

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

JEFFERSON COUNTY, INDIANA

January 1, 2015 to December 31, 2018



FILED
11/19/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Sherry Eblen	09-08-14 to 12-31-21
County Treasurer	Linda M. Greene Melinda L. Klopp	01-01-13 to 12-31-16 01-01-17 to 12-31-20
Clerk of the Circuit Court	Karen L. Mannix Tabatha Eblen	01-01-15 to 06-26-16 06-27-16 to 12-31-22
County Sheriff	John I. Wallace David W. Thomas	01-01-15 to 12-31-18 01-01-19 to 12-31-22
County Recorder	Leigh Koehler Molly O'Conner	01-01-13 to 12-31-16 01-01-17 to 12-31-20
President of the Board of County Commissioners	Robert A. Little Norbert Schafer Robert A. Little David Bramer Robert A. Little	01-01-15 to 12-31-15 01-01-16 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18 01-01-19 to 12-31-19
President of the County Council	Joe Craig Laura Boldery Chris Shelton Judy Andrew Smith	01-01-15 to 12-31-15 01-01-16 to 12-31-16 01-01-17 to 12-31-18 01-01-19 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of Jefferson County (County), for the period from January 1, 2015 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

October 22, 2019

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BOARD OF COUNTY COMMISSIONERS
JEFFERSON COUNTY

BOARD OF COUNTY COMMISSIONERS
JEFFERSON COUNTY
AUDIT RESULT AND COMMENT

ADOPTION OF INTERNAL CONTROL STANDARDS/TRAINING

Condition and Context

The County did not adopt internal control standards and procedures pursuant to state statutes.

The County failed to ensure that all required personnel received the training over the internal control standards as required to be adopted by Indiana Code 5-11-1-27(g).

Criteria

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."

BOARD OF COUNTY COMMISSIONERS
JEFFERSON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on October 22, 2019, with Sherry Eblen, County Auditor; Melinda L. Klopp, County Treasurer; David W. Thomas, County Sheriff; Judy Andrew Smith, President of the County Council; Robert A. Little, President of the Board of County Commissioners; and Chris Shelton, County Council member.

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COUNTY AUDITOR
JEFFERSON COUNTY

COUNTY AUDITOR
JEFFERSON COUNTY
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

Condition and Context

The County did not have a proper system of internal controls in place over financial transactions and reporting to prevent, or detect and correct, errors. Due to the lack of controls over the input of financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Annual Financial Report (AFR) and the financial statements, material errors remained undetected.

The AFRs submitted by the County Auditor for 2015, 2016, 2017, and 2018, were materially incorrect and did not accurately reflect the transactions and balances of the County funds.

The following errors were noted:

1. Many of the County funds were not reported on the AFRs. The majority of the funds omitted were funds of the various County offices that are required to be reported to the County Auditor as part of the Supplemental Annual Report (CAR-1).
2. During 2018, not all transactions of the Self Insurance fund were accounted for in the County's records.
3. The receipts, disbursement, and balances reported for many of the funds during the audit period did not agree with the ledger.

A summary by year of the errors noted above that resulted in over(under) statements on the AFRs are as follows:

Years	Beginning Balance	Receipts	Disbursements	Ending Balance
2015	\$ (1,389,299)	\$ (4,969,651)	\$ (4,732,380)	\$ (1,626,570)
2016	-	(3,706,300)	(3,780,741)	74,441
2017	(66,320)	(4,376,959)	(4,221,712)	(221,567)
2018	-	(10,100,061)	(10,755,456)	655,395
Totals	<u>\$ (1,455,619)</u>	<u>\$ (23,152,971)</u>	<u>\$ (23,490,289)</u>	<u>\$ (1,118,301)</u>

Audit adjustments were proposed, accepted by the County, 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:

COUNTY AUDITOR
JEFFERSON COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

"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](#)."

The supplemental annual report forms are submitted by other county offices and departments to be used by the county auditor to provide complete financial information for the annual report by reporting financial activity that is maintained outside of the county auditor's system. The supplemental annual reports are only to be submitted with financial activity that is not eventually accounted for in the county's general ledger system. (The County Bulletin and Uniform Compliance Guidelines, January 2014)

PAYROLL DEDUCTION FUNDS

Condition and Context

The County did not have proper controls in place to ensure the accountability of payroll deductions. A separate fund was not established for each type of payroll deduction. All payroll deductions were transferred into one payroll fund at the time payroll warrants were issued. As a result, the balance of each type of payroll deduction could not be properly identified. At December 31, 2018, the balance in the Payroll Clearing fund was \$209,518.

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:

COUNTY AUDITOR
JEFFERSON COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

"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.

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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. . . ."

A separate fund shall be established for each type of payroll deduction, to which deductions shall be transferred at the time payroll warrants are issued. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 7)

Experience has shown that one of the most difficult problems encountered by public officials is accounting for payroll deductions. That is the reason the prescribed accounting procedures provide for transfers of payroll deductions into separate funds, with a separate fund to be established for each type of deduction. Also, the establishment of such funds provides a further proof of the correctness of the deductions and remittances since the entries in each fund can be reconciled to the control account in the employees' earnings records, to the earnings statements furnished employees at the close of the year and to the reports and remittances required to be made to the various federal, state and other agencies. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 7)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

For the years 2016, 2017, and 2018, the County Auditor incorrectly certified in Gateway that the County had adopted internal control standards and procedures. For the years 2017 and 2018 the County Auditor incorrectly certified that all required County personnel had received training regarding the internal control standards.

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](#)."

COUNTY AUDITOR
JEFFERSON COUNTY
EXIT CONFERENCE

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COUNTY TREASURER
JEFFERSON COUNTY

COUNTY TREASURER
JEFFERSON COUNTY
AUDIT RESULT AND COMMENT

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

We noted several deficiencies in the internal control system of the County Treasurer related to financial transactions and reporting.

1. Monthly bank reconciliations and financial reports: The County Treasurer had not established controls to ensure that record balances are fully reconciled to the depository balances and monthly financial reports are accurate and complete.

The County Treasurer has the statutory obligation to reconcile the bank accounts for the funds maintained by the County. Bank reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliations contained numerous errors. As a result, the County hired an independent contractor (contractor) to reconcile the bank accounts to the fund balances for the period January 2014 to August 2018. Based on the contractor's identification of errors, adjustments to the Treasurer's Daily Balance of Cash and Depositories, Form 47 (Treasurer's Cash Book) of \$4,560,374 were posted on January 2, 2018.

As of December 31, 2015, 2016, 2017, and 2018, the differences between the adjusted bank balance and County Auditor's Fund Ledger indicated a cash short of \$65,256, a cash long of \$15,511, a cash long of \$21,674, and a cash short of \$26,482, respectively.

In addition, we noted the following deficiencies:

- a. The County Treasurer's Cash Book was not being posted and balanced daily. A review of the County Treasurer's Cash Book on December 31, 2018, showed that the last transaction posted to the Self Insurance bank account within the Cash in Depositories section was on July 31, 2018. This error resulted in an overstatement of \$811,542 of depository balances.
- b. The record balances shown in the County Treasurer's Cash Book for the various bank accounts did not agree with the total of the County Auditor's fund ledger and after settlement collections recorded.
- c. Outstanding Transaction Reports included numerous items which should not have been included. The December 31, 2018 Outstanding Transaction Reports overstated deposits in transit and outstanding checks/withdrawals by \$630,259 and \$6,431,653, respectively. Numerous checks that were over two years old were on the outstanding checklist.
- d. The County Treasurer's Monthly Financial Report (Form 47TR) is to be prepared by the 16th day of the following month. Reports for the period January 2015 through December 2016 were not completed. The Form 47TR reports completed for 2017 and 2018 were not completed properly. Reported deposit in transits and outstanding checks could not be traced to supporting documentation.
- e. Financial data reported by the County Treasurer to the County Auditor on the Supplemental Annual Financial Report (CAR-1 report) did not agree with the County Treasurer's Cash Book. Revised financial data was provided by the department with corrected amounts and adjustments were made by County Auditor.

COUNTY TREASURER
JEFFERSON COUNTY
AUDIT RESULT AND COMMENT
(Continued)

2. Monitoring of Controls: The County Treasurer had no process to identify or communicate corrective actions to improve controls. Effective internal control over financial reporting requires the County Treasurer to monitor and assess the quality of the system of internal control.

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. . . ."

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 County Treasurers of Indiana, Chapter 1)

Indiana Code 5-13-5-1(a) states:

"Every public officer who receives or distributes public funds shall:

- (1) keep a cashbook into which the public officer shall enter daily, by item, all receipts of public funds; and
- (2) balance the cashbook daily to show funds on hand at the close of each day."

The Treasurer's Daily Balance of Cash and Depositories, Form 47, is the record prescribed to enable the treasurer to comply with IC 5-13-5-1. It reflects the daily receipts and disbursements, total amount of cash and investments on hand, and a proof of the financial condition of the office at the close of each day.

The record is designed to be posted "daily," with a separate page for each day. The left side of the page shows the total amount of money for which the treasurer is accountable (charges) and the right side of the page shows the money on deposit, invested or on hand (credits), as proof of the financial condition. (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 5)

COUNTY TREASURER
JEFFERSON COUNTY
AUDIT RESULT AND COMMENT
(Continued)

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."

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](#)."

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COUNTY TREASURER
JEFFERSON COUNTY
EXIT CONFERENCE

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COUNTY SHERIFF
JEFFERSON COUNTY

COUNTY SHERIFF
JEFFERSON COUNTY
AUDIT RESULT AND COMMENT

BANK ACCOUNT RECONCILIATIONS

Condition and Context

We noted deficiencies in the internal control system regarding bank reconciliations for inmate trust funds. One employee performed the reconciliations of the records to the bank statements. Bank reconciliations were not reviewed or approved by an official or employee not involved in preparing them.

During the audit period, the inmate's trust accounts were not reconciled to the ledger control.

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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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)

COUNTY SHERIFF
JEFFERSON COUNTY
EXIT CONFERENCE

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