



## INSPECTOR GENERAL REPORT

2006-03-0124

December 7, 2006

### CAPITAL PLUS CREDIT UNION RECOVERY

*Inspector General David O. Thomas, after an investigation by State Board of Accounts Auditor John Rihm, reports as follows:*

This investigation involved missing funds from the Firefighter and Emergency Equipment Revolving Loan Fund. The net result of this investigation returned \$1,554,641 to the Treasurer of the State's control and recovered \$13,784 in interest earnings that would have been lost to the State.

This investigation was initiated and lead by the State Board of Account audit team assigned to the Office of Inspector General (OIG).

Indiana Code 22-14-5 established the Firefighting and Emergency Equipment Revolving Loan Fund (Fund) within the State Emergency Management Agency (SEMA), currently the Department of Homeland Security. Its purpose is to provide loans for the purchase of new or used firefighting and other emergency equipment or apparatus to local fire and emergency departments (Locals). It was initially funded by an appropriation of \$2 million in 1998. From

1998 to 2002, approximately 20 loans were made in amounts of from \$10,000 to \$150,000 each with up to seven years for repayment and interest of two percent below prime.

In 1998, SEMA contracted with Capital Plus Credit Union (CPCU) to administer the Fund. The contract provisions included the rating and grading of loan applicants, distribution of the loan proceeds, and collection of the loan repayments and interest. CPCU was paid a schedule of fees for their performance under the contract. The contract was last renewed for two years in 2000 and continued verbally until June 2006.

During the period from 1998 to 2002, loan proceeds were forwarded from SEMA to CPCU as each loan was executed. CPCU then distributed the loan proceeds to each of the Locals for equipment purchases. CPCU thereafter received the repayments from the Locals and credited the principal repayments and interest into a dedicated account at CPCU.

As loans were repaid, the funds were kept on deposit at CPCU instead of being remitted back to the State and the Treasurer of State. In October 2004, SEMA transferred \$1,205,000 from CPCU to a checking account at National City Bank (NCB) with a majority of that fund balance invested in U.S. Treasury Notes held by NCB.

As this arrangement was reviewed it was discovered that cash on deposit at both CPCU and NCB totaled more than \$1,420,000 all of which was held outside the control of the Treasurer of State. There is no authority for SEMA to maintain these funds outside the control of the Treasurer of State.

Indiana Code 5-13-6-1(b) states in relevant part, “[a]ll 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.”

Upon request, \$1,325,075 was returned to the Treasurer of State from the account with National City Bank, in March 2006 and \$229,566 was returned from the account with Indiana Members Credit Union (IMCU), formerly CPCU, in April 2006.

In August 2003 CPCU stopped paying interest to the Fund. At the same time CPCU stopped charging the schedule of fees for their performance under the contract. The amount of interest was calculated that should have been credited from August 2003 to March 2006 to be \$16,159. IMCU then calculated their schedule of fees that would have been charged during the period to be \$2,375. The net amount of \$13,784 due the Fund by IMCU was then remitted to the state in July 2006, for a total recovery to the State of Indiana of \$1,568,425 (\$1,554,641 plus \$13,784).

Dated this 7<sup>th</sup> day of December, 2006.



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David O. Thomas, Inspector General