

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

NEWTON COUNTY, INDIANA

January 1, 2017 to December 31, 2017



FILED
12/30/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Sharon Dewing Tamra Jackson	01-01-15 to 12-31-18 01-01-19 to 12-31-22
County Treasurer	Diane Veld Teri Knowles	01-01-17 to 02-08-19 02-09-19 to 12-31-20
Clerk of the Circuit Court	Janice Wilson Jessica Firkins	01-01-17 to 12-31-18 01-01-19 to 12-31-20
County Sheriff	Thomas VanVleet	01-01-15 to 12-31-22
President of the Board of County Commissioners	Tim Drenth	01-01-17 to 12-31-19
President of the County Council	Scott Carlson	01-01-17 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF NEWTON COUNTY, INDIANA

This report is supplemental to our audit report of Newton County (County), for the period from January 1, 2017 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

December 19, 2019

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COUNTY AUDITOR
NEWTON COUNTY

COUNTY AUDITOR
NEWTON COUNTY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS - COUNTY AUDITOR

There were deficiencies in the internal control system of the County Auditor related to financial transactions and reporting. The County Auditor had not established a proper system of internal controls as they had not separated incompatible activities related to receipts and disbursements. The failure to establish these controls could have enabled material misstatements to occur and remain undetected.

Receipts

Receipts were issued, recorded, and submitted to the County Treasurer for deposit without evidence of a proper segregation of duties. There was no documented oversight, review, or approval process in place to ensure the accuracy and classification of receipts to the proper funds and accounts.

Disbursements (Vendor)

One employee prepared the claims, verified the invoices to the claims, prepared the checks, and recorded the disbursements without evidence of a proper segregation of duties. The County had not established a documented oversight, review, or approval process to ensure that vendors were paid the correct amount and were paid from the proper fund.

Disbursements (Payroll)

One employee prepared and recorded the payroll claims, prepared the direct deposit, and checks for disbursement without evidence of a proper segregation of duties. The County had not established a documented oversight, review, or approval process to ensure that employees were paid the correct amount and were paid from the proper fund.

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. . . ."

COUNTY AUDITOR
NEWTON COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

TIMELY RECORDING

The County received distributions electronically from the Auditor of State. The distributions were recorded in the records of the County Auditor and Treasurer's Daily Cash Book between 8 to 63 days after receipt of funds for 13 percent of the disbursements tested.

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)

APPROVAL OF CLAIMS

The County made disbursements to vendors without approval from the Board of County Commissioners and the County Auditor. The unapproved disbursements were paid from the Local Tax Distribution fund, CVET-Commercial Vehicle Excise fund, Financial Institution fund, and George Ade Medicare fund.

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: . . .

(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. . . ."

Prior to submission to the board of county commissioners, all claims or vouchers must be entered in claim number order in the Accounts Payable Register, General Form No. 364 (1996). This is a loose leaf form and contains columns to show the date each claim or voucher was filed, the claim or voucher number, the name of the claimant, the office, department or fund, the amount of the claim or voucher, the amount allowed and the warrant number. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 8)

Officials and employees are required to use prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

COUNTY AUDITOR
NEWTON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on June 19, 2019, with Tamra Jackson, County Auditor; Tim Drenth, President of the Board of County Commissioners; and Michael Mark, County Council member.

COUNTY TREASURER
NEWTON COUNTY

COUNTY TREASURER
NEWTON COUNTY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS - COUNTY TREASURER

There were deficiencies in the internal control system of the County Treasurer related to financial transactions and reporting. The County Treasurer had not established a proper system of internal controls as they had not separated incompatible activities related to receipts and cash and investments. The failure to establish these controls could have enabled material misstatements to occur and remain undetected.

Separate employees prepared the receipts for deposits, made the deposits, and completed a daily collections report without a system of oversight, review, or approval. Additionally, the County Treasurer prepared and reconciled the record balances with the depository balances without a system of oversight or review.

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. . . ."

COUNTY TREASURER
NEWTON COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

BANK ACCOUNT RECONCILIATIONS

The same comment also appeared in prior Report B49053.

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the County's main bank account did not reconcile with the County Treasurer's records. The bank reconciliation variances ranged from \$5,386 cash short to \$13,909 cash long during the audit period. Additionally, the reconciliation included a check for \$204 on the outstanding check list, but the check was voided.

The County Treasurer had not included or reconciled three bank accounts. The PERF Electronic Funds Transfers (EFTs) for retirement payments, EFTs for federal payroll taxes, and the HRA Health Insurance Account related to payments on health claims were not included in the Treasurer's Daily Cash Book.

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 County Treasurers of Indiana, Chapter 1)

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 Treasurers of Indiana, Chapter 1)

TIMELY RECORDING

The County received distributions electronically from the Auditor of State. The distributions were recorded in the records of the County Auditor and Treasurer's Daily Cash Book between 8 to 63 days after receipt of funds for 13 percent of the disbursements tested.

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 Treasurers of Indiana, Chapter 1)

COUNTY TREASURER
NEWTON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on December 19, 2019, with Teri Knowles, County Treasurer; Tim Drenth, President of the Board of County Commissioners; and Michael Mark, County Council member.

CLERK OF THE CIRCUIT COURT
NEWTON COUNTY

CLERK OF THE CIRCUIT COURT
NEWTON COUNTY
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS - CLERK OF THE CIRCUIT COURT

There were deficiencies in the internal control system of the County related to financial transactions and reporting. The County had not established a proper system of internal controls as they had not separated incompatible activities related to cash and investments, receipts, disbursements, and financial reporting. The failure to establish these controls could have enabled material misstatements to occur and remain undetected.

The Clerk of the Circuit Court prepared and reconciled the record balances with the depository balances without a system of oversight or review. Receipts and disbursements were recorded and processed without a proper system of oversight or review to ensure that they were recorded to the proper account and disbursed to the proper vendor. The Supplemental Annual Financial Report, which is included in the County Annual Financial Report, was prepared and submitted to the County Auditor without a system of oversight or review.

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. . . ."

CLERK OF THE CIRCUIT COURT
NEWTON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on December 19, 2019, with Janice Wilson, former Clerk of the Circuit Court; Jessica Firkins, Clerk of the Circuit Court; Tim Drenth, President of the Board of County Commissioners; and Michael Mark, County Council member.

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BOARD OF COUNTY COMMISSIONERS
NEWTON COUNTY

BOARD OF COUNTY COMMISSIONERS
NEWTON COUNTY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS - BOARD OF COUNTY COMMISSIONERS

The same comment also appeared in prior Reports B44540, B44543, and B49053.

The Board of County Commissioners had not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibilities placed the County at risk that controls may not be properly designed or operating effectively to provide reasonable assurance that the controls will prevent or detect material misstatements in the financial statements in a timely manner.

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. . . ."

ADOPTION AND TRAINING OF INTERNAL CONTROL STANDARDS

The same comment also appeared in prior Report B49053.

The Board of County Commissioners did not adopt the minimum internal control standards and procedures or ensure that personnel were properly trained.

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

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."

APPROVAL OF CLAIMS

The County made disbursements to vendors without approval from the Board of County Commissioners and the County Auditor. The unapproved disbursements were paid from the Local Tax Distribution fund, CVET-Commercial Vehicle Excise fund, Financial Institution fund, and George Ade Medicare fund.

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:

- (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. . . . "

Officials and employees are required to use prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

BOARD OF COUNTY COMMISSIONERS
NEWTON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on December 19, 2019, with Tim Drenth, President of the Board of County Commissioners.