

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

NEWTON COUNTY, INDIANA

January 1, 2020 to December 31, 2020



FILED
02/18/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Tamra Jackson	01-01-20 to 12-31-22
County Treasurer	Teri Knowles Jennifer Swartz	01-01-20 to 12-31-20 01-01-21 to 12-31-22
Clerk of the Circuit Court	Jessica Firkins	01-01-20 to 12-31-22
County Sheriff	Thomas VanVleet	01-01-20 to 12-31-22
County Recorder	Janice Wilson	01-01-20 to 12-31-22
President of the Board of County Commissioners	Kyle Conrad Glen Cain	01-01-20 to 12-31-21 01-01-22 to 12-31-22
President of the County Council	Scott Carlson Michael Mark Scott Carlson	01-01-20 to 12-31-20 01-01-21 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 NEWTON COUNTY, INDIANA

This report is supplemental to our audit report of Newton 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

February 7, 2022

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COUNTY AUDITOR
NEWTON COUNTY

COUNTY AUDITOR
NEWTON COUNTY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

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

The County did not have an effective system of internal controls in place to prevent, or detect and correct, errors on the financial statement. The County failed to effectively review the financial transactions and reporting information prepared and submitted in the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statement.

Due to the lack of effective internal controls, the financial statement presented for audit contained the following errors:

1. The County General fund receipts were overstated by \$6,000,000 due to reporting investment activity of \$2,000,000 and the receipt of \$4,000,000 of investment proceeds that were for total monies on deposit, and not for the County General fund.
2. The beginning balance of the User Fee/Alcohol & Drug fund was overstated by \$1,103,707.
3. The George Ade Medicare fund receipts and disbursements were overstated by \$2,279,329 due to the reporting of bank-to-bank transfers as fund transfers in the financial statement.
4. The BPPE Late Filing Fees fund was not included on the financial statement, understating disbursements and the beginning cash balance by \$3,150.

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. . . ."

COUNTY AUDITOR
NEWTON COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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](#)."

CARES ACT FUND

Condition and Context

The County did not properly account for the Coronavirus Relief Fund (CRF) funding provided by the Indiana Finance Authority (IFA) in accordance with State Examiner Directive 2020-3 (Directive).

1. A separate CARES grant fund, that followed the uniform chart of accounts, was not established.
2. The reimbursements received from the CRF grant were received on October 26, 2020, and December 27, 2020, in the amount of \$66,481 and \$388,088, respectively, and both amounts were not recorded timely or appropriately.
3. The County receipted both reimbursements into the County General fund, which did not follow either option one or option two as described in the Directive for payroll related disbursements, nor any of the frameworks as described in the Directive for disbursements other than payroll.

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.

Reimbursed Public Health and Safety Payroll Costs

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.

COUNTY AUDITOR
NEWTON COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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.

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 re-appropriate 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.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

Framework Two. If IFA has provided reimbursement based on unpaid invoices or purchase orders, then reimbursements received from IFA shall be receipted into the separate CARES grant fund. The expenditures to vendors will be made through the CARES grant fund and these expenditures must match the application made to IFA. If the actual invoice or invoices relating to a purchase order is less than the purchase order, then the difference in the money expended to the vendor and the amount received for the purchase order from IFA must be returned to IFA. The items on the invoice must match the items on the purchase order. All documentation must be maintained.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

COUNTY AUDITOR
 NEWTON COUNTY
 AUDIT RESULTS AND COMMENTS
 (Continued)

Framework Three. If you have created a negative balance in your CARES fund based on expenditures made in anticipation of receipt of reimbursement for allowable expenditures where invoices have already been submitted to IFA then leave as is and receipt reimbursement when received, bringing the balance in the separate CARES grant fund to zero. Going forward, expend any anticipated allowable expenditures from a fund with an appropriation and follow framework one. If a negative balance in the CARES grant fund is not fully reimbursed, then the unreimbursed amount will require a reverse entry and posting of the expenditure to the general or other appropriate fund within an appropriated line item.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund.** . . . (State Examiner Directive 2020-3)

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

Indiana Code 36-2-5-2 (b) states in part: "...The county fiscal body shall appropriate money to be paid out of the county treasury, and money may be paid out of the treasury only under an appropriation made by the fiscal body, except as otherwise provided by law."

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

OVERDRAWN CASH BALANCES

Condition and Context

The following funds were overdrawn as of December 31, 2020:

Fund Name	Cash and Investments
2018 Homeland Security Grant	\$ 5,000
NC LV Stormwater Planning Grant	3,800
Safe Kids Grant	2,376
2016 Pre-Disaster	9,875
911 Grant Program	22,970
GHSF - General Health Serv Fund	460,131
Bio Terrorism	26,801
2017 Regional Public Safety Gr	300
2019 Infrastructure	48

These funds remained overdrawn for nine months after year end.

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
NEWTON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2022, with Tamra Jackson, County Auditor; Jennifer Swartz, County Treasurer; Glen Cain, President of the Board of County Commissioners; and Scott Carlson, President of the County Council.

COUNTY TREASURER
NEWTON COUNTY

COUNTY TREASURER
NEWTON COUNTY
AUDIT RESULT AND COMMENT

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

The County did not have an effective system of internal controls in place to prevent, or detect and correct, errors in the financial statement or bank reconcilements.

The County had not separated incompatible activities related to cash and investments. The County Treasurer performed reconcilements of the depository balances to the record balances without a system of oversight or review.

Reconcilements were performed for the individual bank accounts, but the reconciliations were inaccurate as they did not reconcile in total to the financial statement or to the County Treasurer's Daily Balance of Cash and Depositories (Cash Book) as of December 31, 2020.

As of December 31, 2020, the total cash and investments per the Cash Book indicated a cash necessary to balance of \$3,778,074. Additional audit procedures were performed and noted the following errors:

1. The reconciliations did not include an adjustment for two grant distributions electronically received in the bank account in 2020, but not recorded in the County's financial accounting system until 2021 totaling \$454,569.
2. The funds ledger and the financial statement included the receipt of a total monies on deposit investment, which overstated the General fund receipts and fund balance by \$4,000,000.

After adjusting the bank reconciliations for the grant distributions delayed posting, and the financial statement for the total monies on deposit investment receipt posting error, the adjusted bank reconciliations cash balance exceeded the County's financial statement and Cash Book balance by \$126,567.

COUNTY TREASURER
NEWTON COUNTY
AUDIT RESULT AND COMMENT
(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:

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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. . . ."

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)

COUNTY TREASURER
NEWTON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2022, with Tamra Jackson, County Auditor; Jennifer Swartz, County Treasurer; Glen Cain, President of the Board of County Commissioners; and Scott Carlson, President of the County Council.

BOARD OF COUNTY COMMISSIONERS
NEWTON COUNTY

BOARD OF COUNTY COMMISSIONERS
NEWTON COUNTY
AUDIT RESULT AND COMMENT

ADOPTION OF AND TRAINING ON INTERNAL CONTROL STANDARDS

The same comment also appeared in the prior four Reports B49053, B54207, B54209, and B56105.

Condition and Context

The Board of County Commissioners did not adopt the minimum internal control standards and procedures and ensure personnel were properly trained as required under 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
NEWTON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2022, with Tamra Jackson, County Auditor; Jennifer Swartz, County Treasurer; Glen Cain, President of the Board of County Commissioners; and Scott Carlson, President of the County Council.