

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

STARKE COUNTY, INDIANA

January 1, 2019 to December 31, 2019



FILED
08/25/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Rachel Oesterreich	01-01-19 to 12-31-20
County Treasurer	Kasey Clark Katherine Chaffins	01-01-19 to 03-28-19 03-29-19 to 12-31-20
Clerk of the Circuit Court	Bernadette Manuel	01-01-19 to 12-31-20
County Sheriff	William Dulin	01-01-19 to 12-31-20
County Recorder	Mandy Thomason	01-01-19 to 12-31-20
President of the Board of County Commissioners	Charlie Chesak	01-01-19 to 12-31-20
President of the County Council	Dave Pearman	01-01-19 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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TO: THE OFFICIALS OF STARKE COUNTY, INDIANA

This report is supplemental to our audit report of Starke 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

August 18, 2020

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COUNTY AUDITOR
STARKE COUNTY

COUNTY AUDITOR
STARKE COUNTY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING - AUDITOR

A similar comment also appeared in prior Report B53548, entitled *INTERNAL CONTROLS*.

Condition and Context

There were deficiencies in the internal control system of the County related to financial transactions and reporting. The County did not have controls in place to ensure the accuracy of the financial information entered on the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the financial statement. One person entered the information on Gateway without proper oversight or review prior to submission. The failure to establish these controls enabled material misstatements to remain undetected.

After the County's Gateway submission, but prior to the beginning of the audit, the County Auditor reviewed the preliminary financial statement. However, the total beginning cash and investment balance was understated by \$5,253,096 and the receipts were overstated by \$5,253,096 due to not properly reporting investment transactions. Disbursements were also understated by \$24,391 due to the omission of two funds from the financial statement. Adjustments were proposed, accepted by the County, and the financial statement was adjusted to correct these misstatements.

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. . . .

COUNTY AUDITOR
STARKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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](#)."

OVERDRAWN CASH BALANCES

A similar comment appeared in a Management Letter addressed to the County Auditor for the audit period ending December 31, 2018.

Condition and Context

The financial statement presented for audit included the following funds with overdrawn cash balances at December 31, 2019:

Fund	Amount Overdrawn
Medical Care For Inmates	\$ 3,627
WIC Program / #2	215
Operation Pullover	4,412
Criminal Justice Grant Fed	20

Criteria

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

COUNTY AUDITOR
STARKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 18, 2020, with Rachel Oesterreich, County Auditor; Dave Pearman, President of the County Council; Kathryn Norem, County Commissioner; and Bradley Hazelton, County Council member.

COUNTY TREASURER
STARKE COUNTY

COUNTY TREASURER
STARKE COUNTY
AUDIT RESULT AND COMMENT

FINANCIAL TRANSACTIONS AND REPORTING - TREASURER

Condition and Context

There were deficiencies in the internal control system of the County Treasurer related to financial transactions and reporting. The County Treasurer did not have controls in place to ensure the accuracy of the Supplemental Annual Report (SAR) or the monthly depository reconcilements and reports. Due to the lack of controls, the following errors occurred:

1. Receipts were understated by \$478,101 on the SAR. Adjustments were proposed, accepted, and the financial statement was adjusted to correct this error.
2. The County Treasurer Cash Book and County Treasurer Monthly Report (47TR) varied by \$1,373,105 on December 31, 2019. The difference was due to the "Transferred by Quietus at Time of Settlement" for Fall 2019, which was recorded in the subsequent period on January 6, 2020. The Cash Book presented a net overage of \$22,000.
3. The County Treasurer used a plug-figure on the 47TR Excise Tax to balance to the depository balance. Through alternate procedures, we were able to determine that cash and investments were materially correct in the financial statement.

Criteria

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COUNTY TREASURER
STARKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 18, 2020, with Katherine Chaffins, County Treasurer.