

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

SPECIAL COMPLIANCE REPORT

OF

PORTAGE MANOR

ST. JOSEPH COUNTY, INDIANA

January 1, 2012 to March 31, 2019



**FILED**  
09/03/2019



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Transmittal Letter .....	2
Portage Manor:	
Results and Comments:	
Bank Account Reconciliations.....	3
Resident Trust Accounts.....	3-4
Petty Cash Fund .....	4-5
Internal Controls.....	5-6
Official Response.....	7
Exit Conference .....	8



**STATE OF INDIANA**  
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TO: THE OFFICIALS OF ST. JOSEPH COUNTY, INDIANA

This is a special compliance report for Portage Manor, St. Joseph County (County), for the period January 1, 2012 to March 31, 2019, and is in addition to any other report for the County as required under Indiana Code 5-11-1. All reports pertaining to the County may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

We performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts and were limited to records associated with resident trust accounts and bank reconciliations at Portage Manor. The 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 Results and Comments, incorporated within this report, was not verified for accuracy.

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

July 18, 2019

PORTAGE MANOR  
ST. JOSEPH COUNTY  
RESULTS AND COMMENTS

***BANK ACCOUNT RECONCILIATIONS***

Depository reconciliations of the Trust Resident Transaction Summary Report (Summary Report) balances to the bank account balances were incorrect. An undocumented amount, noted as an adjustment, was used to force the reconciled bank balance to agree with the resident trust balance. At March 31, 2019, the reconciled bank balance was \$7,657.74 less than the Summary Report balance. The balance per the Summary Report was \$27,209.82 and the reconciled bank balance was \$19,552.08, resulting in a cash necessary to balance of \$7,657.74.

Outstanding checks of \$689.28 were unidentified as to check numbers, dates, payees, or individual amounts. There were six additional outstanding checks dated from April 2006 to May 2010, totaling \$151.84 that remain on the outstanding check lists.

Indiana Code 5-13-6-1(e) states in part: "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."

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 Counties of Indiana, Chapter 1)

Indiana Code 5-11-10.5-2 states:

"All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void. No individual, bank, trust company, building and loan association, or any other financial institution may honor, cash, or accept for payment or deposit any such warrant or check which may be presented for payment and which has been issued and outstanding for a period of two (2) or more years as of the last day of December of any year."

Indiana Code 5-11-10.5-5 states:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision."

***RESIDENT TRUST ACCOUNTS***

The Accounts Payable/Receivable Clerk used the Trust Account Transaction Detail Report (Detail Report) to reconcile the bank account. The Detail Report showed the beginning balance, deposits and withdrawals (by date), and the ending balance of the resident accounts overall or in total.

PORTAGE MANOR  
ST. JOSEPH COUNTY  
RESULTS AND COMMENTS  
(Continued)

The Trust Resident Transaction Summary Report (Summary Report) was a detailed report that listed each resident's name, beginning balance, deposits, withdrawals, interest, and ending balance. A comparison of the Detail Report to the Summary Report total ending balances differed at December 31, 2018, and March 31, 2019, as indicated below:

Date	Balance per Detail Report	Balance per Summary Report	Difference
12-31-18	\$ 17,375.60	\$ 27,467.61	\$ (10,092.01)
03-31-19	28,342.75	27,209.82	1,132.93

Officials could not explain the reason for the differences as both reports were generated from the same accounting software.

We used the Summary Report to compare to the reconciled bank balance due to substantive procedures as follows:

Residents were periodically given a "Transaction Summary" report to verify their account balances. We reviewed the most current transaction summary report from July 1, 2018 to September 30, 2018, to verify that each resident agreed with their balance. If the resident agreed with the balance, they were to sign the transaction report and it was filed in their own personal folder. We found 6 out of 114 residents who did not sign their form.

We compared each resident's transaction summary report to the "Trust: Resident Transaction Summary" report. We validated that the ending balance from the Trust: Resident Transaction Summary report agreed with the subsequent months beginning balance.

When residents leave the facility, it is based upon the Resident's Transaction Summary that a check would be issued to the resident.

On June 27, 2019, officials re-ran both the Detail and Summary Reports for the date ending March 31, 2019. The balances per these new reports differed from the balances documented above. Officials could not explain why the report balances would change, but stated each time the reports are run, the balances change.

The County has hired a Certified Public Accountant to assist with determining correct resident trust balances and reconciling to the bank account.

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 Counties of Indiana, Chapter 1)

**PETTY CASH FUND**

Portage Manor had not properly established the equivalent of a petty cash fund (petty cash fund). There was not a policy, ordinance, or resolution establishing the balance of the petty cash fund, or the use of the petty cash fund.

PORTAGE MANOR  
ST. JOSEPH COUNTY  
RESULTS AND COMMENTS  
(Continued)

Checks were written from the resident trust bank account payable to "Cash" for varying amounts one to four times per month. The check would be put into a deposit bag and either the Accounts Payable/Receivable Clerk, Secretary, or a maintenance worker would pick up the cash from the bank. The cash would be brought back to Accounts Payable/Receivable Clerk's office and the cash would be locked in the safe.

Resident voucher forms were completed and signed by the residents to document the amount of cash requested and given to the resident from the petty cash fund. The activity of the petty cash fund was recorded on a computer spreadsheet. Completed resident voucher forms were subsequently given to Accounts Payable/Receivable Clerk to post as disbursements against each resident's account balance as recorded on the Summary Reports and Detail Reports.

The total of the resident vouchers were not used to replenish the petty cash fund, so that the petty cash fund would be maintained at a predetermined balance.

Indiana Code 36-1-8-3 states:

"(a) The fiscal body of a political subdivision may establish a petty cash fund for any of its offices in a like manner to that prescribed by section 2 of this chapter.

(b) The custodian of a petty cash fund shall use it to pay small or emergency items of operating expense. A receipt shall be taken for each expenditure made from the fund.

(c) The custodian of a petty cash fund shall periodically file a voucher, with all original receipts totaling the cash claimed expended being attached to it, so that the fund can be reimbursed for expenditures from it. Reimbursement must be approved and made in the same manner as is required for other expenditures of the political subdivision."

### **INTERNAL CONTROLS**

Portage Manor did not have oversight and segregation of duties related to collections, disbursements, and bank reconciliations to prevent and detect errors, omissions, and misstatements. One individual was responsible for receipting and depositing collections, writing, signing, and issuing checks; posting activity to the resident trust accounts; and reconciling the bank account. There was not a subsequent review or comparison of record balances to reconciled bank account balances.

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. . . .

PORTAGE MANOR  
ST. JOSEPH COUNTY  
RESULTS AND COMMENTS  
(Continued)

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. . . . "

## **Saint Joseph County Official Response**

### **Portage Manor**

The Saint Joseph County Auditor and Executive Director of Portage Manor concur with the comments regarding bank account reconciliations, resident trust accounts, petty cash fund and internal controls at Portage Manor.

On March 14, 2019, County officials self-reported discrepancies in the resident trust accounts in accordance with our responsibilities under IC 5-11-1-27. County officials and staff also worked closely with the Field Examiner from the State Board of Accounts during her review of this matter. In addition, the County hired an independent accounting firm to review internal controls over trust accounting at Portage Manor and to provide recommendations to improve procedures and controls.

The County Auditor and Executive Director will take steps during the next three months to implement improved procedures and controls. These steps will include preparing accurate monthly bank reconciliations; establishing a double-entry accounting system for resident trust accounting; increasing segregation of duties over financial matters; adopting a policy to establish the balance in the petty cash fund; improving physical controls over cash in the vault; providing monthly trust statements to residents; and hiring staff with more experience in accounting to manage the resident trust accounting.

PORTAGE MANOR  
ST. JOSEPH COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on July 18, 2019, with Michael Hamann, County Auditor; John Murphy, Deputy County Auditor; Robyn Challinor, Administrator; Patty Godsey, Portage Manor Vice President of the Board of Directors; Kim Karkiewicz, Human Resources Director; Richard Cullar, Accountant; John March, County Auditor's office employee; and Kris Borkowski, Quality Assurance/LPN.