B34323

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

REVIEW REPORT

OF

DEPARTMENT OF CORRECTION

STATE OF INDIANA

March 1, 2005 to November 30, 2008

FILED
05/28/2009

TABLE OF CONTENTS

AGENCY OFFICIALS

Office	Official	Term
Commissioner	J. David Donahue	01-10-05 to 07-31-08
	Edwin G. Buss	08-01-08 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

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE DEPARTMENT OF CORRECTION

We have reviewed the receipts, disbursements, and assets of the Department of Correction for the period of March 1, 2005 to November 30, 2008. The 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.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the 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 Agencies, and applicable laws and regulations except as stated in the review comments.

STATE BOARD OF ACCOUNTS

January 15, 2009

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 Juvenile Correctional Facility
Logansport Juvenile Correctional Facility
Madison Correctional Facility
Miami Correctional Facility
North Central Juvenile Correctional Facility
Northeast Juvenile Correctional Facility
Pendleton Correctional Facility
Pendleton Juvenile Correctional Facility
Plainfield Correctional Facility
Plainfield Re-Entry Educational Facility
Putnamville Correctional Facility
Reception Diagnostic Center
Rockville Correctional Facility
South Bend Community Re-Entry
South Bend Juvenile Correctional Facility
Wabash Valley Correctional Facility
Westville Correctional Facility

CENTRAL OFFICE

Lack Of Bond Coverage

In accordance with IC 4-24-6-9, any misfeasance or nonfeasance on the part of a superintendent or employee of an institution is to be covered by a general performance blanket bond. The Department of Correction (DOC) did have bond coverage but allowed the coverage to expire on June 30, 2001. The state should not be subjected to a loss that would otherwise have been covered by legislatively mandated bond coverage. Ultimately, the DOC management responsible for not securing the required bond coverage may be jointly liable for a loss.

IC 4-24-6-9 (d) states: "No other bond except the general performance blanket bond given by the superintendent or warden of any institution, or by an officer or employee of the institution, shall be required. A general blanket performance bond or crime insurance policy endorsed to include faithful performance that is obtained under IC 5-4-1-15.1 shall cover any misfeasance or nonfeasance in the administration of sections 6 and 7 of this chapter on the part of any superintendent, warden, officer, or employee of the institution."

SDO Advances

We found the following issues with the various Department of Correction Special Disbursing Officer Fund (SDO) advances:

(1) The Central Office SDO had not been used since April 17, 2007;

(2) The Central Office SDO Local Purchase Authority form filed with the Auditor of State had not been updated for changes in the SDO officer since December 16, 1999;

(3) The Parole Services SDO advance was improperly closed on May 18, 2007, leaving a remaining balance of $74 on the Auditor of State's system.

If a SDO advance is not used within one or two months then the SDO advance is too large and should be reduced. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 7)

To change the employee assigned as special disbursing officer, a Request for SDO Account Establishment, Adjustments and New Officer form must be submitted to the Auditor of State's Office. The change in SDO officers also requires that changes to the accepted signatures for the checking account be filed with the bank. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 7)

Each agency, department, quasi, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

SDO Fund Reconciliations

DOC did not perform bank reconciliations for the Central Office and Parole Services SDO accounts. We also found that the Central Office and Parole Services SDO advance reconciliations were not performed in a timely manner.

Two reconciliations must be performed for the SDO fund each month. The bank statement for the checking account must be reconciled to the check register. Also, the check register must be balanced to the total SDO advance. These reconciliations must be formally documented. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 7)

Cash Book

DOC did not maintain a cash book to record collections of subsistence and juvenile offender support. DOC should record all receipts on the date received.

IC 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."

Some type of receipting method must be utilized for all money received. If the volume is not extremely high, the simplest and most effective method is to issue an official receipt (either prescribed or approved by the State Board of Accounts) to each person paying in money to the state agency. When issuing receipts is not applicable and some other type of cash book is utilized, it must be approved in writing by the State Board of Accounts. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 3)

Subsistence Fund Transfers

DOC did not transfer the calculated room and board expense from the earnings of offenders employed in a work release program into the Subsistence Fund by the 15th day of the following month.

IC 11-10-8-6.5(b) states that "Money collected under section 6(a)(5) of this chapter shall be deposited in the fund not later than the fifteenth day of the month following the month in which it was received."

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, Chapter 3)

Violent Crime Victims Compensation Fund Transfers

DOC had not properly monitored the Community Re-Entry facilities to verify that the correct amounts were transferred into the Violent Crime Victims Compensation Fund in a timely manner.

IC 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, Chapter 3)

Juvenile Offender Support Collections

On a semiannual, and now quarterly basis, DOC bills applicable counties for qualified offenders housed in state institutions, deposits the accounts receivable payments into designated fund/centers, and records these transactions into DOC's accounts receivable ledger for each county. To rectify past errors, the Auditor of State (AOS) applied certain credits to Marion County's portion of juvenile offender support due which, in effect, should have reduced DOC's accounts receivable balance for Marion County.

During our testing of Juvenile Offender Support revenue collections, we found that DOC did not monitor the Marion County credits made by the AOS and, therefore, did not apply those credits to Marion County's accounts receivable ledger. The DOC accounts receivable ledger for Marion County was overstated.

Each agency, department, quasi, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

One-Way Commutes

During the review of mileage logs at DOC, we found that the number of one-way commutes reported on State Form 13696, Report of Vehicle Mileage and Costs, did not consistently agree with the number of one-way commutes claimed on State Form 49632, Employee Statement of Employer Provided Vehicle Use.

We also found that DOC employees did not consistently submit State Form 13696, Report of Vehicle Mileage and Costs, each month. For the five months of Central Office and Parole Division mileage logs reviewed, only 86 out of 252 (34%) of the required mileage logs had been submitted.

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, Chapter 11)

The Department of Correction Manual of Policies and Procedures, State Vehicle Use and Assignment, Policy No. 04-06-101, IV(G), states, in part, that "State Form 13696, Report of Vehicle Mileage [and Costs], shall be completed monthly for each state vehicle operated in the department . . ." and ". . . include an entry for every destination traveled."

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, Chapter 11)

Missing Documentation

DOC could not provide numerous documents such as: Report of Collections for receipts and refund of expenditures, contracts, SDO ledger, SDO bank statements, SDO monthly bank and advance reconciliations, and SDO check book, selected for our review. Therefore, the validity and accountability for some monies received and disbursed could not be established.

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, etc., must be made available for audit to provide supporting information for the validity and accountability of monies received or disbursed. Documents must be filed in such a manner as to be readily retrievable or otherwise reasonably attainable, upon request, during an audit. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

Inactive Fund/Centers

As stated in our prior Reports B25210 and B22336, DOC had one or more fund/centers which had no activity in the last two years. During the current review period, DOC had 23 fund/centers with a total balance of $508,530.81 which had no activity in the last two years.

If a fund/center has been inactive for a period of two or more years, the agency should contact the State Budget Agency as to the continued need for any inactive funds on hand. If the fund/center contains federal funds, the grantor must be contacted regarding a balance owed. When a fund/center is no longer necessary, the agency's Budget Analyst should be contacted concerning elimination of the remaining balance. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 2)

INDIANAPOLIS MEN'S AND WOMEN'S COMMUNITY RE-ENTRY

Special Report

Due to shortages at the Indianapolis Men's and Women's Community Re-Entry facilities, we reviewed and issued a separate report for the period March 1, 2007 to February 28, 2008, which addressed the shortages in both Trust Funds and related internal control issues. Those comments are not repeated in this report.

Disbursement Documentation

We observed several disbursements for food purchases from the Indianapolis Men's and Women's Community Re-Entry Recreation funds which did not contain adequate supporting documentation to determine if the quantity of food purchased was appropriate for the number of offenders in attendance. Therefore, the appropriateness, validity and accountability for some monies disbursed could not be established.

Supporting documentation such as receipts, cancelled checks, invoices, bills, contracts, etc., must be made available for audit to provide supporting information for the validity and accountability of monies received or disbursed. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

Accountability For Laundry Revenue

We discovered that the Indianapolis Men's Community Re-Entry (IMCR) Recreation Fund had a petty cash box. The IMCR staff indicated that these funds are used by staff to wash and dry rags at the IMCR's laundry facilities. When the vendor comes in to empty the coin boxes, the vendor remits some of the laundry revenue to IMCR. This cash is usually kept in the Recreation Fund petty cash box and deposits are made to the Recreation Fund bank account when the petty cash box accumulates more than $20 to $25. We do not know the origin of the initial petty cash box funds.

Due to the following internal control deficiencies, we could not determine if the correct amount of laundry revenue was remitted to IMCR or if the petty cash funds were properly accounted for:

(1) The IMCR did not have a contract with the laundry facility vending company;

(2) The vendor did not provide a cash count of the amount of cash collected from the coin boxes;

(3) The IMCR did not know what percentage of coin box revenue the vendor did or should remit;

(4) The coin box revenues were placed in the petty cash box rather than always deposited into the IMCR Recreation Fund bank account;

(5) No ledger was maintained for the cash activity in the petty cash box;

(6) The petty cash box fund had no predetermined fund balance amount;

(7) No reconciliations of the petty cash fund were performed; and

(8) The laundry/petty cash revenue was not reported as a Cash on Hand asset in the Recreation Fund monthly statement.

Each agency, department, quasi, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

Cash Book

The Indianapolis Men's and Women's Community Re-Entry facilities did not maintain cash books to record collections of their respective Recreation Funds. The facilities should maintain separate prenumbered cash receipt books for the Recreation Fund to provide proper accountability of funds received at each facility.

IC 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."

Some type of receipting method must be utilized for all money received. If the volume is not extremely high, the simplest and most effective method is to issue an official receipt (either prescribed or approved by the State Board of Accounts) to each person paying in money to the state agency. When issuing receipts is not applicable and some other type of cash book is utilized, it must be approved in writing by the State Board of Accounts. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 3)

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, Chapter 3)

PEN PRODUCTS DIVISION

Attendance Reports

We observed that PEN Products' employee attendance reports were frequently signed and dated by the employee and/or supervisor prior to the employees' last day worked.

Employee attendance reports should not be signed, dated or approved prior to the last day worked in a pay period. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 9)

Contract Approvals

We discovered that PEN Products made multiple payments totaling $273,272.75 to a vendor on two contracts prior to the contract being fully approved. Internal controls are weakened when a contract is put into effect before proper approval.

IC 4-13-2-14.1 and 14.2 require that a contract to which a state agency is a party must be properly approved and in writing.

Outstanding SDO Checks

The PEN Product's Central Office Special Disbursing Officer (SDO) account contained six checks totaling $1,683.52 and the Commissary SDO account contained two checks totaling $522.91 all dating back to 2004.

IC 4-10-10-1 provides that all checks authorized by law to be issued from funds in custody of any state agency which have been outstanding and unpaid for a period of two or more years as the last day of December of each year shall be declared canceled.

IC 4-10-10-6 requires that the amounts of such outstanding checks shall be entered as a receipt into the fund or account from which they were originally drawn and be removed from the record of outstanding checks.

Credit Card Payments

As stated in our prior reports (most recently B25210 and B22336), PEN Products accepted credit cards for payment of product sales. We found no statutory authority for the acceptance of credit cards by the agency.

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, Chapter 1)

Supplementation of Appropriations

PEN Products deposited a refund of $135,757.88 for previous fiscal year expenditures as a current year refund. By recording this as a refund of current year expenditures, PEN Products supplemented its State appropriations by the amount deposited.

A refund of expenditure can only be used if the original disbursement and the refund or collection are within the same fiscal year. If the collection is not received within the same fiscal year as the related expenditure, then the collection must be recorded as miscellaneous revenue. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 3)

Inactive Fund/Centers

During the current review period, PEN Products had two fund/centers with a total balance of $34,082.03, which had no activity in the last two years.

If a fund/center has been inactive for a period of two or more years, the agency should contact the State Budget Agency as to the continued need for any inactive funds on hand. If the fund/center contains federal funds, the grantor must be contacted regarding a balance owed. When a fund/center is no longer necessary, the agency's Budget Analyst should be contacted concerning elimination of the remaining balance. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 2)

DEPARTMENT OF CORRECTION
EXIT CONFERENCE

The contents of this report were discussed on April 22, 2009, with Joseph Fistrovich, Chief Financial Officer; and Lisa Cottingham, Controller. The official response has been made a part of this report and may be found on pages 13 through 16.

STATE OF INDIANA
Department of Correction
Indiana Government Center - South
302 W. Washington Street • Indianapolis, Indiana 46204-2738
Phone: (317) 232-5711 • Fax: (317) 232-6798 • Website: www.in.gov/idoc/

Mitchell E. Daniels, Jr.
Governor

Edwin G. Buss
Commissioner

May 4, 2009

Indiana State Board of Accounts
302 W. Washington St; Room E418
Indianapolis, IN 46204-2765

Ladies and Gentlemen:

This letter is in response to the review comments of the audit report for the Department of Correction (Central Office, Indianapolis Men's and Women's Community Re-Entry Facilities, and PEN Products) dated November 30, 2008.

CENTRAL OFFICE—Lack of Bond Coverage

As of the date of this response, the Department of Correction has procured performance bond coverage. The effective date of that coverage was April 24, 2009.

CENTRAL OFFICE—SDO Advances

The Department has intentionally taken steps to reduce its prior dependency on SDO accounts. The Central Office SDO account is in the process of being closed with the Indiana Department of Administration. Once that closure permission is received, a final check will be given to the Auditor of State to completely eliminate the account.

The Parole Services SDO cash account was closed with a shortage of $74. That discrepancy is due to the fact that the bank improperly charged IDOC twice for one transaction. IDOC is currently working with the bank to resolve the shortage issue and will keep the State Board of Accounts informed as to our progress.

CENTRAL OFFICE—SDO Fund Reconciliations

As previously indicated, it is the goal of the Department to eliminate the use of SDO accounts wherever possible. However, any open SDO accounts will be reconciled according to the Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies (Accounting Manual).

CENTRAL OFFICE—Cash Book

The Department has proposed the use of a cash book via an excel spreadsheet. (The proposed form of that sheet has been sent to the State Board of Accounts for approval.) All checks received by the Department will be entered on the spreadsheet. The proper maintenance of this spreadsheet will provide the cash information required by the Accounting manual.

CENTRAL OFFICE—Subsistence Fund Transfers

The Department recognizes the requirements related to the transfer of Subsistence funds and will make every effort to meet those requirements in the future.

CENTRAL OFFICE—Victims' Compensation Transfers

The Department recognizes the requirements related to the transfer of Victims' Compensation and will make every effort to meet those requirements in the future.

CENTRAL OFFICE—Juvenile Offender Support Calculations

The Department has reconciled its outstanding balance of Juvenile Support Collections with the Auditor of State as of the period ended June 30, 2008.

Effective January 1, 2009, the State of Indiana no longer charges counties for their juveniles who are incarcerated in state facilities. The final invoices have been sent to counties and the Department is in the process of the collection of any outstanding balances.

CENTRAL OFFICE—One –Way Commutes

The rules and requirements for use of a state vehicle have been reviewed with the appropriate staff within the Department.

CENTRAL OFFICE—Missing Documentation

All supporting documentation required by the Accounting Manual will be maintained in an accessible location in the future.

CENTRAL OFFICE—Inactive Fund Centers

The Department is reviewing the inactive fund centers and will work with the State Budget Agency regarding the appropriate disposition of balances.

INDPLS MEN'S & WOMEN'S COMMUNITY RE-ENTRY (IMWCRC)—Disbursement Documentation

Appropriate documentation for the Re-Entry Center Recreation funds will be maintained in the future.

IMWCRC—Accountability for Laundry Revenue

The IMWCRC has utilized the same vendor for laundry services for quite some time. The Accountant I is currently working on a contract with this vendor, though there will be no fiscal impact to the facilities since the equipment is provided by the vendor. In addition, the vendor also provides all maintenance and repairs.

Since the audit fieldwork, the method of payment for laundry services has changed. The coin slots on the machines have been replaced with card readers. Offenders must complete a remittance slip for the amount of money to be placed on a card. Once the remittance request has been deducted from the offender's trust account, the business office uses a machine provided by Coinmach to place the appropriate dollar amount on the card. To activate a machine, the card is inserted into the reader and the appropriate cost is automatically deducted from the card's balance. In the case of an indigent offender, a voucher is created from operating funds to be used for payment of a facility laundry card.

Once a month Coinmach comes in and pulls reports from the card reader. The amount on the report must match the total of all funds deducted from offender accounts which has been set-aside in a sub-account of the trust fund. Any commissions earned are deposited in the recreation fund. These new procedures should resolve all issues regarding laundry revenue.

IMWCRC—Cash Book

In the future, appropriate cash records will be maintained.

PEN PRODUCTS (PEN)—Attendance Reports

PEN Products employees have been instructed about proper signatures for their bi-weekly A-4a documents and the PEN payroll department will do their utmost to ensure that the appropriate procedures are followed.

PEN—Contract Approvals

PEN Products negotiated the vendor contract amendments in 2006 with the assistance of OMB. (The amendments saved the State 28% on VRIMS charges.) It was not practicable for PEN Products to suspend all license plate production for 5 months. Any costs incurred during this period are covered by the Continuity of Services clauses contained in the contracts and amendments.

In 2007 PEN Products, after a competitive bidding process, entered into a single contract with the same vendor for license plate materials, equipment rental and VRIMS charges. This successor contract took the place of three separate contracts. The new contract saves the State money and provides for better contract management. All approval signatures were obtained on a timely basis.

PEN—Outstanding SDO checks

All of the checks mentioned in the report were researched and added by into the check register by October of 2007. After reversing the charges on the registers, all generated overpayments in the SDO Accounts were reimbursed to the Auditor. PEN Products will review all SDO accounts for outstanding checks each December and handle the reversals according to the requirements of Indiana statute.

PEN—Credit Card Payments

In order to provide flexibility for their clients, PEN Products instituted the use of credit cards approximately ten years ago. (Total credit card fees in fiscal year 2008 were $2.971.16.)

PEN Products recognizes that there is no specific statutory authority for the use of credit cards by the organization. However, it is my understanding that there is no statutory language which prohibits the use of credit cards by PEN.

PEN—Supplementation of Appropriations

PEN recognizes the requirements of the Accounting Manual regarding refunds and/or deposits. In the future, deposits will be recorded in accordance with the manual.

PEN—Inactive Fund Centers

The Department is working with the State Budget Agency to close these accounts via the Administrative Action process. It is anticipated that these accounts will be closed by the end of the fiscal year.

Sincerely,

Edwin G. Buss
Commissioner

cc: file