

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

ALLEN COUNTY, INDIANA

January 1, 2018 to December 31, 2018



**FILED**  
09/17/2019



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## SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Nicholas D. Jordan	01-19-17 to 12-31-22
County Treasurer	William F. Royce	01-01-17 to 12-31-20
Clerk of the Circuit Court	Lisbeth A. Borgmann Christopher M. Nancarrow	01-01-15 to 12-31-18 01-01-19 to 12-31-22
County Sheriff	David J. Gladioux	01-01-15 to 12-31-22
County Recorder	Anita A. Mather	01-01-15 to 12-31-22
Circuit Court Judge	Honorable Thomas J. Felts	01-01-15 to 12-31-20
Superior Court Judge	Honorable Daniel G. Heath	01-01-15 to 12-31-20
President of the Board of County Commissioners	Therese M. Brown F. Nelson Peters	01-01-17 to 12-31-18 01-01-19 to 12-31-19
President of the County Council	Joel M. Benz Thomas A. Harris	01-01-18 to 12-31-18 01-01-19 to 12-31-19



**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](http://www.in.gov/sboa)

TO: THE OFFICIALS OF ALLEN COUNTY, INDIANA

This report is supplemental to our audit report of Allen County (County), for the period from January 1, 2018 to December 31, 2018. 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 the Annual Financial Report and Federal Single Audit Report of the County, which provides our opinions on the County's financial statement and federal program compliance. 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 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, were not verified for accuracy.

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

August 15, 2019

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COUNTY AUDITOR  
ALLEN COUNTY

COUNTY AUDITOR  
ALLEN COUNTY  
AUDIT RESULT AND COMMENT

***FAILURE TO REPORT MISAPPROPRIATION OF FUNDS***

In 2018, the County was involved in a fraud scheme. Bank account information for a legitimate County vendor was changed to a fraudulent account.

As a result, the County remitted \$39,999 to the fraudulent vendor. The County did not notify the State Board of Accounts of this incident as required.

Indiana Code 5-11-1-27(I) states:

"A public officer who has actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds or assets of the public office, including:

- (1) information obtained as a result of a police report;
- (2) an internal audit finding; or
- (3) another source indicating that a misappropriation has occurred;

shall immediately send written notice of the misappropriation to the state board of accounts and the prosecuting attorney serving in the area governed by the political subdivision."



August 21, 2019

State Board of Accounts  
302 W. Washington St., Room E418  
Indianapolis, IN 46204-2765

In re: Official Response to Audit Result and Comment  
Report Period: 1/1/2018 – 12/31/2018  
Contact Person: Nicholas D. Jordan, CPA, Allen County Auditor

Issue: Applicability of Indiana Code 5-11-1-27(l) to an incident in which the Allen County Auditor received a request, via email, from a vendor requesting a change to the vendor's EFT payment arrangement.

Requirements Not Followed: The Allen County Auditor did not send written notice to the State Board of Accounts and the Allen County Prosecutor's Office.

Allen County Auditor's Response: The Allen County Auditor agrees that he has a duty to report misappropriation of public funds or assets of his office to the State Board of Accounts and the Allen County Prosecutor's Office. However, in this particular matter, the Allen County Auditor was not certain that a misappropriation of public funds had occurred, and therefore, did not report it. On or about June 27, 2018, the Allen County Auditor received, via email, a request by a vendor to modify the vendor's EFT payment arrangement. The request came from the same email address for the authorized contact for the vendor that had been used before this incident. The Allen County Auditor's Office proceeded to implement the requested change and changed the vendor's financial institution account that would receive the vendor's payments from Allen County for services rendered. A total of \$39,999.00 owed to the vendor for legitimate invoices for its services was paid utilizing the new EFT payment instructions.

The Allen County Auditor was notified by the vendor that it did not receive the \$39,999 of payments for its services and was not the owner of the new financial institution account that actually received the EFT payments for its services. The Allen County Auditor then suspended further payments to the new account. The vendor did indicate that it was aware that its authorized contact person's email had been hacked before the fraudulent request was made to change the vendor's financial institution account. The vendor indicated that it had hired an IT professional to assess the situation and thought that the email issue had been resolved. The vendor did not contact the Allen County Auditor even though it knew that its email address for the authorized contact person had been hacked. Unfortunately, the vendor's email was being utilized by an unauthorized person who did not have any connection to the vendor to communicate with the Allen County Auditor to modify the EFT payment arrangement.

The Allen County Auditor questioned the vendor as to its failure to contact the Allen County Auditor about its email hack and investigated other facts associated with this illegal diversion of legitimate payments made by Allen County to a legitimate vendor. The vendor responded that it thought that it had rectified the email matter. Furthermore, the vendor asserted that the Allen County Auditor should not have relied on its authorized contact's email communications, but rather, should have contacted the vendor personally to verify the modification of the existing EFT payment arrangement. This matter was not resolved in 2018. It was not determined to be a misappropriation until August of 2019. The vendor and

ROUSSEAU CENTRE • 1 EAST MAIN STREET • SUITE 102  
FORT WAYNE, INDIANA 46802-1887

PHONE: 260.449.7241 • FAX: 260.449.7679 • WWW.ALLENCOUNTYAUDITOR.US

the Allen County Auditor compromised the vendor's loss. The Allen County Auditor has agreed to pay the vendor \$21,000.00. Therefore, not only was it unclear that a misappropriation had occurred in 2018, but also, the amount of the misappropriation was in doubt until August 2019.

Based upon this incident, the Allen County Auditor has implemented additional controls to prevent this type of fraudulent activity. Furthermore, the Allen County Auditor, out of an abundance of caution, will notify the State Board of Accounts and the Allen County Prosecutor's Office if he receives information and reasonably suspects that a misappropriation has occurred.

Sincerely,

A handwritten signature in black ink, appearing to read "Nick Jordan". The signature is stylized and cursive.

Nick Jordan  
Allen County Auditor

COUNTY AUDITOR  
ALLEN COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on August 15, 2019, with Nicholas D. Jordan, County Auditor; Jackie Scheuman, Finance and Budget Director; F. Nelson Peters, President of the Board of County Commissioners; Richard E. Beck, County Commissioner; and Thomas A. Harris, President of the County Council.

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COUNTY ADULT PROBATION DEPARTMENT  
ALLEN COUNTY

COUNTY ADULT PROBATION DEPARTMENT  
ALLEN COUNTY  
AUDIT RESULT AND COMMENT

**CONDITION OF RECORDS**

A similar comment appeared in prior Reports B47079, B49103, and B50903, entitled *CONDITION OF RECORDS*.

The County Adult Probation Department (Department) did not have adequate controls in place to properly account for the transactions and account balances of the Department. Depository reconciliations of the Adult Probation ledger balance to the bank account balance were conducted; however, there was a difference between the adjusted bank balance and the Adult Probation ledger, which indicated a cash necessary to balance in the amount of \$1,343 at December 31, 2018.

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."

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)

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. . . ."



THOMAS J. FELTS  
Judge

ADULT PROBATION DEPARTMENT  
of  
ALLEN COUNTY

Edwin J. Rousseau Centre  
1 East Main Street, 8<sup>th</sup> Floor  
Fort Wayne, IN 46802-2303

PHONE: (260) 449-7113  
FAX: (260) 449-7285

ERIC ZIMMERMAN  
Chief Probation Officer

August 22, 2019

State Board of Accounts  
302 West Washington St. Rm. E 418  
Indianapolis, IN 46204-2765

RE: Official Response

In 2018, the Allen County Adult Probation Department was focused on rectifying the three (3) exceptions noted in the 2017 SBOA audit. This included correcting a software issue noted in the same audit as an "Understated Restitution Detail" (#3.) The needed corrective report was received in late July, 2018 from our software vendor. The correction process involved adjusting 153 individual ledger entries, including missing disbursements (software glitch) and improperly cleared checks (bank errors) dating back to 2007. Correcting the ledger was a high priority in 2018 and took over 100 hours to identify and correct. This strategy was recommended by SBOA auditors at the Exit Conference in 2018. The ongoing corrections of the individual ledgers resulted in a fluctuation in the amount of the difference between our ledger balance and the bank balance during this time. Therefore, we are in agreement with the findings that the Condition of Records noted in prior reports B47079, B49103, and B50903 were similar in nature.

Adult Probation, as a result of the 2018 SBOA audit conducted in 2019 and detailed at the August 15, 2019 Exit Conference, will now focus on maintaining a consistent deviation between the ledger and the bank balance as required by the SBOA. Any further deviations in the difference between the ledger balance and the bank balance will be detailed in SBOA form 237, and will be consistently monitored to ensure accurate monthly balancing. The deviation will now remain consistent with the implementation of new software that will prevent understated restitution. Once the deviation remains consistent over the next 3-5 months, which we anticipate it will, we will know the additional controls put into place in 2018 are working. This corrective action plan is consistent with recommendations presented at the August 15, 2019 Exit Conference.

Respectfully Submitted,

Eric Zimmerman  
Director of Court Services/Chief Probation Officer  
Allen Circuit Court/Allen County Adult Probation

COUNTY ADULT PROBATION  
ALLEN COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on August 12, 2019, with the Honorable Thomas J. Felts, Circuit Court Judge; Eric Zimmerman, Director of Court Services/Chief Probation Officer; Steve Keele, Assistant Chief of Probation; and Carol Strauss, Financial Coordinator.

The contents of this report were discussed on August 15, 2019, with F. Nelson Peters, President of the Board of County Commissioners; Richard E. Beck, County Commissioner; and Thomas A. Harris, President of the County Council.

BOARD OF COUNTY COMMISSIONERS  
ALLEN COUNTY

BOARD OF COUNTY COMMISSIONERS  
ALLEN COUNTY  
AUDIT RESULT AND COMMENT

***TRAINING ON INTERNAL CONTROL STANDARDS***

Newly hired County employees had not completed the required internal control standards training. The last reported completion of the training was in March 2017.

Indiana Code 5-11-1-27(g) states in part:

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

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

BOARD OF COUNTY COMMISSIONERS  
ALLEN COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on August 15, 2019, with Nicholas D. Jordan, County Auditor; Jackie Scheuman, Finance and Budget Director; F. Nelson Peters, President of the Board of County Commissioners; Richard E. Beck, County Commissioner; and Thomas A. Harris, President of the County Council.