

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

ORANGE COUNTY, INDIANA

January 1, 2016 to December 31, 2017



FILED
03/15/2019

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|---------------------------------------------------|------------------|----------------------|
| County Auditor | Donna Atchison | 01-01-13 to 12-31-16 |
| | Lonnie Stroud | 01-01-17 to 12-31-20 |
| County Treasurer | Sandy Hill | 01-01-13 to 12-31-16 |
| | Billie Deel | 01-01-17 to 12-31-20 |
| Clerk of the Circuit Court | Beth Jones | 01-01-13 to 12-31-20 |
| County Sheriff | Joshua Babcock | 01-01-15 to 12-31-22 |
| County Recorder | Terry Nicholson | 01-01-13 to 12-31-16 |
| | Sandy Hill | 01-01-17 to 12-31-20 |
| President of the Board of County Commissioners | Don Brewer | 01-01-16 to 12-31-17 |
| | Richard Dixon | 01-01-18 to 12-31-19 |
| President of the County Council | Kermit A. Lamb | 01-01-16 to 12-31-16 |
| | Matt Henderson | 01-01-17 to 12-31-17 |
| | Robin Stackhouse | 01-01-18 to 12-31-18 |
| | Matt Henderson | 01-01-19 to 12-31-19 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF ORANGE COUNTY, INDIANA

This report is supplemental to our audit report of Orange County (County), for the period from January 1, 2016 to December 31, 2017. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the County. It should be read in conjunction with our Financial Statement Audit Report of the County, which provides our opinion on the County's financial statement. This report may be found at 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 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 Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

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

February 12, 2019

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COUNTY AUDITOR
ORANGE COUNTY

COUNTY AUDITOR
ORANGE COUNTY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

There was no segregation of duties, such as an oversight, review, or approval process to prevent, or detect and correct, misstatements within the financial reporting system of the County related to vendor and payroll disbursements and financial close and reporting.

Vendor Disbursements

The Deputy County Auditor prepared claims, wrote checks, and posted all transactions to the ledger without evidence of proper review and approval. The following issues with vendor disbursements were identified during the review of claims:

- The County was unable to provide supporting documentation for eight claims tested. It could not be determined if the voucher or invoice was adequately itemized or that the accounts payable voucher or purchase order agreed to the check amount.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

- Twelve claims tested did not show approval by the officer or person receiving the goods or services.
- The County Auditor did not certify 70 claims tested.

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

COUNTY AUDITOR
ORANGE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

- Sales tax was paid on two claims tested.

Government funds are exempt from the payment of sales taxes on qualifying purchases. . . . Sales taxes that are paid on qualifying purchases by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

- Three claims tested had no contract on file for contractual services related to janitorial and transcribing services.

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

Payroll Disbursements

The Deputy County Auditor processed payroll claims, wrote checks, and posted all transactions to the ledger without evidence of proper review and approval. The following issues with payroll disbursements were identified:

- The County was unable to provide supporting documentation for six payroll claims tested. Attendance records for four salaried employees and time records for two hourly employees were not available for audit.
- The County Auditor did not certify 21 payroll claims tested.

Indiana Code 5-11-10-2(a) states:

"Claims against a political subdivision of the state must be approved by the officer or person receiving 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."

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form 99A, Employee's Service Record . . .

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

COUNTY AUDITOR
ORANGE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Financial Close and Reporting

The County Auditor entered the County's financial information into the Indiana Gateway for Government Units financial reporting system as part of the Annual Financial Report. However, there was no review or approval process in place to ensure the accuracy of the information being submitted.

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. . . ."

CERTIFICATION ON INTERNAL CONTROL STANDARDS

The County Auditor incorrectly certified that County personnel had received training regarding internal control standards as part of the Annual Financial Reports that were filed for 2016 and 2017. No County personnel received the required training in 2016, and not all required personnel received the training in 2017.

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
ORANGE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on February 12, 2019, with Lonnie Stroud, County Auditor; Richard Dixon, President of the Board of County Commissioners; and Alan Waynick, County Council member.

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CLERK OF THE CIRCUIT COURT
ORANGE COUNTY

CLERK OF THE CIRCUIT COURT
ORANGE COUNTY
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS

There was no segregation of duties, such as an oversight, review, or approval process to prevent, or detect and correct, misstatements within the financial reporting system of the Clerk of the Circuit Court (Clerk) related to cash, receipts, and disbursements.

Cash

The Bookkeeper prepared the monthly bank reconcilements with no evidence of review or oversight by an individual independent of the preparation process.

Receipts

The Clerk had designed an internal control over receipts that the deposit slip was prepared by the Bookkeeper and then reviewed and initialed by another employee who also took the deposit to the bank on a rotational basis. However, based upon inquiry of the Clerk's staff and review of the documentation presented for audit, the control was not functioning effectively. The deposit slips were not consistently initialed by the person depositing the money. Additionally, in some instances, the Bookkeeper deposited the money while also preparing the bank deposit. As such, the Bookkeeper was responsible for collecting money, preparing receipts, preparing the bank deposit, depositing the funds, and posting transactions to the ledger, in addition to preparing the monthly reconcilements without adequate review or oversight procedures in place.

Disbursements

There were no internal controls in place for the review and approval of checks issued on behalf of the Clerk. The Bookkeeper was responsible for all steps within the disbursements process, including preparing and mailing checks and posting disbursements to the ledger with no evidence of adequate review or oversight. The Bookkeeper was also responsible for preparing the monthly reconcilements without adequate review or oversight procedures in place.

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. . . ."

CLERK OF THE CIRCUIT COURT
ORANGE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on February 12, 2019, with Beth Jones, Clerk of the Circuit Court; Richard Dixon, President of the Board of County Commissioners; and Alan Waynick, County Council member.

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COUNTY SHERIFF
ORANGE COUNTY

COUNTY SHERIFF
ORANGE COUNTY
AUDIT RESULTS AND COMMENTS

COMPENSATION AND BENEFITS

The same comment also appeared in prior Reports B46726 and B48493.

Two checks, for \$1,000 each, were disbursed to the Jail Commander and Bookkeeper from the Commissary fund during 2016 and 2017. There was no supporting documentation attached to validate the purpose of these disbursements. Per discussion with the Bookkeeper, the disbursements were payments for additional compensation related to administering the Jail Commissary program. The additional compensation was not included in the salary ordinance or another resolution approved by the Board of County Commissioners. Additionally, it was not processed through the County's payroll system to comply with state and federal reporting requirements.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

SUPPORTING DOCUMENTATION

Multiple issues were noted during a test of disbursements from the Commissary fund. Twelve travel claims for meals and a hotel room totaling \$2,917 did not have adequate supporting documentation. The employee(s) traveling and/or the purpose of the travel were not documented. Additionally, three claims totaling \$2,843 were paid from the account statement only with no receipts attached supporting the expenditures. Finally, three claims totaling \$190 did not have any documentation attached to support the expenditures, so the purpose of the disbursement could not be verified. This resulted in a total of \$5,950 of disbursements from the Commissary fund for which there was not adequate supporting documentation.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

COMMISSARY REIMBURSEMENTS

The same comment also appeared in prior Reports B46726 and B48493.

Multiple disbursements totaling \$4,394 for supplies, postage, and travel-related expenditures should have been paid directly from County funds but instead were paid from the Commissary fund, thereby circumventing the claims process. For \$3,138 of these disbursements, a claim was later submitted to the County Auditor to reimburse the Commissary fund for the expenditures from the appropriate funds on the County Auditor's ledger.

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

COUNTY SHERIFF
ORANGE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Indiana Code 36-8-10-21(d) states:

"The sheriff, or the sheriff's designee, at the sheriff's or the sheriff's designee's discretion and without appropriation by the county fiscal body, may disburse money from the fund for:

- (1) merchandise for resale to inmates through the commissary;
- (2) expenses of operating the commissary, including, but not limited to, facilities and personnel;
- (3) special training in law enforcement for employees of the sheriff's department;
- (4) equipment installed in the county jail;
- (5) equipment, including vehicles and computers, computer software, communication devices, office machinery and furnishings, cameras and photographic equipment, animals, animal training, holding and feeding equipment and supplies, or attire used by an employee of the sheriff's department in the course of the employee's official duties;
- (6) an activity provided to maintain order and discipline among the inmates of the county jail;
- (7) an activity or program of the sheriff's department intended to reduce or prevent occurrences of criminal activity, including the following:
 - (A) Substance abuse.
 - (B) Child abuse.
 - (C) Domestic violence.
 - (D) Drinking and driving.
 - (E) Juvenile delinquency.
- (8) expenses related to the establishment, operation, or maintenance of the sex and violent offender registry web site under IC 36-2-13-5.5; or

COUNTY SHERIFF
ORANGE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

- (9) any other purpose that benefits the sheriff's department that is mutually agreed upon by the county fiscal body and the county sheriff.

Money disbursed from the fund under this subsection must be supplemental or in addition to, rather than a replacement for, regular appropriations made to carry out the purposes listed in subdivisions (1) through (8)."

COUNTY SHERIFF
ORANGE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on February 12, 2019, with Joshua Babcock, County Sheriff; April Lynd, Bookkeeper; Richard Dixon, President of the Board of County Commissioners; and Alan Waynick, County Council member.

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BOARD OF COUNTY COMMISSIONERS
ORANGE COUNTY

BOARD OF COUNTY COMMISSIONERS
ORANGE COUNTY
AUDIT RESULTS AND COMMENTS

TRAINING ON INTERNAL CONTROL STANDARDS

The Board of County Commissioners did not ensure that County personnel received training concerning internal control standards and procedures adopted by the County. No County personnel received the required training in 2016. The County initiated the training in November 2017, but as of January 2, 2019, two members of the Board of County Commissioners and all seven members of the County Council had not received the required training.

Indiana Code 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."

COMPENSATION AND BENEFITS

The same comment also appeared in prior Reports B46726 and B48493.

Two checks, for \$1,000 each, were disbursed to the Jail Commander and Bookkeeper from the Commissary fund during 2016 and 2017. There was no supporting documentation attached to validate the purpose of these disbursements. Per discussion with the Bookkeeper, the disbursements were payments for additional compensation related to administering the Jail Commissary program. The additional compensation was not included in the salary ordinance or another resolution approved by the Board of County Commissioners. Additionally, it was not processed through the County's payroll system to comply with state and federal reporting requirements.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

BOARD OF COUNTY COMMISSIONERS
ORANGE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

ERRORS ON CLAIMS

During the review of claims, two accounts payable registers that were used to indicate approval by the Board of County Commissioners could not be located. Therefore, we were unable to determine that the claims were allowed prior to payment.

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

BOARD OF COUNTY COMMISSIONERS
ORANGE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on February 12, 2019, with Richard Dixon, President of the Board of County Commissioners, and Alan Waynick, County Council member.

COUNTY COUNCIL
ORANGE COUNTY

COUNTY COUNCIL
ORANGE COUNTY
AUDIT RESULT AND COMMENT

COMPENSATION AND BENEFITS

The same comment also appeared in prior Reports B46726 and B48493.

Two checks, for \$1,000 each, were disbursed to the Jail Commander and Bookkeeper from the Commissary fund during 2016 and 2017. There was no supporting documentation attached to validate the purpose of these disbursements. Per discussion with the Bookkeeper, the disbursements were payments for additional compensation related to administering the Jail Commissary program. The additional compensation was not included in the salary ordinance or another resolution approved by the Board of County Commissioners. Additionally, it was not processed through the County's payroll system to comply with state and federal reporting requirements.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

COUNTY COUNCIL
ORANGE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on February 12, 2019, with Alan Waynick, County Council member, and Richard Dixon, President of the Board of County Commissioners.