

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

OWEN COUNTY, INDIANA

January 1, 2014 to December 31, 2016



**FILED**  
03/29/2018



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## SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Michael L. Wood	01-01-14 to 08-11-16
	(Vacant)	08-12-16 to 09-07-16
	Patty Steward	09-08-16 to 12-31-20
County Treasurer	Tami Snodgrass	01-01-14 to 12-31-14
	Diane Stutsman	01-01-15 to 12-31-18
Clerk of the Circuit Court	Jeffrey Brothers	01-01-14 to 12-31-14
	Linda Roy	01-01-15 to 12-31-18
County Sheriff	Chester Richardson III	01-01-14 to 12-31-14
	Leonard S. Hobbs	01-01-15 to 12-31-18
County Recorder	Peggy Robertson	01-01-14 to 12-31-18
President of the Board of County Commissioners	Donnie Minnick	01-01-14 to 12-31-18
President of the County Council	Patty Steward	01-01-14 to 09-07-16
	(Vacant)	09-08-16 to 12-31-16
	Jennifer Abrell	01-01-17 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF OWEN COUNTY, INDIANA

This report is supplemental to our examination report of Owen County (County), for the period from January 1, 2014 to December 31, 2016. It has been provided as a separate report so that the reader may easily identify any Examination Results and Comments that pertain to the County. It should be read in conjunction with our Financial Statements Examination Report of the County, which provides our opinion on the County's financial statements. This report may be found at [www.in.gov/sboa](http://www.in.gov/sboa).

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Examination Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Examination Results and Comments, incorporated within this report, was not verified for accuracy.

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

February 15, 2018

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COUNTY AUDITOR  
OWEN COUNTY

COUNTY AUDITOR  
OWEN COUNTY  
EXAMINATION RESULTS AND COMMENTS

**ANNUAL FINANCIAL REPORT**

The Annual Financial Reports (AFR) for 2014, 2015, and 2016 contained a number of errors and did not properly reflect the financial activity of the County.

The following outside department funds were not included on the AFR:

- After Settlement Collections - 2014, 2015, and 2016
- Sheriff's Inmate Trust - 2016
- Jail Commissary - 2016
- Clerk Bank - 2014
- Prosecutor Special Fund - 2014, 2015, and 2016

The following funds were not recorded in the County's records for the entire examination period and, therefore, not included on the AFR:

- Redevelopment General
- Redevelopment Capital
- Redevelopment Bond and Interest

In addition to the omitted funds and departments noted above, the AFRs included many other reporting errors in several funds. In total, the Receipts, Disbursements, and Balances reported were incorrect as follows:

<u>Years</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending Balance</u>
2014	\$ 6,304,657	\$ (266,133)	\$ 6,970,046
2015	950,372	6,696,552	1,223,866
2016	3,701,943	3,563,632	603,025

Examination adjustments were proposed, accepted by management, and made to the financial statements.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

COUNTY AUDITOR  
OWEN COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

**OVERDRAWN CASH BALANCES**

A similar comment also appeared in prior Report B43987, entitled *OVERDRAWN CASH BALANCES*.

The financial statements presented in this report included the following funds with overdrawn cash balances at December 31, 2014, 2015, and 2016, as follows:

Fund	Amount Overdrawn		
	2014	2015	2016
Recycling	\$ -	\$ 17,332	\$ 53,251
Payroll Clearing Fund	421,444	524,736	524,846
Payroll Health Benefit	-	-	589,925
Jail Housing	17,537	-	-
HEA 1001 State Homestead Credit	1,956	-	-

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. In an instance in which a unit receives a reimbursement grant, the unit must be claiming reimbursements in a timely manner. In this case, it would be possible for a fund to be overdrawn for a short period of time. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 1)

**AUDITOR RECORDS DO NOT AGREE WITH TREASURER RECORDS**

A similar comment also appeared in prior Report B43987, entitled *FINDING 2013-002 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

As of December 31, 2016, the amount posted to the County Treasurer's Daily Balance of Cash and Depositories and reported on the County Treasurer's bank balances was \$197,027 more than reported on the County Auditor's Fund Ledger.

At the close of each calendar month a Monthly Financial Statement, County Form No. 61, shall be prepared, showing the financial transactions for the month and year to date, for each fund and in total.

The county treasurer is also required to independently prepare a Monthly Financial Statement on the same form and the two statements must be reconciled. If any differences exist between the records of the auditor and the treasurer, they must be identified and immediate steps taken to bring the records of the two offices into agreement.

The statements are prescribed to be placed in a post-binder and shall be carefully preserved as a permanent record. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 7)

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

COUNTY AUDITOR  
OWEN COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

**INTERNAL CONTROLS**

A similar comment also appeared in prior Report B43987, entitled *FINDING 2013-002 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

There was no evidence that a proper internal control structure existed in the County. A proper internal control structure would have included adequate control activities, a control environment, performance of risk assessment procedures, information and communication, and monitoring of internal controls. The County had not separated incompatible activities related to Receipts, Disbursements, Cash and Investment Balances, and Financial Close and Reporting. The failure to establish these controls enabled material misstatements to remain undetected.

Internal controls over the closing of the year-end financial activity and Reporting were insufficient because the County did not have sufficient segregation of duties. The County Auditor performed all duties regarding closing out the ledger at year end and reporting financial activity. There was no indication of a review process to verify the information was accurate.

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"The control environment is the basic commonality for all and comprises the integrity and ethical values of the political subdivision established by the oversight body and management. The standards, processes, and structures which form the control environment pervasively impact the overall system of internal control. The oversight body and management convey leadership expectations, and overall tone which are reinforced by all officials and management throughout the various offices and departments. The control environment also contains the overall accountability structure for all employees through performance and reward measures. Within this structure, leadership demonstrates commitment to the political subdivision by having a process for attracting, developing, and retaining competent individuals. This component is static in that its underpinnings do not generally change with a given objective."

"Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. Each identified risk is evaluated in terms of its impact and likelihood of occurrence. Overall, risk assessment is the basis for determining how risk will be managed. . . .

Management identifies risks to the achievement of the political subdivision's objectives across the unit as a whole and within each office or department. Analysis of risk through determination of objective measures and variance tolerance is the basis for determining how the risks should be managed. The response to risk is selected: acceptance, avoidance, reduction, or sharing. . . .

Internal control is a process, and part of that process is the responsibility for management to be continually aware of changes, both external and internal, that could affect the achievement of the political subdivision's objectives. Those changes should be analyzed for both their immediate effect and for any future impact. Management would then determine any modifications needed in the internal control process to adapt to these changes."

COUNTY AUDITOR  
OWEN COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

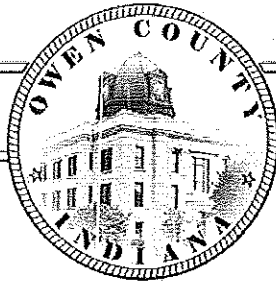
"Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information. Internal communication enables personnel to receive a clear message that control responsibilities are taken seriously by the organization. External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

*Auditor Patty Steward*



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(812)829-5000  
Patty.Steward@owencounty.in.gov

February 26, 2018

Indiana State Board of Accounts  
302 W. Washington St., Room E-418  
Indianapolis, IN 46204-2765

RE: OFFICIAL RESPONSE

As the current County Auditor, I have reviewed the results and comments of the SBOA audit for the years of 2014, 2015, and 2016. I was caucused into this office in October 2016. I was aware upon taking this office that accounts were not balanced and data, balances, and practices were still being carried forward from past officer holders and prior financial software. It is acknowledged that all of 2017 the Auditor and Treasurer have daily balanced. Our offices have worked tirelessly to find the errors and balance the cash balance and fund balance. We are now with the cash balance being \$197,027.00 more than the fund balance. We are awaiting guidance from the State Board of Accounts to have a one-time adjustment to balance the two ledgers.

Internal Controls have been implemented and are being adhered to with the Auditor's office and guidance from this Audit on deficiencies are being implemented going forward.

In conclusion, with the current Auditor evaluating procedures, the installation of Low Financial Software, better internal controls, and daily balancing between offices, the Auditor's office will strive to follow stated codes, resolutions, and ordinances.

Respectfully submitted;

*Patty Steward*

Patty Steward  
Owen County Auditor  
Term 2017 to 2020

COUNTY AUDITOR  
OWEN COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on February 15, 2018, with Patty Steward, County Auditor; Diane Stutsman, County Treasurer; Donnie Minnick, President of the Board of County Commissioners; and Jennifer Abrell, President of the County Council.

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COUNTY TREASURER  
OWEN COUNTY

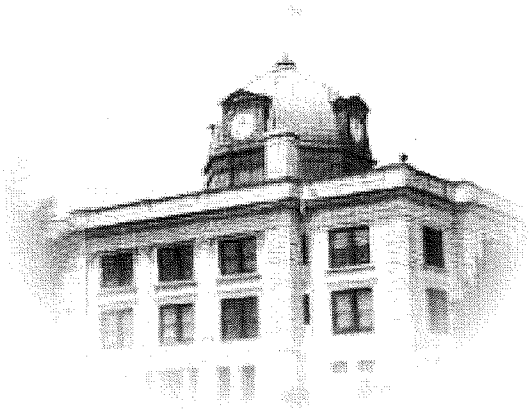
COUNTY TREASURER  
OWEN COUNTY  
EXAMINATION RESULT AND COMMENT

**AUDITOR RECORDS DO NOT AGREE WITH TREASURER RECORDS**

A similar comment also appeared in prior Report B43987, entitled *FINDING 2013-002 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

As of December 31, 2016, the amount posted to the County Treasurer's Daily Balance of Cash and Depositories and reported on the County Treasurer's bank balances was \$197,027 more than reported on the County Auditor's Fund Ledger.

The Monthly Financial Statement, Form 61, is a permanent record prepared from the treasurer's funds ledger at the close of each month. It is prepared after all postings to the ledger have been completed for the month and reflects the total receipts and disbursements and the balance for each fund for the month and for the year to date. The statement must agree with a similar statement kept by the county auditor, giving consideration to any adjustments required to reconcile the ledgers of the two offices. (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 5)



Diane Stutsman

Owen County Treasurer

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Phone (812)829-5011

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February 23, 2018

Indiana State Board of Accounts

302 West Washington Street, Room E 418

Indianapolis, Indiana 46204-2765

RE: OFFICAL RESPONSE

As County Treasurer, I concur with the examination comment that as of 12-31-2016, the amount posted to the County Treasurer's Daily Balance of Cash and Depositories and reported on the county Treasurer's bank balance was \$197,027.00 **more** than reported on the County Auditor's Fund Ledger.

As recorded in report B43987 entitled "Finding 2013-002- Internal Controls over Financial Transactions and Reporting", the imbalance had its genesis prior to my assumption of office.

Upon assuming office on January 1, 2015, I immediately acknowledged that the county's financial software was insufficient for purpose of County Government.

After exhausting all reasonable efforts to successfully work within the constraints of the existing system, a search was undertaken to identify and appropriate replacement financial system and garner support for its purchase.

That process resulted in the selection of Low software, and conversion from New World to Low was completed in July 2015 with tax software conversion completed January 2016.

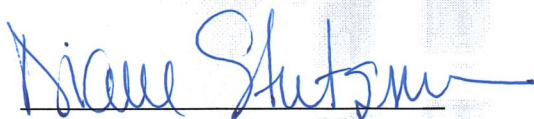
Any Conversion from one system to another is limited by the quality of the data available to convert. In other words, the conversion process was not capable of resolving prior discrepancies in balances between the records of the Auditor and Treasurer.

Following the completion of the conversion, joint efforts to reconcile between the Treasurer and Auditor continued, gaining momentum beginning October 2016.

While the balances between the Treasurer and Auditor have not been fully reconciled, beginning January 2017 the Treasurer's and Auditor's reconciliation of receipts and warrants do match.

In summary, following the adoption of a financial system that recognizes the dual roles of the Treasurer and Auditor that contains the appropriate reporting controls to support the segregation of duties, the reconciling issues on a going forward basis have been resolved. At this point, guidance has been sought from the State Board of Accounts with a respect to a onetime adjustment to place the County Treasurer's Daily Balance of Cash and Depositories and County Auditor's Fund Ledger into balance

Best Regards,



A handwritten signature in blue ink, appearing to read "Diane Stutsman", is written over a horizontal line. The signature is fluid and cursive.

Diane Stutsman

Owen County Treasurer

COUNTY TREASURER  
OWEN COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on February 15, 2018, with Diane Stutsman, County Treasurer; Patty Steward, County Auditor; Donnie Minnick, President of the Board of County Commissioners; and Jennifer Abrell, President of the County Council.

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BOARD OF COUNTY COMMISSIONERS  
OWEN COUNTY

BOARD OF COUNTY COMMISSIONERS  
OWEN COUNTY  
EXAMINATION RESULTS AND COMMENTS

***COUNTY HIGHWAY DEPARTMENT TRANSACTION***

On July 11, 2014, the County signed a promissory note for \$300,000 on a line of credit, as approved by the County Council on June 26, 2014, for the purchase of various County Highway Department equipment.

The proceeds of the line of credit and promissory note were never received by the County. Instead, the bank remitted the proceeds directly to the vendors to purchase various County Highway Department equipment in the amount of \$288,616.

The equipment is properly titled and insured by the County, as of the date of this report.

Indiana Code 36-2-6-20(c) states in part: ". . . Money received for the bonds, notes, or warrants shall be paid to the county treasurer, who shall then deliver the bonds, notes, or warrants to the persons entitled to receive them."

Indiana Code 5-11-10-2 states in part:

"(a) Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer.

(b) The state board of accounts shall prescribe a form which will permit claims from two (2) or more claimants to be listed on a single document and, when such list is signed by members of the governing body showing the claims and amounts allowed each claimant and the total claimed and allowed as listed on such document, it shall not be necessary for the members to sign each claim. . . ."

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

***EXCHANGE OF GOODS AND SERVICES WITHOUT AN INTERLOCAL AGREEMENT***

The Owen County Board of County Commissioners (Board) entered into an exchange of goods and services with Clay County in April 2015. The Board agreed to trade stone for sand and salt from Clay County. The Owen County Highway Department would also provide the labor to spread the stone on the county roads in Clay County, which were near the Owen-Clay County line.

An interlocal agreement authorizing the transaction was not entered into in accordance with state statute.

Indiana Code 36-1-7-2 states:

"(a) A power that may be exercised by an Indiana political subdivision and by one (1) or more other governmental entities may be exercised:

BOARD OF COUNTY COMMISSIONERS  
OWEN COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

- (1) by one (1) or more entities on behalf of others; or
- (2) jointly by the entities.

Entities that want to do this must, by ordinance or resolution, enter into a written agreement under section 3 or 9 of this chapter.

(b) Notwithstanding subsection (a), Indiana governmental entities that want only to buy, sell, or exchange services, supplies, or equipment between or among themselves may enter into contracts to do this and follow section 12 of this chapter."

Indiana Code 36-1-7-3 states:

"(a) An agreement under this section must provide for the following:

- (1) Its duration.
- (2) Its purpose.
- (3) The manner of financing, staffing, and supplying the joint undertaking and of establishing and maintaining a budget therefor.
- (4) The methods that may be employed in accomplishing the partial or complete termination of the agreement and for disposing of property upon partial or complete termination.
- (5) Administration through:
  - (A) a separate legal entity, the nature, organization, composition, and powers of which must be provided; or
  - (B) a joint board composed of representatives of the entities that are parties to the agreement, and on which all parties to the agreement must be represented.
- (6) The manner of acquiring, holding, and disposing of real and personal property used in the joint undertaking, whenever a joint board is created under subdivision (5)(B).

In addition, such an agreement may provide for any other appropriate matters.

(b) A separate legal entity or joint board established by an agreement under this section has only the powers delegated to it by the agreement. The agreement may not provide for members, directors, or trustees of the separate legal entity or joint board to make appointments (either individually or jointly) to fill vacancies on the separate legal entity or joint board.

(c) Subsection (a)(6) does not apply to an emergency management assistance compact under IC 10-14-5."

BOARD OF COUNTY COMMISSIONERS  
OWEN COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on February 15, 2018, with Donnie Minnick, President of the Board of County Commissioners; Patty Steward, County Auditor; Diane Stutsman, County Treasurer; and Jennifer Abrell, President of the County Council.