

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

OWEN COUNTY, INDIANA

January 1, 2020 to December 31, 2020



FILED
02/15/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Patty Steward Sheila Reeves	01-01-20 to 12-31-20 01-01-21 to 12-31-22
County Treasurer	Diane Stutsman	01-01-20 to 12-31-22
Clerk of the Circuit Court	Peggy Robertson Lesliann Sheese Burton	01-01-20 to 05-31-21 06-01-21 to 12-31-22
County Sheriff	Leonard S. Hobbs	01-01-20 to 12-31-22
County Recorder	Loretta Foster	01-01-20 to 12-31-22
County Highway Superintendent	Greg Melton	01-01-20 to 12-31-22
President of the Board of County Commissioners	Jeff Brother Gary Burton	01-01-20 to 12-31-20 01-01-21 to 12-31-22
President of the County Council	Andy Wood Polly Chesser	01-01-20 to 12-31-21 01-01-22 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2020 to December 31, 2020. 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

January 31, 2022

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COUNTY AUDITOR
OWEN COUNTY

COUNTY AUDITOR
OWEN COUNTY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

The same comment also appeared in prior Report B53642, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*, and similar comments appeared in prior Report B49749, entitled *ANNUAL FINANCIAL REPORT* and *INTERNAL CONTROLS*.

Condition and Context

The County Auditor did not have a proper system of internal controls 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, which was the source of the financial statement. The County Auditor entered the financial information into Gateway without an oversight, review, or approval process to ensure its accuracy.

The 2020 AFR contained errors in 33 of the funds presented, including supplemental AFR information provided by other County departments. The receipts were overstated \$875,979; disbursements were overstated \$3,133,115; and ending cash and investments balances were understated \$626,639.

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

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. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity 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
OWEN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

OVERDRAWN CASH BALANCES

This same comment appeared in a Management Letter addressed to the County Auditor and Board of County Commissioners for the audit period ending December 31, 2018.

Condition and Context

The County had several funds that reported a negative cash balance at December 31, 2020, as follows:

Fund	Amount Overdrawn
General Fund	\$ 6,485
MVH	62,097
Payroll Clearing	524,646
Extension Office Work Study	1,687
COVID Emergency Preparedness	2,287
Comm Cross Grant 19	448,943
Public Safety Foundation	79
Stop Violence Against Women	9,012
CC Grant FT 19	2,411
Emergency Prepare 20-21	10,065
911 Dispatch Center	17,177
COVID IN Criminal Justice Inst	14,134

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)

CONDITION OF RECORDS - NEGATIVE RECEIPTS AND DISBURSEMENTS

Condition and Context

On December 14, 2020, a transfer for \$2,060,457 was made from the Payroll Health Benefit fund (Fund 5100) to the General Fund (Fund 1000) for \$1,027,976; the EMS Building Project fund (Fund 4104) for \$623,253; and the LIT Economic Development (EDIT) fund (Fund 7332) for \$409,228 without a resolution or Board approval. This was done by posting a negative receipt to Fund 5100 and a receipt to Funds 1000, 4104, and 7332.

The County's ledger reported numerous other transfers and entries to make corrections to receipts and disbursements without the proper approval. The entries were made by recording a negative receipt or negative disbursement rather than issuing of a receipt and check.

COUNTY AUDITOR
OWEN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

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 Auditors of Indiana, Chapter 1)

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

APPROPRIATIONS

Condition and Context

The records presented for audit indicated the following expenditures in excess of budgeted appropriations in funds formally budgeted and approved by the Department of Local Government Finance (DLGF):

Fund	Year	Excess Amount Expended
General Fund	2020	\$ 2,462,223
Election/Registration	2020	894
MVH	2020	375,278
Local Road & Street	2020	417,244
Cumulative Bridge	2020	27,815
Health	2020	44

In addition, many other funds not requiring approval from the DLGF were spent without sufficient appropriations.

Criteria

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

LOANS BETWEEN FUNDS

Condition and Context

On October 29, 2019, the County adopted Resolution 2019-0016 for a temporary loan of \$198,225 from the LIT Economic Development (EDIT) fund (Fund 7332) to the MVH fund (Fund 1176) to be repaid by January 31, 2020. This was for the purchase of two trucks. As of December 31, 2021, the loan had not been repaid.

COUNTY AUDITOR
OWEN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Indiana Code 36-1-8-4 states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met: . . .

- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

ERRORS ON CLAIMS

Condition and Context

Out of 27 claims tested, 2 were included on a claim docket, but were approved by only one County Commissioner; 4 of 27 claims were paid late due to cash flow issues, 2 of which resulted in late fees; and 2 of 27 payroll claims were not supported by time cards that were approved by a supervisor.

There were no payroll dockets prepared during the audit period. Payroll dockets should have been prepared by the County Auditor and presented to the Board of County Commissioners for approval.

Criteria

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:

COUNTY AUDITOR
OWEN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

- (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. . . ."

MOTOR VEHICLE HIGHWAY (MVH)- RESTRICTED FUND

Condition and Context

The County created the Motor Vehicle Highway (MVH) - Restricted fund as required. However, the County did not allocate or deposit at least 50 percent of the distribution from the State Motor Vehicle Highway Account at the time of the receipt into the MVH Restricted fund.

The MVH Restricted Fund is required to be used for construction, reconstruction, and preservation of the County's highways. Based on a review of the disbursements from the MVH Restricted fund, \$1,463,149 were not allowable disbursements for this fund.

Criteria

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted. (State Examiner Directive 2018-2)

Indiana Code 8-14-1-4(b) states: "For funds distributed to a county from the motor vehicle highway account, the county shall use at least fifty percent (50%) of the money for construction, reconstruction, and preservation of the county's highways."

CAPITAL ASSETS

The same comment also appeared in prior Report B53642.

Condition and Context

The County did not maintain a complete detailed listing of all capital assets owned, nor was a physical inventory conducted.

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)

COUNTY AUDITOR
OWEN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

ACCOUNTING FOR CARES ACT FUNDS

Condition and Context:

The County did not properly account for the Coronavirus Relief Fund (CRF) in accordance with the options outlined in State Examiner Directive 2020-3 (Directive).

The County receipted the Indiana Finance Authority (IFA) reimbursements into multiple funds instead of a single designated fund as required by the Directive.

The County did not properly account for the payroll reimbursed from IFA as required by the Directive. The County receipted a portion of the reimbursements for payroll directly into the General Fund rather than a separate designated fund. For the payroll reimbursements receipted into the CARES funds, reversing entries were not made to account for the payroll from the various funds from which the original transactions were paid. Due to the payroll not being properly accounted for, the CARES funds did not have a zero balance at year end.

Criteria

Each local unit of government that receives an allocation from the Coronavirus Relief Fund administered by IFA shall establish a separate CARES grant fund with a fund number consistent with memorandum *Accounting and Appropriation of COVID-19 Grants, April 29, 2020* (updated September 29, 2020).

All Reimbursements received from IFA shall be receipted into a separate CARES grant fund that is specific to IFA reimbursements. . . .

Transactions for public health and safety payroll costs must be accounted for through one of these two prescribed options.

Option One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. The reimbursed amount for public health and safety payroll costs originally incurred in the general fund (or other fund) will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the general fund (or other fund) cash balance and re-appropriate the general fund (or other fund) in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the general fund (or other fund), it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once option one is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

Option Two. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. A claim will be created against the separate CARES grant fund for the reimbursed amount in favor of the general fund. This claim must be supported by documentation of the public health and safety payroll costs that have been expensed from the general fund or other funds.

COUNTY AUDITOR
OWEN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

The amount of the claim will be receipted into the general fund cash balance. Normal appropriation procedures will apply to these funds.

Once option two is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. This option requires a resolution or ordinance as detailed in the memorandum CARES Reimbursement of Public Health and Safety Payroll Costs, September 30, 2020.** . . .

Transactions for other permitted costs reimbursed by IFA must be accounted for through one of the following prescribed frameworks.

Framework One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. Reimbursed disbursements originally incurred in another fund will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the fund cash balance and reappropriate the fund in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the original fund, it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section. (State Examiner Directive 2020-3)

INTERNAL CONTROLS OVER CARES ACT FUNDS

Condition and Context

An effective internal control system, which would have included segregation of duties, was not in place at the County over the expenditures for the CARES Act grant.

The detailed information supporting the amounts requested for reimbursement from the Indiana Finance Authority (IFA) for the Coronavirus Relief Fund was not reviewed and approved prior to submission of the reimbursement request to the IFA. The Director of Owen County Emergency Management determined which costs to request reimbursement for, compiled all documentation, as well as prepared and submitted the IFA reimbursement request without review or oversight. Although four of the five reimbursement requests were signed by a County Commissioner as the Authorized Representative prior to submission, the County Commissioner disclosed that he did not review the supporting documentation, nor did anyone review it on his behalf.

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
OWEN 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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

COUNTY AUDITOR
OWEN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on January 31, 2022, with Patty Steward, former County Auditor; Sheila Reeves, County Auditor; Gary Burton, President of the Board of County Commissioners; Bob Curry, County Commissioner; Polly Chesser, President of the County Council; Nick Robertson, County Council member; Verl Keith, County Council member; Diane Stutsman, County Treasurer; and James Bryan, County Attorney.

BOARD OF COUNTY COMMISSIONERS
OWEN COUNTY

BOARD OF COUNTY COMMISSIONERS
OWEN COUNTY
AUDIT RESULTS AND COMMENTS

INDEBTEDNESS

Condition and Context

The County entered into a commercial loan with First National Bank for the 911 dispatch center. The loan of \$750,000 was to be repaid over a period of seven years. Commercial loan repayment terms should not exceed five years.

The County entered into a commercial loan with The Peoples State Bank for the Emergency Medical Services department. The loan of \$750,000 was to be repaid over a period of 19.5 years. Commercial loan repayment terms should not exceed five years.

Criteria

A unit may not incur indebtedness unless specifically allowed by law. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

Indiana Code 36-2-6-18 states in part:

"(a) The county fiscal body may, by ordinance:

- (1) make loans for the purpose of procuring money to be used in the exercise of county powers and for the payment of county debts other than current running expenses, and, subject to [IC 5-1-11.5](#) and [IC 5-11-1-4\(c\)](#), issue bonds or other county obligations to refund those loans; . . .

(d) The county fiscal body may, by ordinance, make loans of money for not more than five (5) years and issue notes for the purpose of refunding those loans. The loans may be made only for the purpose of procuring money to be used in the exercise of the powers of the county, and the total amount of outstanding loans under this subsection may not exceed five percent (5%) of the county's total tax levy in the current year (excluding amounts levied to pay debt service and lease rentals). Loans under this subsection shall be made in the same manner as loans made under subsection (a)(1), except that:

- (1) the ordinance authorizing the loans must pledge to their payment a sufficient amount of tax revenues over the ensuing five (5) years to provide for refunding the loans;
- (2) the loans must be evidenced by notes of the county in terms designating the nature of the consideration, the time and place payable, and the revenues out of which they will be payable; and

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

- (3) the interest accruing on the notes to the date of maturity may be added to and included in their face value or be made payable periodically, as provided in the ordinance.

Notes issued under this subsection are not bonded indebtedness for purposes of [IC 6-1.1-18.5](#).

(e) If a deficit is incurred for the current running expenses of the county because the total of county revenues for the fiscal year is less than the anticipated total, the county fiscal body shall provide for the deficit in the next county tax levy."

DEPOSITS

Condition and Context

Receipts for the proceeds from two auctions held in 2020 were not remitted to the County Treasurer in a timely manner. Proceeds from the auction held on February 1, 2020, were remitted 10 days after the check was received, and proceeds from the auction held on July 18, 2020, were remitted 19 days after the check was received.

Criteria

Indiana Code 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance. . ."

Indiana Code 5-13-6-1(g) states in part:

"The following are not required to deposit funds on the business day following receipt if the funds on hand do not exceed five hundred dollars (\$500): . . .

- (2) A local officer of a political subdivision required to deposit funds under subsection (c) other than a township trustee. . . ."

BOARD OF COUNTY COMMISSIONERS
OWEN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on January 31, 2022, with Gary Burton, President of the Board of County Commissioners; Bob Curry, County Commissioner; Sheila Reeves, County Auditor; Polly Chesser, President of the County Council; Nick Robertson, County Council member; Verl Keith, County Council member; Diane Stutsman, County Treasurer; and James Bryan, County Attorney.

CLERK OF THE CIRCUIT COURT
OWEN COUNTY

CLERK OF THE CIRCUIT COURT
OWEN COUNTY
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS - CONDITION OF RECORDS

The same comment also appeared in prior Report B53642.

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. The Clerk had not separated incompatible activities related to cash and investments, receipts, disbursements, and financial close and reporting.

Cash and Investments

The Clerk had not designed or implemented internal controls, including segregation of duties, to ensure the accuracy of the bank reconciliations. The individual with the responsibilities for receipting and disbursing funds also performed the monthly bank reconciliations. There was no indication of an oversight, review, or approval process to ensure their accuracy. Bank reconciliations were being performed for the Child Support (ISETS) account, but the outstanding check lists were not retained for audit.

Receipts

The Clerk had not designed or implemented internal controls, including segregation of duties, to ensure the accuracy of receipts. The Clerk had two cash drawers, one for the trust and one for child support, which were utilized by all employees. The Bookkeeper reconciled the trust daily receipts to the drawer and prepared the bank deposit. The Child Support Clerk reconciled child support daily receipts to the drawer and prepared the bank deposit. There was no indication of an oversight, review, or approval process to ensure the accuracy of the reconciliations and deposits.

Disbursements

The Clerk had not designed or implemented internal controls, including segregation of duties, to ensure the accuracy of disbursements. The individuals with responsibility to disburse funds had complete control over this function. The Bookkeeper was responsible for the trust, and the Child Support Clerk was responsible for the child support. The reports generated for the trust and child support disbursements were compared to the prior day's receipts to verify completeness and accuracy, by the respective employee. These individuals then used the Clerk's signature stamp to sign the checks authorizing payment. There was no indication of an oversight, review, or approval process to ensure the accuracy of the disbursements.

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

Financial Close and Reporting

The Clerk had not designed or implemented internal controls over the Supplemental Annual Financial Report, which was used for reporting the year-end totals from the Clerk's ledgers to the County Auditor for inclusion in the Annual Financial Report (AFR) and financial statement.

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. . . ."

CLERK OF THE CIRCUIT COURT
OWEN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on January 31, 2022, with Peggy Robertson, former Clerk of the Circuit Court; Lesliann Sheese Burton, Clerk of the Circuit Court; Gary Burton, President of the Board of County Commissioners; Bob Curry, County Commissioner; Polly Chesser, President of the County Council; Nick Robertson, County Council member; Verl Keith, County Council member; Sheila Reeves, County Auditor; and James Bryan, County Attorney.

COUNTY SHERIFF
OWEN COUNTY

COUNTY SHERIFF
OWEN COUNTY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS - CONDITION OF RECORDS

Condition and Context

There were several deficiencies in the internal control system of the County Sheriff related to financial transactions and reporting. The County Sheriff had not separated incompatible activities related to cash and investments and financial close and reporting.

Cash and Investments

The County Sheriff had not designed or implemented internal controls, including segregation of duties, to ensure the accuracy of the monthly bank reconciliations. The individual with responsibilities for receipting and disbursing funds also performed the monthly bank reconciliations. There was no evidence of an oversight, review, or approval process to ensure their accuracy.

Inmate Trust Cash

The County Sheriff had not designed or implemented internal controls, including segregation of duties, to ensure the accuracy of the inmate trust bank reconciliations. The individual with responsibilities for receipting and disbursing funds, also performed the monthly bank reconciliations. There was no evidence of an oversight, review, or approval process to ensure their accuracy.

Due to the lack of internal controls, the following errors remained undetected:

- The bank account reconciliation reported outstanding checks that dated back to 1990. Checks outstanding five years or more are to be remitted to the Office of the Attorney General.
- The reconciliation reported deposits in transit in the amount of \$3,368 that could not be identified or found credited in the bank account.
- The ledger did not report monthly or yearly totals.
- The detail of trust held that belonged to the inmates was not reconciled to the balance reported in the ledger.

Financial Close and Reporting

The County Sheriff had not designed or implemented internal controls, including segregation of duties, to ensure the accuracy of the Supplemental Annual Financial Report, which is used to report the year-end totals from the County Sheriff's ledgers to the County Auditor for inclusion in the Annual Financial Report and financial statement. There was no evidence of an oversight, review, or approval process to ensure the information was accurate.

Due to the lack of internal controls, the Supplemental Annual Financial Report was not provided to the County Auditor.

COUNTY SHERIFF
OWEN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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. . . ."

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)

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity 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](#)."

UPLOADS TO GATEWAY

Condition and Context

The County Sheriff did not upload into the Indiana Gateway for Government Units (Gateway) financial reporting system the required monthly and annual engagement documents for 2020 until January 21, 2022.

COUNTY SHERIFF
OWEN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

In keeping with State Examiner Directive 2018-1, the following details the monthly and annual uploads required by each department:

Monthly, we will be requiring the following to be uploaded: . . .

County Sheriff:

- Monthly Bank Reconciliation
- Cash Balance Report . . .

Counties will be required to upload their January 2019 files in March 2019. The due date for these files will be March 15th, 2019. Each official will have the responsibility of uploading their own monthly required document in gateway. . . .

Annually, we will be requiring the following to be uploaded: . . .

County Sheriff:

- Year End Bank Statement . . .

(The County Bulletin and Uniform Compliance Guidelines, December 2018)

Annual files are due to be uploaded on Gateway no later than March 1, 2019. Thereafter, annual files must be uploaded no later than March 1 for the prior year end unless the SBOA establishes a different date. (State Examiner Directive 2018-1)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

PERSONAL EXPENSES

Condition and Context

On July 15, 2019, the County Sheriff purchased three pigs from the 4-H program for \$2,750. The disbursement was paid from the General Fund. Two of the pigs were processed and used for inmate meals. The third pig, purchased for \$650, was for the personal use of the Sheriff.

On January 17, 2020, the Sheriff reimbursed the County \$650.

Criteria

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the unit. Any personal expenses paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

Owen County Sheriff's Department

Leonard "Sam" Hobbs



Telephone 812-829-4874
Fax 812-829-4412

291 Vandalia Avenue
Spencer, Indiana 47460

OFFICIAL RESPONSE

February 10, 2022

The Annual Audit Report for the years of 2019 and 2020 for the Owen County Sheriff's Department included Internal Control Findings for Segregation of Duties of the accounting, reporting, and reconciliation that are essential to detecting errors.

During the Auditing process when it was communicated by SBOA an Internal Control Policy was immediately reviewed and implemented to archive the acceptable level of protection for the Department. A copy of the Internal Control Policy was provided to SBOA, and all Department personnel will review and follow the written policies and procedures to ensure they are performing their daily duties and responsibilities. An Internal Audit will be periodically performed as well with each section that within the department and adjustments and / or updates deemed necessary.

Regarding the submission of Supplemental and Annual Financial Reports the Department has completed and submitted all Reports required to be entered into the State Guideline System. Copies of all the reports have submitted to the County Auditor also.

Also identified in the Audit was expenses for the purchase of three pigs from the 4-H program. In error, with the claims processing as all three were included in the bill that was received; it was accidentally submitted for a third pig that was for my personal use. As soon as the mistake was discovered I immediately refunded the County.

In conclusion. I appreciate SBOA for their thorough review and guidance that will allow us to continue to strive for improvements with all the above identified issues to provide the oversight that will allow compliant operations for the Department.

Respectfully Submitted,

A handwritten signature in black ink that reads "Leonard Sam Hobbs".

Sheriff Leonard "Sam" Hobbs

COUNTY SHERIFF
OWEN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on January 31, 2022, with Leonard S. Hobbs, County Sheriff; Gary Burton, President of the Board of County Commissioners; Bob Curry, County Commissioner; Polly Chesser, President of the County Council; Nick Robertson, County Council member; Verl Keith, County Council member; Sheila Reeves, County Auditor; and James Bryan, County Attorney.

COUNTY HIGHWAY DEPARTMENT
OWEN COUNTY

COUNTY HIGHWAY DEPARTMENT
OWEN COUNTY
AUDIT RESULTS AND COMMENTS

DEPOSITS

Condition and Context

The County Highway Department received payments from citizens for culverts purchased by County residents. Receipts for these sales were not remitted to the County Treasurer in a timely manner. The receipts were remitted up to a month after the payment was received.

Criteria

Indiana Code 5-13-6-1(c) states in part:

". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository of depositories selected by the . . . local boards of finance . . ."

Indiana Code 5-13-6-1(g) states in part:

"The following are not required to deposit funds on the business day following receipt if the funds on hand do not exceed five hundred dollars (\$500): . . .

- (2) A local officer of a political subdivision required to deposit funds under subsection (c) other than a township trustee. . . ."

PENALTIES, INTEREST, AND OTHER CHARGES

Condition and Context

The County Highway Department did not make timely debt payments for a dump truck and loader. Late payment fees of \$2,492 were incurred and paid in 2020.

Criteria

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

COUNTY HIGHWAY DEPARTMENT
OWEN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on January 31, 2022, with Greg Melton, County Highway Superintendent; Rachael Whiting, County Highway Administrative Assistant; Gary Burton, President of the Board of County Commissioners; Bob Curry, County Commissioner; Polly Chesser, President of the County Council; Nick Robertson, County Council member; Verl Keith, County Council member; Sheila Reeves, County Auditor; and James Bryan, County Attorney.