

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

PUTNAM COUNTY, INDIANA

January 1, 2017 to December 31, 2017



FILED

10/24/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Board of County Commissioners:	
Audit Result and Comment:	
Adoption of and Training on Internal Control Standards	6
Exit Conference	7
County Auditor:	
Federal Findings:	
Finding 2017-001	
Financial Transactions and Reporting	10-11
Finding 2017-002	
Preparation of the Schedule of Expenditures of Federal Awards	12-14
Corrective Action Plan	15-16
Audit Results and Comments:	
Overdrawn Cash Balances	17
Certification of Internal Control Standards	17
CEDIT Distributions.....	18
Reconciliation Between County Treasurer and County Auditor	18
Exit Conference	19
County Treasurer:	
Audit Results and Comments:	
Reconciliation Between County Treasurer and County Auditor	22
Bank Account Reconciliations	22
Exit Conference	23

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Lorie Hallett	01-01-17 to 12-31-20
County Treasurer	Kathy Minnick	01-01-17 to 12-31-20
Clerk of the Circuit Court	Heather Gilbert	01-01-15 to 12-31-18
County Sheriff	Scott Stockton	01-01-15 to 12-31-18
County Recorder	Tracey Bridges	01-01-15 to 12-31-18
President of the Board of County Commissioners	David E. Berry Rick Woodall	01-01-17 to 12-31-17 01-01-18 to 12-31-18
President of the County Council	Darrel L. Thomas	01-01-17 to 12-31-18



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

TO: THE OFFICIALS OF PUTNAM COUNTY, INDIANA

This report is supplemental to our audit report of Putnam County (County), for the period from January 1, 2017 to December 31, 2017. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the County. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the County, which provides our opinion on the County's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

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 Audit 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 Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

September 10, 2018

(This page intentionally left blank.)

BOARD OF COUNTY COMMISSIONERS
PUTNAM COUNTY

BOARD OF COUNTY COMMISSIONERS
PUTNAM COUNTY
AUDIT RESULT AND COMMENT

ADOPTION OF AND TRAINING ON INTERNAL CONTROL STANDARDS

The same comment also appeared in prior Report B51088.

The County did not adopt an acceptable minimum level of internal control standards. Individual offices may have had internal control policies; however, standards for the County had not been established.

County personnel whose official duties include receiving, processing, depositing, disbursing, or otherwise having access to funds that belong to the federal government, state government, or the county had not received training on the internal control standards and procedures.

Indiana 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

BOARD OF COUNTY COMMISSIONERS
PUTNAM COUNTY
EXIT CONFERENCE

The contents of this report were discussed on September 10, 2018, with David E. Berry, President of the Board of County Commissioners; Daryl L. Thomas, President of the County Council; Lorie Hallett, County Auditor; and Kathy Minnick, County Treasurer.

(This page intentionally left blank.)

COUNTY AUDITOR
PUTNAM COUNTY

COUNTY AUDITOR
PUTNAM COUNTY
FEDERAL FINDINGS

FINDING 2017-001

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Condition

There were several deficiencies in the internal control system of the County related to financial transactions and reporting.

The financial information was prepared and electronically submitted through the Indiana Gateway for Government Units (Gateway) financial reporting system without an oversight or review process to prevent, or detect and correct, errors on the financial statement. The County did not have procedures in place to ensure that the financial information recorded and reported was accurate and complete.

Context

The lack of controls and noncompliance were systemic issues that continued throughout the audit period. The 2017 financial statement contained multiple reporting errors as follows:

1. The beginning cash and investment balances did not agree with the ending cash and investment balances reported as of December 31, 2016, for several funds.
2. The Treasurer's Trust fund cash on hand of \$600 was reported in 2016, but omitted in 2017.
3. The Sheriff's Commissary Fund was omitted, which resulted in an understatement of \$48,311.
4. The Tobacco Master Fund cash and investment balance was overstated at January 1, 2017, by \$3,550,394.
5. The Local Health Maintenance cash and investment balance was overstated at January 1, 2017, by \$77,106.
6. The Local Income Tax (LIT) fund was omitted, which understated 2017 receipts and disbursements by \$1,717,639 each.
7. The Sheriff's Cash Book was reported in error, which overstated the beginning cash and investment balance, receipts, disbursements, and ending cash and investment balance by \$28,636, \$1,828,400, \$1,830,323, and \$26,713, respectively.
8. The Treasurer's Trust was not reported in the manner prescribed by the Indiana State Board of Accounts. This resulted in an overstatement of receipts and disbursements by \$26,790,652 and \$26,715,214, respectively.

Audit adjustments were proposed, accepted by the County, and made to the financial statement.

COUNTY AUDITOR
PUTNAM COUNTY
FEDERAL FINDINGS
(Continued)

Criteria

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:

"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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

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](#)."

Cause

Management of the County had not established a proper system of internal control related to the County's financial transactions and reporting.

Effect

The failure to establish and properly implement internal controls enabled material misstatements to go undetected. The financial statement contained the errors identified in the *Context*.

Recommendation

We recommended that the County establish a system of internal controls related to financial transactions and reporting.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

COUNTY AUDITOR
PUTNAM COUNTY
FEDERAL FINDINGS
(Continued)

FINDING 2017-002

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

Condition

The County did not have a proper system of internal controls in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

Context

Due to the lack of controls, the SEFA contained the following errors:

1. An Indiana Department of Transportation state grant for \$924,740 was reported in error.
2. The Highway Planning and Construction federal expenditures of \$240,271 were omitted.
3. The Crime Victim Assistance federal expenditures were understated by \$13,045.
4. The Public Health Emergency Preparedness federal expenditures were overstated by \$16,570.
5. The Child Support Enforcement Program federal expenditures were understated by \$209,085.
6. The State Court Improvement Program federal expenditures of \$2,200 were omitted.
7. The Boating Safety Financial Assistance federal expenditures of \$10,194 were omitted.

Audit adjustments were proposed, accepted by the County, and made to the SEFA.

Criteria

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:

"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. . . .

COUNTY AUDITOR
PUTNAM COUNTY
FEDERAL FINDINGS
(Continued)

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with § 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

"Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within a cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in §200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

Cause

The County's management had not established a system of internal control that would have ensured proper reporting of the SEFA.

COUNTY AUDITOR
PUTNAM COUNTY
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish and properly implement internal controls enabled material misstatements to go undetected. The SEFA contained the errors identified in the *Context*.

Recommendation

We recommended that the County's management establish controls to ensure accurate reporting of the SEFA.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

PUTNAM COUNTY AUDITOR

1 WEST WASHINGTON STREET
GREENCASTLE, IN 46135

CORRECTIVE ACTION PLAN

FINDING 2017-001

Contact Person Responsible for Corrective Action: Lorie Hallett
Contact Phone Number: 765-653-5513

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Auditor and First Deputy will print off the uploaded information and then review for errors and completion. When the review is completed both parties will sign and date the printed copy.

Anticipated Completion Date: Immediate or 3/1/2019

FINDING 2017-002

Contact Person Responsible for Corrective Action: Lorie Hallett
Contact Phone Number: 765-653-5513

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Auditor and First Deputy will review information separately to avoid omissions and errors.

Anticipated Completion Date: Immediately

Don Hallett
(Signature)

Auditor
(Title)

9-14-18
(Date)

COUNTY AUDITOR
PUTNAM COUNTY
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Reports B44224, B47802, B47804, and B51088.

The financial statements presented included the following funds with overdrawn cash balances at December 31, 2017:

Fund	Amount Overdrawn
Extradition Fund	\$ 2,790
Payroll Withholding - PERF	231
Payroll Withholding - State	519
Payroll Withholding Wage - Garni	925
Medicare	5
Victims Assistance	14,994
Aflac Group	414
Aflac	3,868
Vision Insurance	1,318
Payroll Withholding - Life	7,865
Stop Women's Abuse Team	7,599
District 7 Fire Training	23,694

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.

In an instance in which a unit receives a reimbursement grant, the unit must be claiming reimbursement 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 of Indiana, Chapter 1)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

The County certified "yes" to both "Adopted Internal Control Standards" and "Training Received" when filing the annual financial report within the Indiana Gateway for Government Units. Based on audit evidence, the County had not adopted internal control standards and had not ensured that training on internal control standards had been completed. Certifying "yes" to both questions was erroneous.

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 filed 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
PUTNAM COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

CEDIT DISTRIBUTIONS

The same comment also appeared in prior Reports B44224, B47802, B47804, and B51088.

The County Economic Development Income Tax (CEDIT) Distribution fund did not have a zero balance. Although a new fund was established to account for the distribution of Local Income Tax Economic Development during the audit period, the CEDIT Distribution fund continues to carry a balance. A balance in a distribution fund can be an indication that not all distributions have been properly remitted to the county fund or to other local governments. Prior period errors need to be researched and corrected.

Indiana Code 6-3.5-7-16.5 states:

- "(a) The county auditor shall timely distribute the certified distribution received under section 12 of this chapter to each city and town that is a recipient of a certified distribution.
- (b) A distribution is considered to be timely made if the distribution is made not later than ten (10) working days after the date the county treasurer receives the county's certified distribution under section 12 of this chapter."

RECONCILEMENT BETWEEN COUNTY TREASURER AND COUNTY AUDITOR

The same comment also appeared in prior Reports B47804, B47802, and B51088 and a similar comment appeared in prior report B44224, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

The cash balances presented in the financial statements for December 31, 2017, were not in agreement with the fund ledger balances presented in the County Treasurer's Cash Book for December 31, 2017. The fund ledger balance carried on the County Treasurer's Cash Book is \$350,147 more than the funds ledger balance maintained by the County Auditor. These amounts should agree. The total reconciled balance of the cash and investments per the Cash Book is \$514,576 more than the financial statement cash and investment balance at December 31, 2017.

The County Auditor and the County Treasurer reconciled monthly, but not in a timely manner. When the attempt to reconcile the balances was made, there were too many new transactions that had transpired to allow the County Treasurer to determine the true difference between the ledger and the bank at December 31, 2017.

It is recommended that the fund comparison reports should be done daily so that both departments are recording the same transactions for the day and adjustments should not change previously reconciled balances.

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)

COUNTY AUDITOR
PUTNAM COUNTY
EXIT CONFERENCE

The contents of this report were discussed on September 10, 2018, with David E. Berry, President of the Board of County Commissioners; Daryl L. Thomas, President of the County Council; Lorie Hallett, County Auditor; and Kathy Minnick, County Treasurer.

(This page intentionally left blank.)

COUNTY TREASURER
PUTNAM COUNTY

COUNTY TREASURER
PUTNAM COUNTY
AUDIT RESULTS AND COMMENTS

RECONCILEMENT BETWEEN COUNTY TREASURER AND COUNTY AUDITOR

The same comment also appeared in prior Reports B44224, B47802, B47804, and B51088.

The cash balances presented in the financial statements for December 31, 2017, were not in agreement with the funds ledger balances presented in the County Treasurer's Cash Book for December 31, 2017. The Cash Book fund balance is \$350,147 more than the County Auditor's fund ledger balance at December 31, 2017. The total cash and investment balance per the reconciled Cash Book is \$514,576 higher than the financial statement cash and investment balance at December 31, 2017.

The County Auditor and the County Treasurer reconciled monthly, but not in a timely manner. When the balances were reconciled, too many new transactions had transpired for the County Treasurer to determine the true difference between the ledger and the bank at December 31, 2017.

It is recommended that fund comparison reports should be done daily so that both departments are recording the same transactions for the day and adjustments should not change previously reconciled balances.

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)

BANK ACCOUNT RECONCILIATIONS

The same comment also appeared in prior Reports B51088.

The County Treasurer did not properly research the variances between the bank reported bank balances and the Cash Book balance at December 31, 2017. Unidentified variances on the bank reconciliation totaled \$164,429. In addition, there were numerous identified variances that had not been corrected on the cash book or funds ledger.

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 officers, with the balance statements provided by the respective depositories."

COUNTY TREASURER
PUTNAM COUNTY
EXIT CONFERENCE

The contents of this report were discussed on September 10, 2018 with David E. Berry, President of the Board County Commissioners; Daryl L. Thomas, President of the County Council; Lorie Hallett, County Auditor; and Kathy Minnick, County Treasurer.