

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SULLIVAN COUNTY, INDIANA

January 1, 2020 to December 31, 2020



FILED
03/23/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Shelly Hiatt-Parris	01-01-20 to 12-31-22
County Treasurer	Janna J. Johnson	01-01-20 to 12-31-22
Clerk of the Circuit Court	Tonya Bedwell	01-01-20 to 12-31-22
County Sheriff	Clark Cottom	01-01-20 to 12-31-22
County Recorder	Beth E. Swalls	01-01-20 to 12-31-22
County Assessor	Vicki Talpas	01-01-20 to 12-31-22
President of the Board of County Commissioners	Robert A. Davis	01-01-20 to 12-31-22
President of the County Council	Tim Abrams Jerry Payne	01-01-20 to 12-31-20 01-01-21 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF SULLIVAN COUNTY, INDIANA

This report is supplemental to our audit report of Sullivan 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 16, 2022

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COUNTY AUDITOR
SULLIVAN COUNTY

COUNTY AUDITOR
SULLIVAN COUNTY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

A similar comment also appeared in prior Report B47943, entitled *ANNUAL FINANCIAL REPORT*, and Report B53693, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

Deficiencies in the internal control system of the County related to financial transactions and reporting were identified. The County Auditor had not established an effective system of internal control over financial close and reporting, receipts, and disbursements.

Financial Close and Reporting

The County Auditor did not have an effective system of internal control in place to prevent, or detect and correct, errors in the Annual Financial Report (AFR) entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statement.

The AFR contained material errors and did not accurately reflect the financial activity of the County. The errors resulted in a net overstatement of receipts by \$416,492; net overstatement of disbursements by \$330,976; and net understatement of beginning cash and investments by \$88,269.

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

Receipts

There was no segregation of duties over the receipting process. One individual posted the receipts to the accounting system and wrote the quietus without an oversight, review, or approval process.

Disbursements

The First Deputy processed vendor and payroll claims and entered them onto the claims register. The First Deputy then used the County Auditor's signature stamp to certify the accuracy of the claims without the County Auditor actually performing a review. There was no documentation of internal controls in place, such as an oversight, review, or approval process.

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
SULLIVAN 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. . . ."

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](#)."

CAPITAL ASSETS

The same comment also appeared in prior Report B53693.

Condition and Context

The County did not maintain a complete detailed listing of capital assets owned which reflected their acquisition value. In addition, the County had not performed a physical inventory in the last two years.

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
SULLIVAN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

ERRORS ON CLAIMS

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

Condition and Context

The County had not established a system for the Board of County Commissioners to review and approve claims related to electronic fund transfers, including direct deposits for payroll transactions. There was also no process in place to document that the fiscal officer approved claims related to the Settlement Fund. In addition, claims paid from the LIT - Economic Development fund included monthly disbursements for the entire year on one claim, approved only by the County Auditor in December of 2020.

A test of twenty-three vendor claims was performed during the audit. The following deficiencies were noted:

1. One claim tested was not approved by the individual receiving the goods and services.
2. One claim did not have proper supporting documentation.
3. Two claims were not included on the claims docket to be approved by the governing board.
4. One claim was paid based on an estimate rather than an actual bill or invoice.

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:

- (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. . . ."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

COUNTY AUDITOR
SULLIVAN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

DISBURSEMENTS FROM MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

A test of twenty-five claims paid from the MVH Restricted fund was performed. The following errors were noted:

1. Five of the disbursements were for payroll without documentation to support that these payments were for the construction, reconstruction, or preservation of the County's highways, as required.
2. Eleven disbursements were for bulk highway materials or equipment rentals/purchases without documentation of the usage for construction, reconstruction, or preservation of the County's highways.
3. Two of the disbursements were not allowable, per Indiana Code, as the disbursements were for winter operations and maintenance and repairs.

Criteria

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 the construction, reconstruction, and preservation of the county's highways."

ACCOUNTING FOR IFA ADMINISTERED CORONAVIRUS RELIEF FUNDS

Condition and Context

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

The County established two funds for the CRF in the ledger, the COVID-Homeland Security - fund 8901 and the COVID - Supplies fund 8902 (CARES grant funds), rather than one fund as outlined in the Directive to account for the reimbursements from the Indiana Finance Authority (IFA).

The County adopted Resolution 2020-13 to utilize prescribed Option Two to account for the public health and safety payroll costs reimbursed by the CRF. Per the adopted Resolution, the reimbursement for public health and safety payroll disbursements would be receipted into the CARES grant funds and a claim would be created against those funds, up to the payroll reimbursement amount, and then receipted into the General fund. However, the reimbursements from the IFA were receipted directly into the General fund instead of one of the two designated CARES grant funds.

Subsequently, the County posted non-payroll related expenditures into the two CARES grant funds in anticipation of receipt of reimbursement. However, reimbursements from the IFA for the non-payroll related expenditures were receipted directly into the General fund instead of the established funds. To bring the balances in the CARES grant funds to zero, the County appropriately reversed the entries and posted the expenditures to the General fund.

COUNTY AUDITOR
SULLIVAN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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 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. . . .**

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

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)

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 County Auditors of Indiana, Chapter 1)

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)

COUNTY AUDITOR
SULLIVAN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The County erroneously certified on the Indiana Gateway for Government Units financial reporting system that the required internal control standards training had been provided to all appropriate personnel defined by Indiana Code 5-11-27(c) for 2020. However, the County had not provided internal control standards training as required.

Criteria

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
SULLIVAN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on March 16, 2022, with Shelly Hiatt-Parris, County Auditor; Robert A. Davis, President of the Board of County Commissioners; Ray McCammon, County Commissioner; John Waterman, County Commissioner; Jackie Monk, County Council member; Curtis Bedwell, County Council member; Nick Cullison, County Council member; and Wes Scarbrough, County Council member.

BOARD OF COUNTY COMMISSIONERS
SULLIVAN COUNTY

BOARD OF COUNTY COMMISSIONERS
SULLIVAN COUNTY
AUDIT RESULTS AND COMMENTS

CAPITAL ASSETS

The same comment also appeared in prior Report B53693.

Condition and Context

A capital asset policy that details the threshold at which an item is considered a capital asset was not presented for audit.

Criteria

The governing body of a unit must have a written policy concerning capital assets that includes at a minimum, the threshold at which an item is considered a capital asset. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

The County did not provide training concerning internal control standards and procedures to all appropriate personnel during the audit period.

Criteria

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

BOARD OF COUNTY COMMISSIONERS
SULLIVAN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on March 16, 2022, with Shelly Hiatt-Parris, County Auditor; Robert A. Davis, President of the Board of County Commissioners; Ray McCammon, County Commissioner; John Waterman, County Commissioner; Jackie Monk, County Council member; Curtis Bedwell, County Council member; Nick Cullison, County Council member; and Wes Scarbrough, County Council member.

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CLERK OF THE CIRCUIT COURT
SULLIVAN COUNTY

CLERK OF THE CIRCUIT COURT
SULLIVAN COUNTY
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS

Condition and Context

There were deficiencies in the internal control system for the Clerk of the Circuit Court (Clerk) related to financial transactions. The Clerk had not established an effective system of internal control over cash and investments, receipts, and disbursements.

Cash and Investments

Monthly bank reconciliations were performed; however, there was no evidence of internal controls in place to prevent, or detect and correct, errors in cash and investments, such as an oversight, review, or approval process.

Receipts

Internal controls over receipts were properly designed; however, no evidence was provided for audit to indicate that these internal controls were implemented and operating effectively.

Disbursements

Internal controls over disbursements were properly designed; however, no evidence was provided for audit to indicate that these internal controls were implemented and operating effectively.

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
SULLIVAN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on March 16, 2022, with Tonya Bedwell, Clerk of the Circuit Court; Shelly Hiatt-Parris, County Auditor; Robert A. Davis, President of the Board of County Commissioners; Ray McCammon, County Commissioner; John Waterman, County Commissioner; Jackie Monk, County Council member; Curtis Bedwell, County Council member; Nick Cullison, County Council member; and Wes Scarbrough, County Council member.

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COUNTY SHERIFF
SULLIVAN COUNTY

COUNTY SHERIFF
SULLIVAN COUNTY
AUDIT RESULT AND COMMENT

CONDITION OF RECORDS - SHERIFF INMATE TRUST FUND

This same comment appeared in a Management Letter addressed to the County Sheriff, County Council, and Board of County Commissioners for the audit period ending December 31, 2018 and 2019.

Condition and Context

The following deficiencies were noted for the Sheriff Inmate Trust Fund:

1. The ledger was posted using bank transactions instead of posting the receipts and disbursements at the time of the transaction.
2. Bank reconcilements were not performed during the audit period.
3. Disbursements from the Commissary fund totaling \$96,432, which were not marked as "cleared" on the ledger, had already cleared as of December 31, 2020.

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 Counties of Indiana, Chapter 1)

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."

COUNTY SHERIFF
SULLIVAN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on March 16, 2022, with Clark Cottom, County Sheriff; Robin Pirtle, Sheriff Department Matron; Kerri Alumbaugh, Sheriff Department Accountant; Shelly Hiatt-Parris, County Auditor; Robert A. Davis, President of the Board of County Commissioners; Ray McCammon, County Commissioner; John Waterman, County Commissioner; Jackie Monk, County Council member; Curtis Bedwell, County Council member; Nick Cullison, County Council member; and Wes Scarbrough, County Council member.

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COUNTY TREASURER
SULLIVAN COUNTY

COUNTY TREASURER
SULLIVAN COUNTY
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS

A similar comment appeared in prior Report B53693, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS*.

Condition and Context

There were deficiencies in the internal control system of the County Treasurer related to financial transactions. The County Treasurer had not established an effective internal control system that separated incompatible activities related to receipts.

Receipts

All steps of the receipting process were performed by the County Deputy Treasurer without a review, oversight, or approval process in place.

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. . . ."

COUNTY TREASURER
SULLIVAN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on March 16, 2022, with Janna J. Johnson, County Treasurer; Shelly Hiatt-Parris, County Auditor; Robert A. Davis, President of the Board of County Commissioners; Ray McCammon, County Commissioner; John Waterman, County Commissioner; Jackie Monk, County Council member; Curtis Bedwell, County Council member; Nick Cullison, County Council member; and Wes Scarbrough, County Council member.