

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

SPECIAL INVESTIGATION REPORT

OF

DEPARTMENT OF COMMUNITY CORRECTIONS

LAPORTE COUNTY, INDIANA

January 1, 2012 to April 30, 2014



**FILED**  
01/29/2015



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COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director of Community Corrections	Richard K. Buell	01-01-12 to 12-31-14
Auditor	JoEileen Winski	01-01-13 to 12-31-16
President of the County Council	Matthew Bernacchi Mark Yagelski	01-01-12 to 12-31-12 01-01-13 to 12-31-14
President of the Board of County Commissioners	Kenneth Layton Willie Milsap	01-01-12 to 12-31-12 01-01-13 to 12-31-14



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF LAPORTE COUNTY

We have reviewed the records of the Department of Community Corrections for the period from January 1, 2012 to April 30, 2014, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Special Investigation Results and Comments. The financial transactions of this office are reflected in the Annual Reports of LaPorte County for the years 2012 and 2013.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

July 9, 2014

DEPARTMENT OF COMMUNITY CORRECTIONS  
LAPORTE COUNTY  
SPECIAL INVESTIGATION RESULTS AND COMMENTS

**CONDITION OF RECORDS**

*Overview of Recordkeeping Process*

Community Corrections, a Department of LaPorte County, collects various fees and other revenue from residents of the Community Corrections Facility to support the operation of the program. The fees and other revenue are maintained in three bank accounts designated as - Resident Fees, Resident Trust, and Commissary. Resident fees are court imposed charges to residents for participation in the various programs including Work Release, GPS Monitoring, Home Detention, Drug and Alcohol testing, etc. Resident Trust accounts for collections from residents to cover the purchase of personal hygiene products and food items from Keefe Supply Company. Commissary accounts for the revenue generated from the vending machines, laundry facilities, and the profit checks received from Keefe Supply Company. The transactions of the three bank accounts are recorded using Microsoft Excel spreadsheets (a commercially purchased software program). These spreadsheets are considered the official accounting records for the financial transactions (receipts, disbursements, and balances) for each of the accounts.

Receipts are issued for the resident fees and resident trust collections. Receipts can be issued by a Resident Officer or by the Financial Clerk (Shannon Hageman) who maintains the ledgers. Separate receipt books are maintained for each type of collection (resident fee or resident trust). The Financial Clerk is to record the receipt number, resident name, and collection amount in the spreadsheet established for the specific collection type (i.e., resident fees or resident trust).

The Department of Community Corrections also uses Case Management Software to record collections of resident fees by individual resident/resident account. The Case Management Software allows the Department to monitor collections and balances due from individual residents. An electronic receipt is generated when the collection is recorded to the resident account. The Case Management Software automatically generates the receipts in sequential number order. The Financial Clerk (Shannon Hageman) was responsible for recording the collections to the individual resident accounts in the Case Management Software.

Commissary revenue consists of cash and coin removed from vending machines, laundry machines, sales of laundry, sales of over the counter medications, and checks received from vendors for vending machine and supply commissions. The Financial Clerk, in turn, issues a check from the Resident Trust Account which represents the amount of profit indicated on invoices from Keefe Supply Company for hygiene and miscellaneous snack items purchased by the residents through the Resident Trust Account. Receipts were not issued to support any of the Commissary Account collections. It is unclear as to the source of the amounts recorded in the ledger for the majority of the Commissary revenue. Furthermore, the Financial Clerk stopped recording collections to the excel spreadsheet or ledger for the Commissary Account in January, 2013.

*Deficiencies in Handwritten Receipts*

1. We found that the issuance of receipts was not consistent. Receipts were issued for resident fees using the receipt books designated for resident trust and receipts designated for resident fees were also used to record collections for resident trust.
2. We noted that receipts issued to residents that indicated the method of payment was by credit card; however, the credit card transaction could not be traced to the bank statement or credit card confirmation statements. Errors were made in the designation of method of payment.
3. Receipts were not issued in numerical sequence.

DEPARTMENT OF COMMUNITY CORRECTIONS  
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(Continued)

4. Some receipts were marked as "void," but the original receipt was not retained for audit.
5. Some of the receipt numbers recorded in the spreadsheets (ledgers) were from a receipt book that could not be located for examination.

*Deficiencies in Receipts Generated by the Case Management Software*

1. The receipts generated by the Case Management Software could not be traced to the handwritten receipts issued by the Resident Officers or Financial Clerk because the system does not allow for receipt numbers to be altered nor does it allow for any additional notes to be added for cross referencing.
2. Numerous collections were recorded in the Case Management Software to resident accounts which could not be verified to a handwritten receipt or to the excel spreadsheets for resident fees.
3. We found handwritten receipts were issued to a resident which were not recorded in his account in the Case Management Software. Also, numerous collections were recorded to resident accounts, which included handwritten receipts being issued, but those receipts were determined to have been issued to other residents.
4. A reconciliation between the transactions recorded in the Case Management Software and the handwritten receipts and the excel ledgers of collections for resident fees is not performed.

*Commissary Revenue*

1. Receipts were not issued to support any of the Commissary Account collections. It is unclear as to the source of the amounts recorded in the ledger for the majority of the Commissary revenue.
2. The Financial Clerk stopped recording collections to the excel spreadsheet or ledger for the Commissary Account in January 2013.

Until April 11, 2013, the Financial Clerk was responsible for removing the cash and coin collections from the vending and laundry machines. Beginning April 11, 2013, the Assistant Director of the Department Community Corrections began removing the cash and coin collections from the vending and laundry machines, preparing the deposit ticket, and taking the money to the bank. The Assistant Director also began maintaining a list of the dollar amounts he was depositing. The Assistant Director was also responsible for filling the change compartment of the vending machine with change. (The vending machines have a change compartment so that a patron can insert paper money into the machine to purchase a lesser priced item and receive change back.) To get the change for the change compartment, the Assistant Director would withhold coin collections, or make the deposit ticket for a lesser amount than he had collected, so that he could purchase rolls of coins from the bank at the time of deposit.

*Bank Statements/Reconciliations*

We reviewed the bank statements for the three bank accounts and found the following:

1. No deposits were made in November 2012 in the Resident Fees Account.

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SPECIAL INVESTIGATION RESULTS AND COMMENTS  
(Continued)

2. There were no deposits made from September 2012 through January 2013, and from April through December 2013 to the Residents Trust Account
3. There were no deposits to the Commissary Account for September, October, and December 2012 through February 2013.
4. Bank reconciliations to the excel ledgers were not performed.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

Indiana Code 5-13-6-1 requires all public funds shall be deposited not later than the business day following the receipt of funds on business days of the depository.

The statute also provides public funds deposited shall be deposited in the same form in which they were received. This simply means all daily receipts received by the political subdivision must be deposited intact. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 6)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

Indiana Code 5-13-6-1(e) states: All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local offices, with the balance statements provided by the respective depositories."

### **SHORTAGE IN DEPOSITS**

We compared the handwritten receipts issued and recorded in the Resident Fees and Resident Trust excel ledgers, as well as to the entries recorded in an excel ledger for the Commissary revenue to the deposits in each account.

We were able to identify some deposits that we determined that a receipt was not issued and the deposit was not recorded in the financial records as follows:

1. Collections totaling \$12,787 were recorded in the Case Management Software to resident accounts which could not be verified to a handwritten receipt issued to that resident.

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SPECIAL INVESTIGATION RESULTS AND COMMENTS  
(Continued)

2. The County has a "Problem Solving Court," which also collects resident fees that are remitted through the County Auditor to the Department of Community Corrections. Checks from the County Auditor to the Department of Community Corrections totaling \$46,362 were deposited. No receipt was issued and the deposit was not recorded in the excel ledger for resident fees.
3. Some residents sent to the Department of Community Corrections had a cash bond held in trust with the County Clerk. The Court ordered the cash bond released to the Department of Community Corrections as resident fees. Checks totaling \$21,952.00 from the County Clerk were deposited. No receipt was issued and the deposit was not recorded in the excel ledger for resident fees.
4. Money orders were uncovered in the former Financial Clerk's Office after her resignation and deposited totaling \$2,134.01. We could not trace the money orders to corresponding receipts or entries to the excel ledgers.
5. Cash and coins were also found and deposited, but due to the inadequacy of the records, we could not determine if the cash and coins had been receipted or recorded in the excel ledgers.

After adjusting for the above items being deposited, but not receipted, the deposits are not sufficient to cover collections by \$11,356.93 as follows:

<u>January 1, 2012 to May 27, 2012</u>	<u>Resident Fees</u>	<u>Resident Trust</u>	<u>Commissary</u>	<u>Totals</u>
Collections per Receipts per Ledger:	\$ 266,636.18	\$ 8,116.41	\$ 11,628.51	\$ 286,381.10
Add Items not Receipted or Recorded in Ledger:				
1. Collections per Case Management	-	-	-	-
2. Problem Solving Court Collections	-	-	-	-
3. Bonds Released through County Clerk	-	-	-	-
4. Money Orders	-	-	-	-
Total Collections not Receipted or Recorded in Ledger	-	-	-	-
Total Adjusted Collections	266,636.18	8,116.41	11,628.51	286,381.10
Total Deposits	<u>264,564.34</u>	<u>7,826.41</u>	<u>11,499.55</u>	<u>283,890.30</u>
Total Collections in Excess of Deposits (Collections Less than Deposits)	<u>\$ 2,071.84</u>	<u>\$ 290.00</u>	<u>\$ 128.96</u>	<u>\$ 2,490.80</u>

DEPARTMENT OF COMMUNITY CORRECTIONS  
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(Continued)

<u>May 27, 2012 to May 27, 2013</u>	<u>Resident Fees</u>	<u>Resident Trust</u>	<u>Commissary</u>	<u>Totals</u>
Collections per Receipts per Ledger:	\$ 751,517.66	\$ 27,660.76	\$ 25,477.67	\$804,656.09
Add Items not Receipts or Recorded in Ledger:				
1. Collections per Case Management	4,725.00	-	-	4,725.00
2. Problem Solving Court Collections	5,490.00	-	-	5,490.00
3. Bonds Released through County Clerk	7,869.00	-	-	7,869.00
4. Money Orders	<u>565.00</u>	<u>-</u>	<u>-</u>	<u>565.00</u>
Total Collections not Receipted or Recorded in Ledger	<u>18,649.00</u>	<u>-</u>	<u>-</u>	<u>18,649.00</u>
Total Adjusted Collections	770,166.66	27,660.76	25,477.67	823,305.09
Total Deposits	<u>703,373.26</u>	<u>8,683.06</u>	<u>18,900.86</u>	<u>730,957.18</u>
Total Collections in Excess of Deposits (Collections Less than Deposits)	<u>\$ 66,793.40</u>	<u>\$ 18,977.70</u>	<u>\$ 6,576.81</u>	<u>\$ 92,347.91</u>
<u>May 27, 2013 to April 30, 2014</u>	<u>Resident Fees</u>	<u>Resident Trust</u>	<u>Commissary</u>	<u>Totals</u>
Collections per Receipts per Ledger:	\$ 659,111.39	\$ 29,566.20	\$ 40,914.63	\$729,592.22
Add Items not Receipts or Recorded in Ledger:				
1. Collections per Case Management	8,062.00	-	-	8,062.00
2. Problem Solving Court Collections	40,872.00	-	-	40,872.00
3. Bonds Released through County Clerk	14,083.00	-	-	14,083.00
4. Money Orders	<u>1,569.01</u>	<u>-</u>	<u>-</u>	<u>1,569.01</u>
Total Collections not Receipted or Recorded in Ledger	<u>64,586.01</u>	<u>-</u>	<u>-</u>	<u>64,586.01</u>
Total Adjusted Collections	723,697.40	29,566.20	40,914.63	794,178.23
Total Deposits	<u>825,078.63</u>	<u>10,506.55</u>	<u>42,074.83</u>	<u>877,660.01</u>
Total Collections in Excess of Deposits (Collections Less than Deposits)	<u>\$(101,381.23)</u>	<u>\$ 19,059.65</u>	<u>\$ (1,160.20)</u>	<u>\$(83,481.78)</u>
<u>Summary of Collections to Deposits</u>	<u>Resident Fees</u>	<u>Resident Trust</u>	<u>Commissary</u>	<u>Totals</u>
January 1, 2012 to May 27, 2012: Cash Short	\$ (2,071.84)	\$ (290.00)	\$ (128.96)	\$ (2,490.80)
May 27, 2012 to May 27, 2013: Cash Short	(66,793.40)	(18,977.70)	(6,576.81)	(92,347.91)
May 27, 2013 to April 30, 2014: Cash Long	<u>101,381.23</u>	<u>(19,059.65)</u>	<u>1,160.20</u>	<u>83,481.78</u>
Total Cash Short - Collections Exceed Deposits	<u>\$ 32,515.99</u>	<u>\$(38,327.35)</u>	<u>\$ (5,545.57)</u>	<u>\$(11,356.93)</u>

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

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All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

IC 5-13-6-1 requires all public funds shall be deposited not later than the business day following the receipt of funds on business days of the depository.

The statute also provides public funds deposited shall be deposited in the same form in which they were received. This simply means all daily receipts received by the political subdivision must be deposited intact. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 6)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

We requested reimbursement of \$11,356.93 from Shannon Hageman, former Financial Clerk, to the Department of Community Corrections for the amount by which receipts exceeded deposits after adjusting for items deposited, but not receipted or recorded in the records. (See Summary of Charges, page 21)

***DERELICTION OF DUTIES***

Shannon Hageman, former Financial Clerk, was responsible for preparing deposits and taking the various collections to the bank for deposit. She was also responsible for issuing the checks to the County Auditor for the resident fees collected and deposited into the Resident Fees Account.

The depository accounts were maintained at PNC Bank. The bank charges a fee of \$36 (for part of 2012 it was \$25) for each check that is returned to The Department of Community Corrections due to nonsufficient funds (NSF) fee. The bank will also charge a \$36 overdraft fee if the account balance is insufficient to cover the check.

In July 2012, the bank charged the Department of Community Corrections a \$36 overdraft item fee, and a \$25 NSF fee for a check issued by the Department of Community Corrections and presented to the bank by the County Auditor. The check was initially returned for nonsufficient funds. When the County Auditor presented the check to the bank the second time, the bank honored the check, but charged the Department of Community Corrections the \$36 overdraft fee. On October 15, 2012, the bank charged the Department of Community Corrections \$36 for an overdraft item fee for another check issued to the County Auditor for resident fees collections. Additional NSF fees and overdraft fees were incurred by the Department of Community Corrections for checks issued to the County Auditor intermittently. Because the frequency of checks being returned to the County Auditor increased, the Director of the Department of Community Corrections began an investigation in January 2014 to determine the reason for overdrawing the account.

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In January 2014, the Director and Assistant Director of the Department of Community Corrections discovered numerous undeposited checks, and money orders dating back to March 7, 2012, in the office of Shannon Hageman, former Financial Clerk, as well as, some undeposited cash from vending collections. It was at this time that Shannon Hageman resigned her position as Financial Clerk.

During the period from October 15, 2012 through January 31, 2014, the Department of Community Corrections incurred \$817 in bank overdraft and NSF fees due because deposits were not made timely by the Financial Clerk.

In addition to the bank fees, the Department of Community Corrections also experienced a loss of revenue from resident fees because the money orders were stale-dated and not accepted by the bank for deposit. Attempts were made to pursue recovery directly from the issuers (Western Union, Money Gram, etc.) of the money orders. In some cases, the issuer honored the money order but deducted various fees. In other cases, the money orders were not honored due to various reasons, such as lack of information or age of the money order.

Scheduled below is a summary of the fees incurred by the Department of Community Corrections as a direct result of the dereliction of duties by Shannon Hageman, former Financial Clerk:

<u>Description</u>	<u>Amount</u>
Service Charges for Overdrafts and NSF Checks:	
May 27, 2012 to May 27, 2013	\$ 241.00
May 27, 2013 to May 27, 2014	<u>576.00</u>
Total - Services Charges for Overdrafts and NSF Checks	<u>817.00</u>
Money Orders Not Honored by Western Union:	
May 27, 2012 to May 27, 2013	1,292.00
May 27, 2013 to May 27, 2014	<u>666.88</u>
Total - Money Orders Not Honored by - Western Union	<u>1,958.88</u>
Fees incurred for Money Orders - Western Union:	
May 27, 2012 to May 27, 2013	1,386.50
May 27, 2013 to May 27, 2014	<u>-</u>
Total - Fees incurred for Money Orders - Western Union	<u>1,386.50</u>
Money Orders Not Honored and related Fees - Money Gram	
May 27, 2012 to May 27, 2013	868.65
May 27, 2013 to May 27, 2014	<u>-</u>
Total Money Orders Not Honored and related Fees - Money Gram	<u>868.65</u>
Total - Fees incurred and paid due to dereliction of duties	<u>\$ 5,031.03</u>

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(Continued)

Every effort should be made by the governmental unit to avoid unreasonable or excessive costs. (Uniform Compliance and Guidelines Manual for Counties of Indiana, Chapter 1)

Indiana Code 5-13-6-1 (a) states:

"All public funds paid into the treasury of the state or the treasuries of the respective political subdivisions shall be deposited not later than the business day following the receipt of funds on business days of the depository in one (1) or more depositories in the name of the state or political subdivision by the officer having control of the funds."

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance and Guidelines Manual for Counties of Indiana, Chapter 1)

We instructed Shannon Hageman, former Financial Clerk, to reimburse the Department of Community Corrections \$5,031.03 for the service charges and fees and the amount of dishonored money orders. (See Summary of Charges, page 21)

### ***LACK OF INTERNAL CONTROLS***

The Director of the Department of Community Corrections delegated the responsibility for receipting, recording, and depositing collections, writing checks, and reconciling the bank accounts to one individual. Others did participate in receipting collections, but ultimately this individual was responsible for recording all the transactions into an excel ledger. The financial records were never reviewed by any other employee or management.

Handwritten receipts were issued by this Clerk or one of the Resident Officers for resident fees and resident trust. For the collections of resident fees, a receipt was also to be generated electronically by this Clerk in order to record the collections against any amounts owed for fees in the Case Management Software system. While the system indicates receipts were generated, the receipts are not printed and retained for audit. Furthermore, no one at the Department of Community Corrections compares the collections recorded in the Case Management Software to the collections recorded in the excel spreadsheets for resident fees.

The Assistant Director and the Resident Coordinator collect money from the vending machines and for minor miscellaneous supply items. When the money was remitted to the Financial Clerk for deposit, receipts were not issued to either party documenting the chain of custody and dollar amount. Furthermore, Commissary sheets are completed by the Resident Officers to document the sales of the minor supply items

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(laundry soap and over the counter medications and supplies). These sheets document when either the Assistant Director or the Resident Coordinator collected and remitted funds to the Clerk for deposit. No one verified that the dollar amounts indicated as being remitted for deposit were the actual amounts recorded in the ledgers as collections or to the bank deposits.

Bank reconcilements were not requested or reviewed to ensure the accurate and timely recording of financial activities.

Governmental units 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 management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

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 for Counties of Indiana, Chapter 1)

#### ***CRIME INSURANCE***

LaPorte County has an Employee Theft Insurance Policy which covers 12-month periods from May 27, 2012 through May 27, 2014. The policies are with Federal Insurance Company and provide \$500,000 of coverage for employee theft with a \$1,000 retention (deductible) for employees of LaPorte County.

#### ***AUDIT COST - DERELICTION OF DUTIES AND SHORTAGE IN DEPOSITS***

The State of Indiana incurred additional audit costs in the investigation of the dereliction of duties, and deposits not receipted or recorded at County Corrections. We requested Shannon Hageman, former Financial Clerk, to reimburse the State of Indiana \$12,010.35 of the additional audit fees incurred in the investigation of the dereliction of duties and deposits not receipted or recorded. (See Summary of Charges, page 21)

Audit costs incurred because of theft and shortage may be the personal obligation of the responsible official or employee.

Audit costs or other costs incurred because of poor records, nonexistent records or other inadequate bookkeeping practices may be the personal obligation of the responsible official or employee of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

#### ***ESTIMATED LOSS OF REVENUE***

From December 29, 2012 to April 4, 2013, none of the cash/revenue from the pop vending machines was recorded in the ledger.

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At least four individuals including the Financial Clerk, two Resident Officers, and the Assistant Director of the Department of Community Corrections had access to the keys to the pop vending machines. Some had access to the keys to replenish the stock. The Financial Clerk had keys, so that she could collect the money for deposit and record the revenue in the ledger.

Beginning with the April 18, 2013 deposit, the Assistant Director of the Department of Community Corrections began collecting and depositing the pop machine money. This change was in response to complaints from the residents that the machines were not dispensing the correct change.

Inventory records of stock on hand were not maintained. Furthermore, invoices from the vendors included various quantities and prices of the various beverage products supplied for the pop machines. Because of the lack of inventory records by product and price, we were unable to perform an accurate computation of the amount of revenue that would be generated.

However, using the amounts recorded in the ledger as revenue from pop machine for the period of April 18, 2013 through October 3, 2013, we calculated an average per day collection amount of \$68.25. Using this per day estimated amount, we estimate that the loss of revenue from the pop vending machines to be \$6,688.53 for the period of December 29, 2012 to April 4, 2013.

Due to the condition of records and lack of controls, we could not determine if all cash revenue from vending had been deposited in the bank and recorded in the ledgers.

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit.

The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of the payors. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

Internal controls over vending operations, concessions or other sales should include, at a minimum, a regular reconciliation of the beginning inventory, purchases, distributions, items sold and ending inventory to the amount received. Any discrepancies noted should be immediately documented in writing to proper officials. The reconciliation should provide an accurate accounting.

Persons with access to vending should be properly designated and access should be limited to those designated. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

DEPARTMENT OF COMMUNITY CORRECTIONS  
LAPORTE COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on October 14, 2014, with Richard K. Buell, Director of Community Corrections; Shaw R. Friedman, LaPorte County Attorney; and Willie Milsap, President of the Board of County Commissioners.

The contents of this report were mailed to Shannon Hageman, former Financial Clerk, on October 15, 2014.



# LAPORTE COUNTY COMMUNITY CORRECTIONS

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**RICHARD K. BUELL**  
Executive Director

**WILLIAM C. HACKETT**  
Assistant Director

Date: October 29, 2014  
To: State Board of Accounts  
From: Richard Buell Executive Director LCCC  
Re: Special Investigation for Years 2012 and 2013

Ladies and Gentlemen of the State Board of Accounts:

LaPorte County Community Corrections has received the State Board of Accounts Special Investigative Report during the exit interview on October 14, 2014. This report concerned an investigation requested by LaPorte County and LaPorte County Community Corrections relating to the records and accountability for cash and assets and the former Collections Officer, Shannon Hageman during the years of 2012 through 2013.

I am writing this letter in response to the investigation findings and the changes in policy and procedures that have been made by LCCC addressing the issues included in the report. These changes have been made to avoid further negative issues in collection of any and all fees. I will address these issues in chronological order and title as brought forth in the SBA report.

## ***CONDITION OF RECORDS***

### Overview of Recordkeeping Process

Receipts were not issued to support any of the Commissary account collections. It is unclear as to the source of the amounts recorded in the ledger for the majority of the Commissary revenue. Furthermore, the financial clerk stopped recording collections to the Excel spreadsheet or ledger for the Commissary account in January, 2013.

***Correction:*** Individual receipts are issued by Residential Officers from the Commissary Receipt book to each participant who presents a money order for items to be purchased from Commissary. This information is then recorded to the Excel spreadsheet on a daily basis by the utility officer for the Commissary account.

### Deficiencies in Handwritten Receipts

- 1) We found that the issuance of receipts was not consistent. Receipts were issued for resident fees using the receipt books designated for resident trust and receipts designated for resident fees were also used to record collections for resident trust.

***Corrections:*** Separate receipt books are designated, one for Commissary fees and one for Inmate Trust.

- 2) We noted that receipts issued to residents that indicated the method of payment was by credit card; however, the credit card transaction could not be traced to the bank statement or credit card statements. Errors were made in the designation of method of payment.

**Correction:** *Credit card payments are made to a separate individual bank, PNC by the participant using a separate program called, "Pay Junction". Receipts are completed by our Collections Officer for each credit card transaction on a daily basis and mailed to the participant. Credit card payments are then indicated separately in the Excel spreadsheet completed by the Collections Officer, again on a daily basis.*

- 3) Receipts were not issued in numerical sequence.

**Correction:** *Receipts are issued from the appropriate receipt book in sequence. If there is an error in receipting sequence, that receipt out of order is voided and stapled back into the receipt book if at all possible and documentation for the error will be completed.*

- 4) Some receipts were marked as "VOID" but the original receipt was not retained for audit.

**Correction:** *Voided receipts are marked, "VOID" and kept in the appropriate receipt book.*

- 5) Some of the receipt numbers recorded in the spreadsheets (ledgers) was from a receipt book that could not be located for examination.

**Correction:** *Once a receipt book has been completed the book is filed in chronological order for inspection in storage.*

#### Deficiencies in Receipts Generated by the Case Management Software

- 1) The receipts generated by the Case Management Software could not be traced to the handwritten receipts issued by the resident officers of financial clerk because the system does not allow for receipt numbers to be altered nor does it allow for any additional notes to be added for cross referencing.

**Correction:** *Case Management generates a receipt number that is separate from the receipt number generated in the receipt book completed by the residential officer. Case Management does provide a comment area. The Collections Officer enters the receipt number generated from the receipt book on a daily basis in the comment area for the purposes of cross referencing.*

- 2) Numerous collections were recorded in the Case Management Software to resident accounts which could not be verified to a handwritten receipt or to the Excel spreadsheets for Resident Fees.

**Correction:** *Handwritten receipts are generated from the participant payment completed by the Residential Officer. The Collections Officer then enters the corresponding receipt number from the participant into Case Management and to the Excel spreadsheet on a daily basis confirming the participant and the correct fee paid.*

- 3) We found handwritten receipts were issued to a resident which were not recorded in his account in the Case Management Software. Also, numerous collections were recorded to resident accounts, which included handwritten receipts being issued but those receipts were determined to have been issued to other residents.

**Correction:** Information regarding handwritten receipts and the correct participant receiving that receipt are entered into excel spreadsheets and the Case Management Program for cross referencing by the Collections Officer on a daily basis. The information is reviewed for accuracy by the Director, Asst. Director and the Administrative Assistant.

- 4) A reconciliation between the transactions recorded in the Case Management Software and the handwritten receipts and the excel ledgers of collections for resident fees is not performed.

**Correction:** The spreadsheet based off the appropriate receipt book is reviewed by the Collections Officer for accuracy. The Collection Officer verifies the participant and the fee paid and enters the appropriate information into the documentation. This information is also reviewed by the Administrative Assistant for accuracy. Reports are printed on a daily basis to verify accuracy.

#### Commissary Revenue

- 1) Receipts were not issued to support any of the Commissary account collections. It is unclear as to the source of the amounts recorded in the ledger for the majority of the Commissary revenue.

**Correction:** Receipts from the Commissary receipt book are generated by the Residential Officer when accepting payment from a participant. The Utility Officer receives the money orders and verifies the amount to the copy of the receipt and documents the information into the ledger.

- 2) The financial clerk stopped recording collections to the Excel spreadsheet or ledger for the Commissary account in January, 2013.

**Correction:** Collections from the Commissary fund are documented in the appropriate spreadsheet by the Utility Officer on a daily basis or as money orders are received.

#### Bank Statements/Reconciliations

- 1) No deposits were made in November 2012 in the Resident Fees Account.

**Correction:** Deposits to the Resident Fee Account are made on a daily basis with the exception of Saturday and Sunday. Deposits made reflect the day they were received and documented in spreadsheets and Case Management.

- 2) There were no deposits made from September 2012 thru January 2013 and from April thru December 2013 to the residents trust account.

**Correction:** Deposits to the Resident Trust Account are made on a daily basis with the exception of Saturday and Sunday. Deposits made reflect the day they were received and documented in spreadsheets and Case Management.

- 3) Bank reconciliations to the excel ledgers were not performed.

**Correction:** Bank reconciliations are made monthly by the Collections Officer. The Director also receives the bank statements and reviews the accuracy of the reconciliation.

#### **SHORTAGE IN DEPOSITS**

- 1) Collections totaling \$12,787 were recorded in the Case Management Software to resident accounts which could not be verified to a handwritten receipt issued to that resident

**Correction:** *Handwritten receipts are completed as fees are accepted from participants. That documentation is then recorded in Case Management and the appropriate Ledger or spreadsheet.*

- 2) The County has a "Problem Solving Court" which also collects resident fees that are remitted through the County Auditor to Community Corrections. Checks from the County Auditor to Community Corrections totaling \$46,362 were deposited. No receipt was issued and the deposit was not recorded in the excel ledger for resident fees.

**Correction:** *Fees collected from the County Auditor from "Problem Solving Court" are receipted and entered appropriately into the Excel spreadsheet by the Collections Officer identifying same. The Director submits the invoice to Problem Solving Court and verifies the fee collection when received.*

- 3) Some residents sent to Community Corrections had a cash bond held in trust with the County Clerk. The court ordered the cash bond released to Community Corrections as resident fees. Checks totaling \$21,952.00 from the county clerk were deposited. No receipt was issued and the deposit was not recorded in the excel ledger for resident fees.

**Correction:** *Cash Bonds in check form received from the County Clerk are receipted to the participant corresponding to the bond. Documentation is entered into the Excel spreadsheet identifying the participant and that it was a bond payment from the court.*

- 4) Money orders were uncovered in the former financial clerk's office after her resignation and deposited totaling \$3,634.01. We could not trace the money orders to corresponding receipts or entries to the excel ledgers

**Correction:** *Money orders received from participants are placed in a drop safe located in the Residential Officers office. The following day the Collections Officer removes the money orders, performs the necessary documentation and the Assistant Director makes the bank deposit. The Assistant Director also verifies the receipts to the money orders verifying their accuracy and consistency.*

- 5) Cash and coin was also found and deposited but due to the inadequacy of the records we could not determine if it had been receipted or recorded in the Excel ledgers.

**Correction:** *Cash and coin will not be accepted by any Residential Officer. The only exception to this rule is if the Director and or the Assistant Director is notified by the Collections Officer that a participant has cash to pay their fees, cash may be accepted but only in the presence of the Director and or Assistant Director. The cash amount is verified and receipted to the participant, documented in the appropriate ledger and placed in the safe in the Directors office until deposit the following day.*

### **LACK OF INTERNAL CONTROLS**

The Director of Community Corrections delegated the responsibility for receipting, recording, and depositing collections, writing checks and reconciling the bank accounts to one individual. Others did participate in receipting collections but ultimately this individual was responsible for recording all the transactions into an excel ledger. The financial records were never reviewed by any other employee or management.

**Correction:** *A check and balance system is now in place to verify information. The Collection Officer is responsible for collecting and documenting information for Case Management and Excel spreadsheets. The Collections Officer is also responsible for reconciliations and this information is verified by the Director and or the Assistant Director that all information is accurate. At a later point, the Administrative Assistant also verifies the information from reports that must be submitted to the Department of Correction. Checks are written by the Director, Assistant Director, Collections Officer and Utility Officer. All checks are signed by the Director. Deposits are made by the Assistant Director.*

Handwritten receipts were issued by this clerk or one of the resident officers for resident fees and resident trust. For the collections of resident fees, a receipt was also to be generated electronically by this clerk in order to record the collections against any amounts owed for fees in the case management software system. While the system indicates receipts were generated, the receipts are not printed and retained for audit. Furthermore, no one at Community Corrections compares the collections recorded in the Case Management Software to the collections recorded in the Excel spreadsheets for resident fees.

**Correction:** *Receipts in the Case Management system are maintained in the data base and are printed only upon request due to the high cost. Collections are compared in the spreadsheet and Case Management by the Administrative Assistant as that information again is necessary for Department of Correction reports.*

The Assistant Director and the Resident Coordinator collect money from the vending machines and for minor miscellaneous supply items. When the money was remitted to the financial clerk for deposit, receipts were not issued to either party documenting the chain of custody and dollar amount. Furthermore, commissary sheets are completed by the resident officers to document the sales of the minor supply items (laundry soap, over the counter medications and supplies). These sheets document when either the Assistant Director or the Resident Coordinator collected and remitted funds to the clerk for deposit. No one verified that the dollar amounts indicated as being remitted for deposit were the actual amounts recorded in the ledgers as collections or to the bank deposits.

**Correction:** *The Utility officer will collect the monies from the vending machines with the exception of the food vending machines. The Utility Officer will then receipt the amount collected to the Assistant Director. The Assistant Director will then complete the deposit slip and make the deposit at the corresponding bank. The Utility Officer will then complete the Excel spreadsheet indicating the amount collected. The spreadsheet will be verified by the Collections Officer.*

Bank reconcilements were not requested or reviewed to ensure the accurate and timely recording of financial activities.

**Correction:** *Bank reconcilements will be completed by the Collections Officer and reviewed by the Director for accuracy.*

Governmental units 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 management's objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

**Correction:** *Responsibilities and a check and balance system is now in place to meet the aforementioned criteria.*

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 for Counties, Chapter 1)

**Correction:** *Accountability and responsibility to meet the aforementioned criteria is we believe now in place in order that our operation is transparent*

I would like to take this opportunity to thank the State Board of Accounts for their report and assistance in establishing guidelines to meet the requested criteria and for giving me the opportunity to respond to this investigative report.

Professionally,

A handwritten signature in black ink that reads "Richard Buell". The signature is written in a cursive, flowing style.

Richard Buell  
Executive Director  
LCCC

DEPARTMENT OF COMMUNITY CORRECTIONS  
LAPORTE COUNTY  
SUMMARY OF CHARGES

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Shannon Hageman, former Financial Clerk:			
Shortage in Deposits, pages 6 through 9	\$ 11,356.93	\$ -	\$ 11,356.93
Dereliction of Duties, pages 9 through 11	<u>5,031.03</u>	<u>-</u>	<u>5,031.03</u>
Subtotal	<u>16,387.96</u>	<u>-</u>	<u>16,387.96</u>
Audit Cost - Dereliction of Duties and Shortage in Deposits, page 12	<u>12,010.35</u>	<u>-</u>	<u>12,010.35</u>
Totals	<u>\$ 28,398.31</u>	<u>\$ -</u>	<u>\$ 28,398.31</u>

This report was forwarded to the Office of the Indiana Attorney General and the local prosecuting attorney.

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AFFIDAVIT

STATE OF INDIANA )  
Porter COUNTY )

We, Michelle M. Janosky and Kristin Campbell, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the Department of Community Corrections, LaPorte County, Indiana, for the period from January 1, 2012 to April 30, 2014, is true and correct to the best of our knowledge and belief.

Kristin Campbell  
Field Examiners

Subscribed and sworn to before me this 26<sup>th</sup> day of Jan., 2015

Judy A. Little  
Notary Public

My Commission Expires: 6-26-2021

County of Residence: Jasper

