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David A. Vaudt, CPA
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NEWS RELEASE

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FOR RELEASE _____ December 13, 2004 _____

Auditor of State David A. Vaudt today released a report on a special investigation of the Fourth Judicial District Department of Correctional Services (District) headquartered in Council Bluffs. The report covers the period July 1, 2003 through August 31, 2004. The special investigation was requested by the Director of the District as a result of alleged undeposited fees collected for the Sex Offenders Treatment Program.

Vaudt reported the special investigation identified \$400 of fees not deposited by Roy Smith, a probation officer formerly employed by the District. Vaudt also reported that because duties were not adequately segregated in the administration of the Sex Offenders Treatment Program and prenumbered receipts may not have been issued for all collections, additional amounts may have been collected but not recorded or deposited. The report also includes recommendations to strengthen the District's internal control.

Copies of the report have been filed with the Division of Criminal Investigation and the Attorney General's Office. A copy of the report is available for review in the Office of Auditor of State and the Auditor of State's website at www.state.ia.us/government/auditor/reports.

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Auditor of State's Report

To Matthew Gelvin, Director of the Fourth Judicial District
Department of Correctional Services:

In late August 2004, an official of the Fourth Judicial District identified certain concerns with the collection of Sex Offender Treatment Program (SOTP) fees by probation officer Roy Smith. Mr. Smith was responsible for collecting SOTP fees. According to District officials we spoke with, Mr. Smith often received cash payments from the offenders. After receiving the cash and preparing a "temporary" receipt for the offender from a three-part receipt book, Mr. Smith was to place the cash in a locked drop safe and provide a copy of the related receipt to a District employee.

On August 23, 2004, Mr. Smith submitted an envelope containing five receipts issued for five payments made by offenders in SOTP to the District Office. The cash related to the five issued receipts was appropriately found in a drop-safe. However, the preprinted numbers on the five receipts indicated one receipt had not been submitted by Mr. Smith. Upon inquiry, it was discovered Mr. Smith had received \$400 from an offender, but the receipt and cash had not been submitted. Mr. Smith was suspended with pay on August 25, 2004 and subsequently terminated from employment on September 13, 2004.

At your request, we conducted certain tests and procedures to selected financial transactions of the District. Based on a review of relevant information and discussions with the Fiscal Officer and Residential Correctional Facility (RCF) Manager, we performed the following procedures.

- (1) Obtained an understanding of SOTP and Mr. Smith's duties.
- (2) Evaluated internal controls surrounding the collection of SOTP fees to determine whether adequate policies and procedures were in place and operating effectively for the period July 1, 2003 through August 31, 2004.
- (3) Examined Mr. Smith's most recent receipt book and traced the collections recorded on the receipts to deposits with the District Office. Receipts issued from that book were dated from March 19, 2003 through August 19, 2004.
- (4) Examined receipts brought to the District Office by offenders and compared them to information recorded in Mr. Smith's receipt book. District personnel requested offenders bring SOTP temporary receipts to the District Office for review.
- (5) Compiled a listing of sex offender cases assigned to Mr. Smith based on information provided by the District. For the offenders identified, we attempted to determine if the appropriate SOTP fees had been collected and subsequently deposited.

The procedures we performed identified the following items. We have made recommendations to address each of the concerns identified.

- (A.) Segregation of Duties – When an offender is placed in SOTP, Mr. Smith was responsible for obtaining a signed fee agreement and establishing the offender’s account on the District’s Inmate Banking System. Mr. Smith was also the individual to whom each offender in SOTP remitted payments. For the period of our investigation, no other District employee verified all SOTP participants had an established account or a signed fee agreement.

Recommendation – The District should implement procedures to ensure all SOTP participants have an established account on the District’s Inmate Banking System and a signed fee agreement.

- (B.) Undeposited Collections – Each offender participating in SOTP is to remit a \$1,000 fee to the District. The fee is generally collected in a number of small payments made by the offender and is used by the District to offset a \$250 fee for a polygraph test, a \$350 fee for a plethysmograph test and \$400 to help cover the costs of group sessions attended by the offender. The District’s procedures establish a minimum amount of \$50 to be collected per payment. However, the policy was not enforced by Mr. Smith.

During the time period of our investigation, Mr. Smith was the only District employee responsible for collecting SOTP fees. According to District officials we spoke with, Mr. Smith often received cash payments from the offenders. After receiving the payment and preparing a “temporary” receipt for the offender from a three-part receipt book, the payment is to be placed in a locked drop-safe and a copy of the related receipt provided to the District. One copy of the receipt is provided to the offender and the third copy is to remain in the receipt book.

The receipts and payments are later retrieved from the drop-safe and posted to the offenders’ Inmate Banking System accounts by another District employee. A third employee prepares a “permanent” receipt for the payment and subsequently deposits the payments to the District’s account.

As stated previously, a District employee determined on August 23, 2004 receipt #0653 was not submitted by Mr. Smith when five other receipts surrounding that number were submitted and the related payments were placed in the drop-safe. After speaking with Mr. Smith, District officials determined receipt #0653 had been prepared on August 17, 2004 for \$400 paid by an offender. On August 25, 2004, Mr. Smith was placed on paid administrative leave. Also on that date, he met with the District Director and requested the drop-safe be checked again for the \$400 payment. The cash was located in the drop-safe on August 25, 2004 and subsequently deposited by the District.

In late August, the District also obtained from the same offender a copy of a “receipt” issued by Mr. Smith on District stationary rather than from the receipt book. The document was signed by Mr. Smith and the offender and stated, in part, Mr. Smith received \$400 of SOTP fees from the offender on May 27, 2004. The collection was not recorded in Mr. Smith’s receipt book and we were not able to trace the payment to a permanent receipt issued by the District for the offender or to a deposit to the District’s bank account.

When District officials interviewed this offender, they were told Mr. Smith had waived \$100 of the offender’s \$1,000 SOTP fees and had released him from the program. We

were able to determine the remaining \$100 of SOTP fees collected from the offender had been properly recorded in Mr. Smith's receipt book and subsequently deposited.

Because duties were not adequately segregated in the administration of SOTP and prenumbered receipts may not have been issued for all collections, additional amounts may have been collected but not recorded or deposited.

Recommendation – The District should periodically review the outstanding SOTP fees due from offenders to ensure payments are collected in a timely manner. When District personnel identify an unusual or outstanding balance due from an offender, a statement should be sent to the offender notifying them of non-payment and the balance due. In addition, when District personnel identify concerns regarding the subsequent deposit of collected fees, statements should be sent to offenders to confirm all payments have been appropriately deposited.

(C.) Waived Fee – The District determined Mr. Smith waived a portion of an SOTP fee for at least one offender during the period of our investigation. In addition, Mr. Smith discharged the offender from SOTP without completion of the polygraph or plethysmograph tests.

Recommendation – The District should establish procedures to ensure offenders remit the \$1,000 fee and complete all portions of the program prior to being discharged from the program.

(D.) SOTP Administration – A case file is to be maintained for each offender participating in SOTP to document the offender's progress in the program. Mr. Smith was responsible for maintaining the case file for each offender participating in SOTP. He also organized and led group sessions attended by the offenders. During the period of our investigation, an independent review of the case files prepared by Mr. Smith was not performed and Mr. Smith did not record the offenders' attendance at the group meetings.

In addition, because of the lack of independent oversight, no one at the District office was able to provide us a list of offenders currently or previously participating in SOTP. With the assistance of District officials, we compiled a listing of sex offender cases assigned to Mr. Smith. However, we were unable to determine the completeness of the listing and if all SOTP fees had been collected and subsequently deposited for the offenders identified.

Recommendation – A District employee independent of SOTP should maintain a listing of offenders participating in the program. Also, a periodic review of the offenders' case files should be conducted by a party independent of their preparation and participant attendance at group sessions should be recorded and monitored to ensure compliance with program requirements.

(E.) Numerical and Chronological Sequence of Receipts – Staff with the District Office assigns prenumbered, three-part receipt books to each probation officer and records the numerical sequence of the books assigned to each officer. The District Office staff also account for the numerical sequence of receipt documents when they are submitted by the probation officers.

We reviewed the receipt book used by Mr. Smith for the period March 19, 2003 until his departure on August 25, 2004 and identified significant time gaps between issued

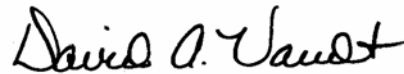
receipts, receipts that were not in chronological order and receipts that were not submitted in a timely manner.

Recommendation – Along with accounting for the numerical sequence of the receipts, District staff should evaluate the timeliness of the receipts, the frequency of the Officer's collections, and the chronological order of the receipts. Any discrepancies should be investigated.

The procedures we performed do not constitute an audit of financial statements conducted in accordance with U. S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the Fourth Judicial District, other matters might have come to our attention that would have been reported to you.

Copies of this report have been filed with the Division of Criminal Investigation and the Attorney General's Office.

We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of the Fourth Judicial District Department of Correctional Services during the course of our investigation.



DAVID A. VAUDT, CPA
Auditor of State

November 9, 2004