

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MORGAN COUNTY, INDIANA

January 1, 2019 to December 31, 2019



FILED
07/31/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Dan Bastin	01-01-19 to 12-31-20
County Treasurer	Terry Clelland	01-01-19 to 12-31-20
Clerk of the Circuit Court	Stephanie Elliott	01-01-19 to 12-31-20
County Sheriff	Richard W. Myers	01-01-19 to 12-31-20
County Recorder	Jana K. Gray	01-01-19 to 12-31-20
President of the Board of County Commissioners	Ryan Goodwin	01-01-19 to 12-31-20
President of the County Council	Bryan Collier	01-01-19 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of Morgan County (County), for the period from January 1, 2019 to December 31, 2019. 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 opinions 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

June 16, 2020

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COUNTY AUDITOR
MORGAN COUNTY

COUNTY AUDITOR
MORGAN COUNTY
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were several deficiencies in the internal control system of the County Auditor's office related to financial transactions and reporting.

Financial Transactions and Reporting

There were no controls established over all trustee accounts held by the County Redevelopment Commission. There were four trust accounts related to the Redevelopment District Bonds of 2019 which were not accounted for on the County Auditor's funds ledger.

Audit adjustments were proposed, accepted by the County, and made to the financial statement.

Receipting

The County Auditor's office collected and receipted money from County departments and outside sources. Per Indiana Code, the County Treasurer shall receive and deposit funds coming into the County.

Financial Close and Reporting

There were no documented controls in place to ensure that the County Auditor's funds ledger was reconciled with the County Treasurer's monthly financial report, nor with the County Treasurer's Cash Book - Funds Ledger Balance.

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.

COUNTY AUDITOR
MORGAN COUNTY
AUDIT RESULT AND COMMENT
(Continued)

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. . . ."

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](#)."

Indiana Code 36-2-10-9 states: "The treasurer shall receive money to which the county is entitled and shall disburse it on warrants issued and attested by the county auditor."

Indiana Code 36-2-9-12 states:

"The auditor shall keep an accurate account current with the county treasurer. Whenever a receipt given by the treasurer for money paid into the county treasury is deposited with the auditor, the auditor shall:

- (1) file the treasurer's receipt.
- (2) charge the treasurer with the amount of the treasurer's receipt; and
- (3) issue the auditor's own receipt to the person presenting the treasurer's receipt."



Dan Bastin
Morgan County Auditor
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Martinsville, IN 46151
dbastin@morgancounty.in.gov

OFFICIAL RESPONSE

June 22, 2020

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

Re: Official Response to Supplemental Compliance Report of Morgan County, Indiana January 1, 2019 to December 31, 2019 - County Auditor Audit Result and Comment

INTERNAL CONTROLS – FINANCIAL TRANSACTIONS AND REPORTING

Financial Transactions and Reporting

County auditor has been monitoring all accounts of the county redevelopment commission including trust accounts held by trustee bank related to the Redevelopment District Bonds of 2019. Each month the county auditor submits to the commission a monthly financial report of all accounts of the commission including the trust accounts related to 2019 bonds. The monthly report is reviewed and approved by the commission at its monthly public meeting.

In the future the trust accounts held by the trustee bank will be included in the county auditor and county treasurer financial ledgers and the county's annual financial report.

Receipting

Morgan County's receipting process is contained within the county's automated financial system. The county's financial system contains an auditor's module, but there is not a county treasurer's module and there is no county treasurer's interface to the county auditor's module. Starting the receipting process with the treasurer is not possible because the receipting process all occurs within the county auditor's module. The county treasurer deposits receipts with the county's bank and controls the banking transactions.

The county has started the process of transitioning to a different automated financial system. The new financial system will have both a county auditor and county treasurer module. The county will use the receipting process of the new financial system. The receipting process of the new financial system begins with the county treasurer.

Financial Close and Reporting

The staff of the county auditor's office and the county treasurer's office meet monthly to balance and reconcile the records of each office. The monthly activity of the two offices is evidenced by the fact the financial balances agree.

Going forward the staff of each office participating in the balancing and reconciling activity will sign and date the documents used to verify balances.

Dan Bastin
Morgan County Auditor

COUNTY AUDITOR
MORGAN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on June 16, 2020, with Dan Bastin, County Auditor; Ryan Goodwin, President of the Board of County Commissioners; Bryan Collier, President of the County Council; Kenny Hale, County Commissioner; Daniel Elliott, County Council member; and Kelly Alcala, County Council member.

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COUNTY TREASURER
MORGAN COUNTY

COUNTY TREASURER
MORGAN COUNTY
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were several deficiencies in the internal control system of the County Treasurer's office related to financial transactions and reporting.

The County Treasurer's office had not separated incompatible activities related to cash and investments, receipts, and financial close and reporting activities. Control activities should be in place to reduce the risks of errors in financial reporting.

Bank Reconciliations

The County Treasurer's office had not included or reconciled three bank accounts. The PERF, Health Insurance, and License Excise accounts. These accounts were not included in the County Treasurer's monthly reconciliations for the four months tested in the audit period.

There were four trustee bank accounts related to the 2019 Redevelopment District Bonds trust accounts held by the County Redevelopment Commission that were not included on the County Treasurer's Cash Book.

One employee was responsible for performing the reconciliation of the depository account balances with the record balances. There were no controls in place, such as an oversight, review, or approval process of the bank reconciliations.

Receipting

The County Auditor's office collected and receipted money from County departments and outside sources. Per Indiana Code, the County Treasurer is to receive and deposit those funds coming into the County.

Financial Close and Reporting

There were no documented controls in place to ensure that the County Treasurer's and County Auditor's financial records were reconciled on a monthly basis. In addition, there was no evidence that the County Auditor's funds ledger balance had been reconciled to the County Treasurer's Cash Book - Funds Ledger Balance. Reports presented for audit did not include evidence that amounts and/or balances had been traced to the County Auditor's records; nor did these reports include year to date grand totals for receipts and disbursements.

The lack of controls was a systemic issue for the audit period.

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 TREASURER
MORGAN COUNTY
AUDIT RESULT AND COMMENT
(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. . . ."

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](#)."

Indiana Code 36-2-10-9 states: "The treasurer shall receive money to which the county is entitled and shall disburse it on warrants issued and attested by the county auditor."

Indiana Code 36-2-9-12 states:

"The auditor shall keep an accurate account current with the county treasurer. Whenever a receipt given by the treasurer for money paid into the county treasury is deposited with the auditor, the auditor shall:

- (1) file the treasurer's receipt.
- (2) charge the treasurer with the amount of the treasurer's receipt; and
- (3) issue the auditor's own receipt to the person presenting the treasurer's receipt."

COUNTY TREASURER
MORGAN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on June 15, 2020, with Terry Clelland, County Treasurer.

The contents of this report were also discussed on June 16, 2020, with Dan Bastin, County Auditor; Ryan Goodwin, President of the Board of County Commissioners; Bryan Collier, President of the County Council; Kenny Hale, County Commissioner; Daniel Elliott, County Council member; and Kelly Alcala, County Council member.

CLERK OF THE CIRCUIT COURT
MORGAN COUNTY

CLERK OF THE CIRCUIT COURT
MORGAN COUNTY
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were several deficiencies in the internal control system of the Clerk of the Circuit Court (Clerk) related to financial transactions and reporting. There was a lack of segregation of duties as the Clerk had not separated incompatible activities related to:

Clerk's Trust Fund Accounts

The Clerk Interest Bearing fund was reported on the Clerk's Supplemental Annual Financial Report. However, the receipt and disbursement transactions for this fund were bank transfers, and should not have been reported. Audit adjustments of (\$20,171,676) to the receipts and (\$22,838,788) to the disbursements were proposed for the Clerk Trust & Registry fund. Also, audit adjustments of (\$22,838,788) to the receipts and (\$20,171,676) to the disbursements were proposed for the Clerk Interest Bearing fund. As a result of these adjustments, the Clerk Interest Bearing fund was eliminated from the County's financial statement. The cash balance from this fund was added to the Clerk Trust & Registry fund.

The Chief Deputy/Bookkeeper was generally the only employee who receipted these funds, transferred the funds via electronic transactions between the bank accounts, issued and remitted the payments, and reconciled the bank accounts. There was no documented evidence of any oversight or review process.

Receipts

The Chief Deputy/Bookkeeper wrote receipts for trust accounts, and credit card transactions. This employee also reconciled the bank accounts, made adjustments and/or corrections to the financial records, and made up bank deposits. There was no documented evidence of any oversight or review process over receipts and deposits.

CLERK OF THE CIRCUIT COURT
MORGAN COUNTY
AUDIT RESULT AND COMMENT
(Continued)

Disbursements

The Chief Deputy/Bookkeeper was generally the only employee who issued and remitted payments from the Clerk's office. There was no documented evidence of any oversight or review process over disbursements.

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. . . ."

CLERK OF THE CIRCUIT COURT
MORGAN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on June 15, 2020, with Stephanie Elliott, Clerk of the Circuit Court.

The contents of this report were also discussed on June 16, 2020, with Dan Bastin, County Auditor; Ryan Goodwin, President of the Board of County Commissioners; Bryan Collier, President of the County Council; Kenny Hale, County Commissioner; Daniel Elliott, County Council member; and Kelly Alcala, County Council member.