

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

JAY COUNTY, INDIANA

January 1, 2020 to December 31, 2020



FILED
03/22/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Anna Culy (Vacant)	01-01-20 to 03-05-22 03-06-22 to 12-31-22
County Treasurer	Paula Miller	01-01-20 to 12-31-22
Clerk of the Circuit Court	Jon Eads	01-01-20 to 12-31-22
County Sheriff	Dwane Ford	01-01-20 to 12-31-22
County Recorder	Betty St. Myers	01-01-20 to 12-31-22
President of the Board of County Commissioners	Richard L. Huffman Chad Aker	01-01-20 to 12-31-20 01-01-21 to 12-31-22
President of the County Council	Jeanne Houchins	01-01-20 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF JAY COUNTY, INDIANA

This report is supplemental to our audit report of Jay 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.

Beth Kelley, CPA, CFE
Deputy State Examiner

March 3, 2022

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COUNTY AUDITOR
JAY COUNTY

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JAY COUNTY
AUDIT RESULT AND COMMENT

CORONAVIRUS RELIEF FUND (CRF)

Condition and Context

The County did not properly account for the Coronavirus Relief Fund grant money passed through the Indiana Finance Authority (IFA) in accordance with the State Examiner Directive 2020-3 (Directive).

The County did not account for non-payroll expenditures in accordance with one of the Frameworks prescribed in the Directive. The reimbursement for non-payroll expenditures was receipted into the 50493 CARES ACT fund (CARES Fund). Then a claim was created against the CARES Fund to reimburse the fund in which the expenditures originated. However, the expenditures upon which the reimbursement was based should have been reversed and recorded in the CARES Fund, which would have allowed for the proper processing and recording of the CARES activity and the reinstatement of the cash balance and appropriation of the originating fund.

Criteria

Reimbursed Costs Other than Public Health and Safety Payroll Costs

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.** (State Examiner Directive 2020-3)

COUNTY AUDITOR
JAY COUNTY
EXIT CONFERENCE

The contents of this report were discussed on March 3, 2022, with Anna Culy, County Auditor; Paula Miller, County Treasurer; Chad Aker, President of the Board of County Commissioners; Jeanne Houchins, President of the County Council; Rex Journey, County Commissioner; Brian McGalliard, County Commissioner; and Emily Franks, First Deputy County Auditor.

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COUNTY TREASURER
JAY COUNTY

COUNTY TREASURER
JAY COUNTY
AUDIT RESULTS AND COMMENTS

UNDEPOSITED CASH RECEIPTS

Condition and Context

As of December 31, 2020, the County Treasurer (Treasurer) had not deposited \$200 cash that the Treasurer had received in 2017. The Treasurer had also not recorded this transaction in her records as of December 31, 2020.

The \$200 cash receipt was originally collected in the form of two \$100 bills. When the Treasurer deposited the funds in 2021, the deposit was not intact. The Treasurer deposited one \$100 bill and five \$20 bills.

Criteria

Indiana Code 5-13-6-1(c) states in part: ". . . Public funds deposited . . . shall be deposited in the same form in which they were received."

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)

OFFICIAL BONDS AND RECEIPT ISSUANCE

Condition and Context

The County Treasurer (Treasurer) permitted family members, on multiple occasions, to have access to public funds without being an officer, employee, or contractor of the County. Therefore, these family members did not have an individual surety bond required for them to receive, process, or otherwise have access to public funds. These tax payments may have included customers' cash, checks, and credit card information.

In one instance, the Treasurer permitted a family member to collect tax payments from taxpayers outside the Jay County courthouse, unsupervised, while the courthouse was closed due to the COVID-19 pandemic. The family member had no way to issue or record the receipt at the time of the transaction.

In other instances, the Treasurer took County mail home, which included tax payments. The Treasurer allowed multiple family members to open the mail and collect tax payments. The Treasurer did not have remote access to the Treasurer's tax accounting software at the Treasurer's home to issue and record the receipts at the time of the transaction.

Criteria

Indiana Code 5-4-1-18 states in part:

"(a) Except as provided in subsections (b), (c), and (d), the following individuals shall file and maintain in place an individual surety bond during each year that the individual serves as an officer, employee, or contractor:

- (1) City judges, controllers, clerks, and clerk-treasurers.

COUNTY TREASURER
JAY COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

- (2) Town judges and clerk-treasurers.
- (3) Auditors, treasurers, recorders, surveyors, sheriffs, coroners, assessors, and clerks.
- (4) Township trustees.
- (5) Those employees directed to file an individual bond by the fiscal body of a city, town, or county.
- (6) Township assessors (if any).
- (7) Individuals:
 - (A) who are employees or contractors of a city, town, county, or township; and
 - (B) whose official duties include receiving, processing, depositing, disbursing, or otherwise having access to funds:
 - (i) that belong to the federal government, the state, a political subdivision, or another governmental entity; and
 - (ii) in an amount that exceeds five thousand dollars (\$5,000) per year."

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

MONTHLY AND ANNUAL GATEWAY UPLOADS

Condition and Context

The County Treasurer did not upload into the Indiana Gateway for Government Units (Gateway) financial reporting system the November 2020 monthly upload files by the due date of January 15, 2021. The following December monthly upload files were incomplete:

- For 10 out of 11 bank accounts, only the first page of the bank statement was uploaded.
- For 1 out of 11 bank accounts, none of the bank statement pages were uploaded.
- For 8 out of 10 bank accounts that had reconciling items at December 31, 2020, no outstanding check lists were uploaded.
- Complete, detailed bank reconcilements were not uploaded.
- Documentation of Reconciliation of Form 61 between Auditor and Treasurer was not uploaded.

The County Treasurer did not upload the required annual files, the Year End Investment Statements.

COUNTY TREASURER
JAY 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 Treasurer:

- Monthly Bank Reconciliation (Monthly Report)
- Cash Balance Report (Cash Book) . . .

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 documents in gateway. . . .

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

County Treasurer:

- Year End Bank Statement
- Year End Outstanding Check List
- Year End Investments Statement

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

State Examiner Directive 2018-1 was amended on November 9, 2020, as follows:

"This amended directive is effective starting with December 2020 monthly files. The upload of December 2020 monthly files will be due February 15, 2021, and by the 15th of each month thereafter unless the State Board of Accounts (SBOA) establishes a different date. This is effective for 2020 annual files which will be due for upload March 1, 2021, for calendar year end units. . . .

The following files and governmental unit information are required to be uploaded monthly by all units except as noted:

- Bank Reconcilements, Bank Statements, and Outstanding Check Lists
- Approved Board Minutes, please see the user guide for more information and examples
- Funds Ledger, summarizing total receipts, disbursements, and beginning and ending balances by fund . . .

For County Treasurers:

- Cash Balance Reports,
- Bank Reconcilements, Bank Statements, and Outstanding Check List
- Documentation of Reconciliation of Form 61 between Auditor and Treasurer . . .

COUNTY TREASURER
JAY COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

The following files and governmental unit information are required to be uploaded annually (for Counties, these apply to County Auditors unless otherwise noted): . . .

- Year-end Investment Statements (for Counties - County Treasurer)"

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)

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Reports B53288 and B56087, entitled *FINDING 2018-001 - FINANCIAL TRANSACTIONS AND REPORTING - COUNTY TREASURER*, and *FINANCIAL TRANSACTIONS AND REPORTING - COUNTY TREASURER*, respectively.

Condition and Context

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

1. Risk Assessment: Throughout the audit period, the Treasurer did not perform risk assessment to identify and assess fraud risk factors. All employees were permitted to use the same cash drawer to receive funds and the same login information to post tax receipts. The Treasurer and Chief Deputy were permitted to make manual adjustments to the Treasurer's Cash Book without any oversight, review, or approval process in place. Additionally, the Treasurer permitted unbonded family members who were not employed by Jay County to receive cash tax payments from taxpayers without the issuance receipts.
2. Control Activities: Internal Controls were deficient in the prevention or detection and correction errors in a timely manner. The following errors were identified during the audit:
 - The Treasurer's monthly bank reconciliation was incorrect for 12 months of the audit period.
 - One tax collection bank account was omitted from the Treasurer's Daily Balance of Cash and Depositories (Cash Book) and bank reconciliation for the months of November and December 2020.
 - Throughout the audit period the names of financial institutions on the bank statements did not agree to those recorded in the Cash Book.
 - The Treasurer presented the following versions of her Cash Book for audit, which did not always agree to each other throughout the audit period; printed daily in folders, printed monthly with the Monthly Report, uploaded to the Indiana Gateway for Government Units Governmental Units financial reporting system throughout the year, and an electronic version in Excel format. The versions not agreeing with each other was the result of unapproved backdated corrections.

COUNTY TREASURER
JAY COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

- The December 2020 bank reconciliation included 13 erroneous reconciling items. Erroneous outstanding deposits in transit totaled \$580,962, and erroneous outstanding withdrawals totaled \$579,478.
 - One investment account balance was overstated by \$500 on the Cash Book for 12 months of the audit period.
 - The Treasurer's After Settlement Collections disbursements reported on the Supplemental Annual Financial Report were understated by \$376,176 which caused the ending balance to be overstated by the same amount. Adjustments were proposed, accepted, and made to the financial statement to correct the misstatements.
 - Cash collections in the amount of \$200 were not deposited and not recorded for 12 months of the audit period
3. Information and Communication: The Treasurer did not provide relevant information to the Deputy Treasurers to support the functioning of the other components of internal control. The Treasurer did not provide, share, or obtain necessary information for the Deputy Treasurer to properly perform monthly bank reconciliations in a timely manner. The Treasurer did not provide separate log in access to the tax payment software for each of the Deputy Treasurers, nor did the Treasurer provide separate cash drawers for the Deputy Treasurers. The Treasurer did not provide appropriate, current, complete, accurate, accessible, and timely information for the Deputy Treasurer to properly account for daily activities in the Treasurer's Cash Book.
4. Monitoring of Controls: The County Treasurer had no process to identify or communicate corrective actions to improve internal controls. Effective internal controls over financial reporting requires the County Treasurer to monitor and assess the quality of the system of internal control.

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:

"Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. Each identified risk is evaluated in terms of its impact and likelihood of occurrence. Overall, risk assessment is the basis for determining how risk will be managed. . . .

Management identifies risks to the achievement of the political subdivision's objectives across the unit as a whole and within each office or department. Analysis of risk through determination of objective measures and variance tolerance is the basis for determining how the risks should be managed. The response to risk is selected: acceptance, avoidance, reduction, or sharing. . . .

COUNTY TREASURER
JAY COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Internal control is a process, and part of that process is the responsibility for management to be continually aware of changes, both external and internal, that could affect the achievement of the political subdivision's objectives. Those changes should be analyzed for both their immediate effect and for any future impact. Management would then determine any modifications needed in the internal control process to adapt to these changes. . . ."

"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. . . ."

"Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information. Internal communication enables personnel to receive a clear message that control responsibilities are taken seriously by the organization. External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties. . . .

Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

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 TREASURER
JAY COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 1)

COUNTY TREASURER
JAY COUNTY
EXIT CONFERENCE

The contents of this report were discussed on March 3, 2022, with Anna Culy, County Auditor; Paula Miller, County Treasurer; Chad Aker, President of the Board of County Commissioners; Jeanne Houchins, President of the County Council; Rex Journey, County Commissioner; Brian McGalliard, County Commissioner; and Emily Franks, First Deputy County Auditor.