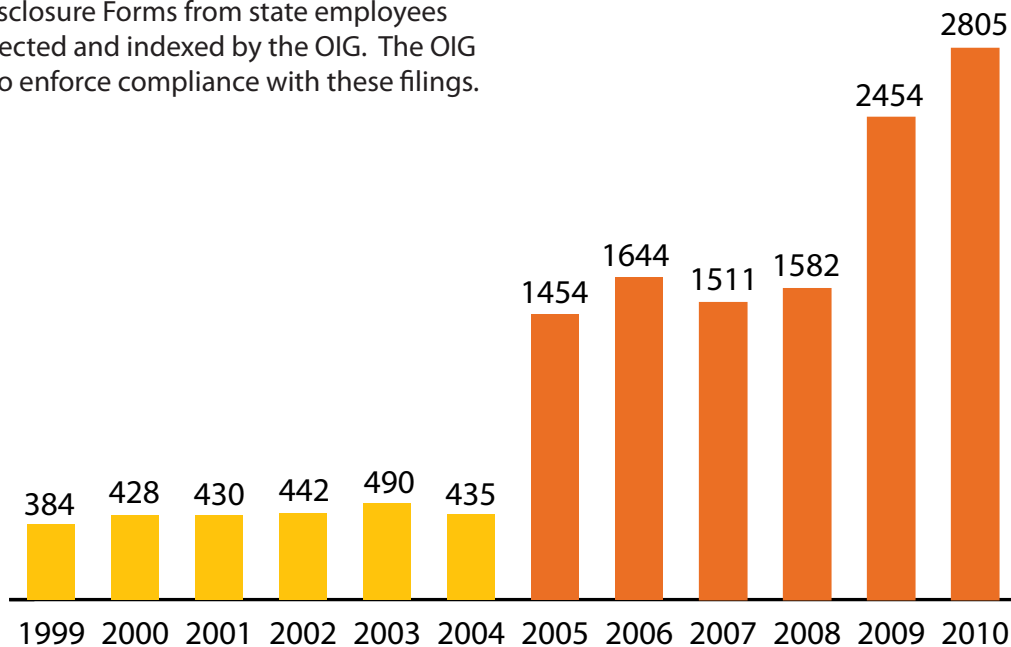
| CASE | CRIMINAL | ETHICS | EFFICIENCY |
|---|---|--|---|
| 2008-04-0121 Adult Daycare Welfare Fraud |  |  |  |
| 2008-10-0267 Gaming Commission Allegation |  |  | |
| 2009-04-0083 Offender Trust Funds |  |  |  |
| 2009-05-0095 Ebay Sales |  |  | |
| 2010-01-0005 Hispanic Commission Director |  |  | |
| 2010-05-0125 Bartender Licenses |  |  |  |

In 2010, the investigations of six Inspector General special agents resulted in 13 criminal arrests.

| Persons Charged | Case |
|-----------------|--|
| 5 | Forgeries of Indiana Payroll Warrants by Chicago Residents |
| 1 | BMV Title Forgery |
| 1 | DOR Temporary Employee Theft and Forgery |
| 1 | DCS Temporary Employee Forgery |
| 1 | Rockville Sewer Grant Money |
| 1 | Commission on Hispanic/Latino Affairs Theft |
| 1 | Ex-Spouse Insurance Overpayment |
| 1 | INDOT Indianapolis Fuel Theft |
| 1 | Alcohol and Tobacco Commission Theft |
| 13 | TOTAL |

| ACTION | RESULTS | EXPLANATION |
|----------------------|---------|---|
| Persons Charged | 13 | Persons charged by Indiana Prosecutors in 2010 |
| Ethics Adjudications | 6 | Cases submitted to Ethics Commission and probable cause found |
| Efficiency Reports | 57 | Cases resolved by efficiency reports |

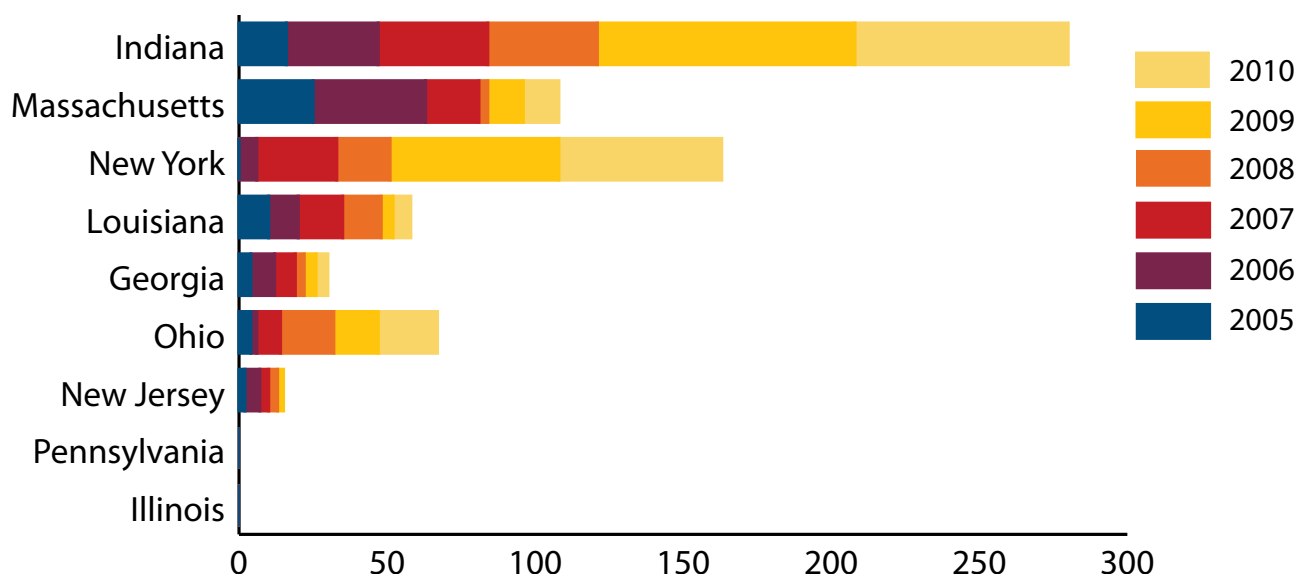
Financial Disclosure Forms from state employees are also collected and indexed by the OIG. The OIG is charged to enforce compliance with these filings.



REPORTING

PUBLISHED REPORTS & OPEN RECORDS REQUESTS

Among the nation's state inspectors general, the Indiana OIG continued to publish more reports than any other in 2010. These numbers do not include the additional 275 informal advisory opinions issued by Indiana OIG staff attorneys.

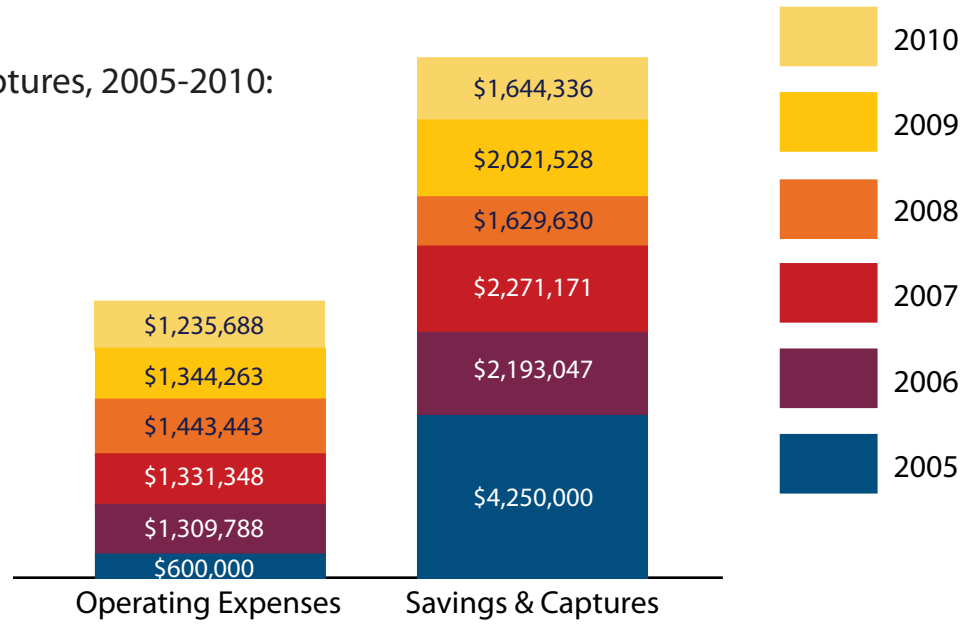


The OIG also responds to multiple open records (Access to Public Records Act, or APRA) requests from various media entities and members of the public. To shorten our response time, the OIG developed a new method to handle these increasing requests. Our response time has shortened dramatically under our new system, from an average 19 day response time to nearly a one day response time.

| | 2007 | 2008 | 2009 | 2010 |
|------------------------------|------|------|------|------|
| Number of Requests | 18 | 15 | 20 | 37 |
| Average Response Time (days) | 19 | 7.5 | 4.2 | 1.4 |

Total Operating Expenses, 2005-2010:
\$7,264,530

Total Savings & Captures, 2005-2010:
\$14,009,712



| Title | Savings & Captures | Synopsis |
|------------------------------|--------------------|-------------------------------------|
| Community Corrections | \$1,363,515 | Additional carryover funds captured |
| War Memorial Employee | \$1,000 | SEC fine collected |
| Ethics Investigation | \$250 | SEC fine collected |
| Ex-spouse Insurance Benefits | \$6,490 | Restitution ordered |
| SPD Benefits | \$653 | Restitution ordered |
| State Warrant Forgeries | \$3,635 | Restitution ordered |
| State Warrant Forgeries | \$144 | Restitution ordered |
| State Warrant Forgeries | \$213 | Restitution ordered |
| INDOT Fuel Theft | \$4,699 | Restitution ordered |
| Rockville Grant Funds | \$168,801 | Capture grant funds |
| Rockville Grant Funds Fraud | \$59,000 | Restitution ordered |
| EBT Fraud in Henry County | \$35,936 | Restitution ordered |
| 2010 TOTALS | | \$1,644,336 |

The OIG and SBOA, without additional funding, also devoted a substantial amount of time in 2010 to ARRA/ Stimulus reviews, as reflected in the 63 reports published on the OIG website.

REPORTING

AWARDS

OIG Special Agent Alan McElroy was honored by the United States Attorney of the Southern District of Indiana for his investigation which led to the arrest and imprisonment of a public official who misappropriated federal and state grant money. Pictured here are the Indiana OIG Special Agents with US Attorney Timothy Morrison at the awards ceremony. The OIG enjoys its relationship with the federal authorities and continues to partner with all sovereigns within our jurisdiction.



Although not required by our statute, we have formulated a Risk Assessment for the Executive Branch of Indiana State Government. This is used when training state employees, pointing out where we have seen the most problems. This was formulated from analyzing our OIG investigations, the State Ethics Commission's formal advisory opinions and the issuance of informal advisory opinions, and from the State Board of Accounts audit reports.

HIGH RISK AREAS (THE TOP 26 BY TOPIC)

Compiled by the Office of the Inspector General (November 2009)

A. Acquisition

1. Conflicts of interest: with your agency or another agency (disclosures): 42 IAC 1-5-6 and 7
2. Conflicts of interest: come to Ethics Commission if "potential" conflict: 42 IAC 1-5-6
3. Conflicts of interest: Financial Disclosure Forms filed timely (Feb 1): IC 4-2-7-3(13)
4. Purchasing and bidding rules followed: IC 5-22
5. Contracts: executed/approved fully before performance: IC 4-13-2
6. Contracts: renewed correctly: IC 5-22-17-4(b) and (c)
7. Contracts: payments accurate: IC 5-11-5.5 ("False Claims Act")
8. Contracts: change-orders

B. Benefits

9. Use of state property and time: 42 IAC 1-5-12 and 13
10. Travel: BA Circular 2003-1 and SBOA Manuals, Ch. 11
11. SDO and P-card: IC 4-13-2-20(d) through (h), SBOA Manuals, Ch. 7, and BA Circular 96-03
12. Embezzlement/theft: IC 35-43-4-2
13. 24-deposit public funds: IC 5-13-6-1
14. A-4 supervision (ghost employment): SBOA Manuals, Ch. 9

C. Influence

15. Gifts (waivers): 42 IAC 1-5-1
16. Bribery: IC 35-44-1-1

D. Outside Work

17. Moonlighting: 42 IAC 1-5-5
18. Post-employment (Waivers): 42 IAC 1-5-14

E. Records

19. Open Records and Meetings (APRA): IC 5-14-1
20. Retention requirements: IC 5-15-5.1

F. Quasis, Foundations & Privatization

21. Formation: review agency's enabling statute for authority
22. Ethics: IC 4-2-6-1(2)(code of ethics applies to some private foundations)
23. Auditing: IC 5-11-1-9 (SBOA authority to audit non-profits)

G. Federal law (& Stimulus)

24. Hatch Act: 5 U.S.C. §§ 1501- 1508 (applies to state employees)
25. Program requirements: see federal agency act
26. ARRA: The American Recovery and Reinvestment Act of 2009 is not yet codified in USC

