

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

OWEN COUNTY, INDIANA

January 1, 2017 to December 31, 2018



FILED

11/04/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Patty Steward	09-08-16 to 12-31-22
County Treasurer	Diane Stutsman	01-01-15 to 12-31-22
Clerk of the Circuit Court	Linda Roy Peggy Robertson	01-01-15 to 12-31-18 01-01-19 to 12-31-22
County Sheriff	Leonard S. Hobbs	01-01-15 to 12-31-22
County Recorder	Peggy Robertson Loretta Foster	01-01-15 to 12-31-18 01-01-19 to 12-31-22
President of the Board of County Commissioners	Donnie Minnick Steve Williamson (acting) Jeff Brother	01-01-17 to 08-24-18 08-25-18 to 01-21-19 01-22-19 to 12-31-19
President of the County Council	Jennifer Abrell Andy Wood	01-01-17 to 04-22-19 04-23-19 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF OWEN COUNTY, INDIANA

This report is supplemental to our audit report of Owen County (County), for the period from January 1, 2017 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 our Financial Statements Audit Report of the County, which provides our opinion on the County's financial statements. 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

September 18, 2018

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COUNTY AUDITOR
OWEN COUNTY

COUNTY AUDITOR
OWEN COUNTY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Similar comments also appeared in prior Report B49749, entitled *ANNUAL FINANCIAL REPORT* and *INTERNAL CONTROLS*.

Condition and Context

The County Auditor did not have proper system of internal control in place to prevent, or detect and correct, errors in the Annual Financial Report (AFR) entered into the Indiana Gateway for Government Units (Gateway) financial reporting system. The County Auditor entered the financial information into Gateway, without an oversight, review, or approval process.

The AFRs for 2017 and 2018 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:

- Sheriff's Inmate Trust - 2017, 2018
- Clerk Bank - 2017

In addition to the omitted departments noted above, the AFRs included many other reporting errors in several funds. In total, the receipts, disbursements, and balances reported were over and understated as follows:

<u>Years</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending Balance</u>
2017	\$ 1,733,823	\$ 2,079,554	\$ 376,233
2018	517,052	911,546	(353,779)

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

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. . . .

COUNTY AUDITOR
OWEN COUNTY
AUDIT 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. . . ."

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](#)."

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)

INTERNAL CONTROLS AND COMPLIANCE OVER PAYROLL

Condition and Context

We noted a deficiency in the internal control system related to the approval of timesheets by department heads for payroll. Department heads are to approve all employee timesheets prior to submission to the County Auditor's office for payroll processing, per the County policy. In addition, payroll claims are not included in the claims docket for approval by the Board of County Commissioners.

Testing of 25 payroll transactions revealed the following: 7 payroll timesheets were not signed by department head; 5 were signed by either the department head or the fiscal officer, but not both; and 2 employees did not maintain time records.

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:

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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. . . ."

(Uniform Internal Control Standards for Indiana Political Subdivisions)

COUNTY AUDITOR
OWEN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 1)

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. . . ."

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The County Auditor certified on Gateway that training had been provided to applicable personnel; however, the County had not provided training to all required personnel.

Criteria

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](#)."

CAPITAL ASSETS

Condition and Context

The County does not maintain a complete detail listing of all capital assets owned. Also, the County does not have a policy that details a threshold at which an item is to be considered a capital asset.

COUNTY AUDITOR
OWEN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)



**Owen County Auditor's Official Response to State Board of Accounts Audit
For Years 2017-2018**

Internal Control Over Financial Transactions and Reporting

Regarding omitted departments and other reporting errors on the Annual Financial Report:

- The Clerk's Office failed to provide the correct bank reports to the Auditor and were asked to supply them, repeatedly.
- The reports used to upload into Gateway were supplied by Low's financial software. I relied upon the software to be enough to upload the correct data into the Gateway system. I believe some of the discrepancies come from the conversion of the Gateway data into the reports used by the State Board of Accounts. The prescribed forms for the annual report were not being used and were not noted as a "finding" in prior audits conducted by the State Board of Accounts. Furthermore, it is a challenge to locate a prescribed form and guidance is not provided by the SBOA auditors.

Correction Action Plan

- Internal controls have been in place since the discovery of former Auditor, Angie Lawson's illegal activities. These internal controls will be fine-tuned to include:
 - Printing reports to have a secondary deputy auditor review and sign.
 - Printing dockets rather than a statement for "Out of Cycle Claims" for Commissioner approval. Please note that there are only two commissioners who will sign-off on the dockets. The Commissioner President refuses to provide his signature of approval for in-cycle and out of cycle claims.

Internal Controls and Compliance Over Payroll

The internal control in place at the time of the audit required each elected official, department head or department supervisor to sign the timesheets of their employees. The corrective action plan is to provide a payroll summary sheet to the elected official, department head or department supervisor that they must sign, or their employees will not be paid. A payroll docket will be generated and provided to the Commissioners for approval.

Certification of Internal Control Standards

The Auditor's Office will create a Power Point training of internal controls for all elected officials, department heads and their employees to view. The elected official, department head and their will sign a policy of understanding upon completion of the Power Point training.

Auditor Patty Steward



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Patty.Steward@owencounty.in.gov

Capital Asset

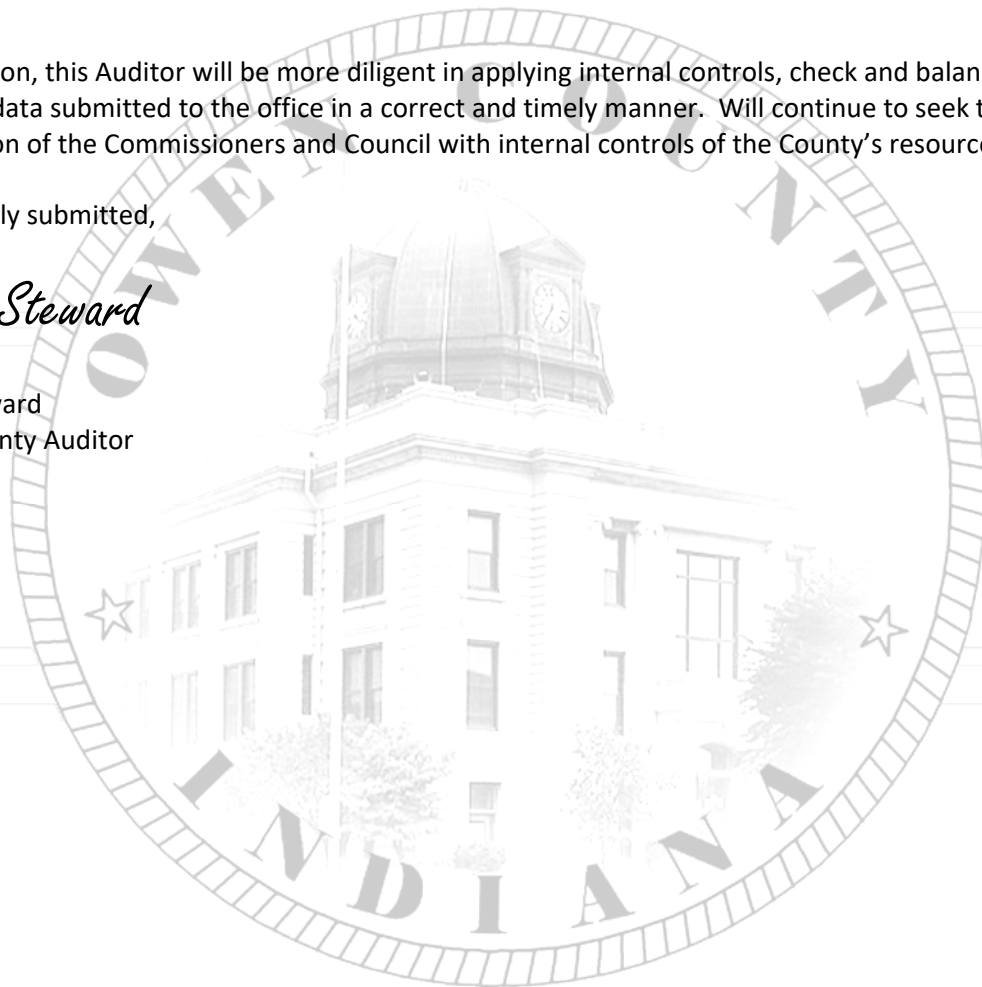
The Auditor's Office will create an ordinance regarding Capital Asset Policy and will provide it to the Commissioners for their approval. To my knowledge, there has not been an establishment of a Capital Asset Policy in Owen County. Assets were tracked in the form of inventory sheets that were provided by the elected officials or department heads.

In conclusion, this Auditor will be more diligent in applying internal controls, check and balances, and requiring data submitted to the office in a correct and timely manner. Will continue to seek the cooperation of the Commissioners and Council with internal controls of the County's resources.

Respectfully submitted,

Patty Steward

Patty Steward
Owen County Auditor



COUNTY AUDITOR
OWEN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on September 18, 2019, with Patty Steward, County Auditor; Diane Stutsman, County Treasurer; Jeff Brother, President of the Board of County Commissioners; and Verl Keith, County Council member.

COUNTY TREASURER
OWEN COUNTY

COUNTY TREASURER
OWEN COUNTY
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS

Condition and Context

There were deficiencies in the internal control system of the County Treasurer related to cash and investments. The County Treasurer had not separated incompatible activities over cash and investments. The failure to establish these controls could have enabled material misstatements to remain undetected.

One person performed the monthly reconciliations. There was no evidence of an effective oversight, review, or approval process to ensure the accuracy of the reconciliations.

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:

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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. . . ."



Diane Stutsman
Owen County Treasurer
60 S. Main Street Room 102B
Spencer, IN 47460
Phone (812)829-5011
Email: Diane.Stutsman@owencounty.in.gov

September 26, 2019

Indiana State Board of Accounts
302 West Washington Street, Room E 418
Indianapolis, Indiana 46204-2765

RE: Official Response

The Treasurer's Office employs a variety of internal controls aimed at separating duties among the Treasurer, Chief Deputy, or Deputy so that no one is individually responsible for all steps in the receipting, reconciling and reporting process. These controls are aimed at ensuring that the financial records of the county Treasurer's Office are accurately stated, and no misstatements were identified as a result of the recent audit.

The State Board of Accounts did provide guidance during the audit that while the Treasurer completes and maintains supporting documentation of the monthly bank reconciliation as part of the separation of duties, the reconciliation should be nonetheless reviewed for accuracy and initialed by a second individual. That guidance was implemented on a going forward basis beginning July 2019, and then subsequently implemented retroactively for all reconciliations dating back to January 1, 2019 since the audit review covered the period ending December 31, 2018.

Best Regards,

Diane Stutsman

Owen County Treasurer

COUNTY TREASURER
OWEN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on September 18, 2019, with Patty Steward, County Auditor; Diane Stutsman, County Treasurer; Jeff Brother, President of the Board of County Commissioners; and Verl Keith, County Council member.

CLERK OF THE CIRCUIT COURT
OWEN COUNTY

CLERK OF THE CIRCUIT COURT
OWEN COUNTY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were several deficiencies in the internal controls system of the Clerk of the Circuit Court (Clerk) related to the financial transactions and reporting. The Clerk had not separated incompatible activities related to cash, receipts, disbursements, and reporting.

Cash - The Clerk had not designed or implemented controls, including segregation of duties, to ensure the accuracy of the cash reconciliation. The individual with responsibilities for receipting and disbursing funds, also performed the monthly bank reconciliations. There was no indication of an oversight, review, or approval process.

Receipts - The Clerk had not separated incompatible activities to ensure the accuracy of the receipts. The Clerk's office had two cash drawers, one for Trust (Odyssey) and one for Child Support (ISETS), which were utilized by six employees. The Bookkeeper is responsible for reconciling the Trust daily receipts to the Trust drawer and preparing the deposit. The Child Support Clerk is responsible for reconciling Child Support receipts to the Child Support drawer and preparing the deposit. There is no evidence of an oversight, review, or approval process.

Disbursements - The Clerk had not designed or implemented controls, including segregation of duties, related to disbursements. Individuals with responsibility for disbursing funds had complete control over the disbursement function. The reports generated for Trust and ISETS checks are compared to prior day receipts to verify completeness and accuracy. The same individuals responsible for preparation of checks, also used the Clerk's signature stamp to sign those checks authorizing payment. There was no indication of an oversight, review, or approval process.

Reporting - The Bookkeeper prepares the month end report to the County Auditor and the semiannual report for the state. The Clerk signs the reports, but does not review and verify for correctness. The Clerk had no process for reporting the year-end totals to the County Auditor for the Annual Financial Report (AFR). The AFR information provided to the County Auditor was not based upon year-to-date reports for Odyssey or ISETS.

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:

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

CLERK OF THE CIRCUIT COURT
OWEN COUNTY
AUDIT 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. . . ."

CONDITION OF RECORDS

Condition and Context

Financial records presented for audit contained the following deficiencies:

1. As of January 1, 2018, the Clerk's office did not print the reports produced through the Odyssey software for the Clerk's Trust Fund. All reports were kept on the computer of the Bookkeeper and backed-up to a flash drive. As of February 20, 2018, the Bookkeeper was no longer employed in the Clerk's office. Provisions were not made to transfer the Odyssey Trust Fund reports prepared for 2018 by the former Bookkeeper to another employee's computer and access to her computer could not be obtained. Shortly after the former Bookkeeper's departure the back-up flash drive was accidentally damaged causing the files on the flash drive to be irretrievable. A number of temporary replacements for the Bookkeeper position did not receive training on how to use Odyssey, so not all reports were run for the period of February 20, 2018 through the middle of June 2018. Any reports run during this time frame were sporadic. The Clerk was granted access by Odyssey for a two-week period to retrieve reports selected for audit.
2. Depository reconciliations of the Trust Fund balance to the bank account balances had not been completed timely from the end of February 2018 through December 2018.
3. The Clerk did not file timely the Monthly Report - Clerk of the Circuit Court (Form 46CR) from March 2018 through December 2018 to the County Auditor. Judicial Technology and Automation Committee (JTAC) (Odyssey support staff) assisted the Clerk with a four-month report for March, April, May, and June. The check to the County Auditor for these months of receipts was dated July 24, 2018. The check for the July and August receipts was dated September 27, 2018. The checks to the County Auditor for the September, October, November, and December receipts were dated December 10, 2018, January 16, 2019, January 22, 2019, and January 29, 2019, respectively.
4. The Clerk did not file timely the 2018 Reports to State Auditor of Court Costs Collect by the Clerk. This report is to be filed semiannually for the periods December to May and June to November. The report for December 1, 2017 to May 31, 2018, was not filed until July 24, 2018, and the report for June 1, 2018 to November 30, 2018, was not filed until July 31, 2019.
5. Supporting documentation for trust receipts for three out of the seventy days tested was not presented for audit.

Criteria

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

CLERK OF THE CIRCUIT COURT
OWEN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

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."

The Clerk of the Circuit Court is required to prepare in quadruplicate a monthly financial report. This report is prepared after the books are closed as of the last day of each month and in accordance with the requirements of Indiana Code 33-32-3-6. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 5)

The report is made from the Clerk of the Circuit Court's Cash Book and Daily Balance Record, Form 46, and bank statements furnished by the designated depositories showing balances as of the last day of each month. If Monthly Report, Form No. 46CR is maintained electronically at the county, the form may be submitted via email. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 5)

Indiana Code 33-37-7 contains the guidance on distribution of costs and fees collected by the clerk and due to the State of Indiana. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 9)

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 for Clerks of the Circuit Courts of Indiana, Chapter 1)

CLERK OF THE CIRCUIT COURT
OWEN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on September 18, 2019, with Peggy Robertson, Clerk of the Circuit Court; Linda Roy, former Clerk of the Circuit Court; Patty Steward, County Auditor; Diane Stutsman, County Treasurer; Jeff Brother, President of the Board of County Commissioners; and Verl Keith, County Council member.

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BOARD OF COUNTY COMMISSIONERS
OWEN COUNTY

BOARD OF COUNTY COMMISSIONERS
OWEN COUNTY
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

All applicable personnel have not received training on the internal control standards.

Criteria

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
OWEN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on September 18, 2019, with Patty Steward, County Auditor; Diane Stutsman, County Treasurer; Jeff Brother, President of the Board of County Commissioners; and Verl Keith, County Council member.