

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

JEFFERSON COUNTY, INDIANA

January 1, 2020 to December 31, 2020



FILED
04/07/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Sherry Eblen Heather Huff	01-01-20 to 05-27-21 05-28-21 to 12-31-22
County Treasurer	Melinda L. Klopp	01-01-20 to 12-31-22
Clerk of the Circuit Court	Tabatha Eblen	01-01-20 to 12-31-22
County Sheriff	David W. Thomas	01-01-20 to 12-31-22
County Recorder	Molly O'Conner	01-01-20 to 12-31-22
President of the Board of County Commissioners	David Bramer Ron Lee	01-01-20 to 12-31-21 01-01-22 to 12-31-22
President of the County Council	Pam Crozier Ray Denning	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 JEFFERSON COUNTY, INDIANA

This report is supplemental to our audit report of Jefferson 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 18, 2022

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COUNTY AUDITOR
JEFFERSON COUNTY

COUNTY AUDITOR
JEFFERSON COUNTY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment appeared in prior Report B53759, entitled *ANNUAL FINANCIAL REPORT*.

Condition and Context

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

Financial Close and Reporting

The County did not have effective internal controls over the financial information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the County's Annual Financial Report (AFR) and financial statement. The internal control was not effective and did not detect and allow correction of errors prior to submission.

Due to the lack of effective internal controls, the AFR presented for audit included the following errors:

1. Several County funds were omitted from the AFR. Most of the funds omitted were funds of the various County offices that were required to be reported to the County Auditor as part of the Supplemental Annual Report (CAR-1).
2. The amounts reported for receipts and disbursements of some funds were incorrect and did not agree to the ledger.

As a result of the errors noted above, the beginning cash and investments balance was understated by \$2,477,484, receipts were understated by \$3,715,665, disbursements were understated by \$4,300,461, and the ending cash and investments balance was understated by \$1,892,688.

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

Disbursements

The County did not have a proper system of internal control over disbursements related to its Self-Insurance Fund. Payments made to the County's third-party administrator for the processing of health insurance claims and payment of related administrative fees did not have a documented review and approval process to ensure the health insurance claims processed were for actual employees of the County.

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
JEFFERSON 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

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

Condition and Context

The County did not properly maintain a complete inventory of capital assets owned. The County had a list of capital assets for each department, but it was not accurately compiled into a Capital Assets Ledger. A complete physical inventory of capital assets had not been taken in the past 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)

ACCOUNTING AND APPROPRIATION OF COVID-19 GRANTS

Condition and Context

The County did not properly account for the COVID-19 - Coronavirus Relief Fund (CRF) in accordance with the options outlined in State Examiner Directive 2020-3 (Directive).

COUNTY AUDITOR
JEFFERSON COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

The County did not properly establish a separate CARES grant fund for the CRF grant that followed the uniform chart of accounts. The County established fund 8200 - COVID CARES Act instead of following the *Accounting and Appropriation of COVID-19 Grants* memo dated April 29, 2020, which indicated the County could utilize any fund number between 8901-8925. The name of this fund as reported in the financial statement is OCRA Covid-19 Grant fund.

The County did not follow one of the two defined options as outlined in the Directive for its payroll related expenditures. The County did not pass a resolution or ordinance to authorize the public health and safety payroll costs reimbursement to be moved by claim from the CARES fund to the General fund. The public health and safety payroll costs reimbursement of \$977,857 was receipted into the COVID CARES Act fund on November 23, 2020. The payroll reimbursement remained in the COVID CARES Act fund and covered non-payroll related expenditures not submitted to the Indiana Finance Authority (IFA) for reimbursement, totaling \$283,405, which was paid from the COVID CARES Act fund without appropriation after the Directive was issued.

The COVID CARES Act fund had a cash and investments balance of \$694,452 on December 31, 2020. This was subsequently corrected on March 12, 2021, when the County claimed the balance to the General fund. This was done without the passage of an ordinance or resolution as required by the Directive.

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
JEFFERSON 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. . . .**

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)

COUNTY AUDITOR
JEFFERSON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on March 18, 2022, with Heather Huff, County Auditor; Ron Lee, President of the Board of County Commissioners; Ray Denning, President of the County Council; and Judy L. Smith, County Council member.

COUNTY TREASURER
JEFFERSON COUNTY

COUNTY TREASURER
JEFFERSON COUNTY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Report B53759, entitled *FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

The County Treasurer did not have a proper system of internal control in place over financial transactions and reporting to prevent, detect, and correct errors in cash and investments. The County Treasurer had not established internal controls to ensure monthly bank reconciliations were complete and accurate and to ensure financial activity was accurately recorded in the County Treasurer's Cash Book and reported.

The following deficiencies were identified:

1. Monthly bank reconciliations were not performed for the self-insurance depository account. Bank reconciliations were performed for the other depository accounts; however, the reconciliations contained numerous errors and the incorrect balance was used to reconcile. On December 31, 2020, a cash short difference of \$49,474 existed between the depository account balance and the record balance.
2. Several errors were identified with the activity recorded in the County Treasurer's Cash Book. The amount reported for after-settlement collections contained an unidentified variance of negative \$8,745. The monies on hand at the various bank depository accounts did not agree with the total monies on hand for after-settlement collections and the funds ledger balance. An entry was included in the bank depository account of negative \$7,600 in order to force the depository account balances totals to agree with the total fund ledger and after-settlement collections total.
3. The Fund Ledger Cash and Investment Balance per the County Treasurer's Cash Book (control record) was not in agreement with the County Treasurer's detail fund ledger (subsidiary record). On December 31, 2020, the subsidiary record balance was \$1,431,225 less than the control record balance.
4. The County Treasurer's Cash Book reported \$95,463 Investments in Funds; however, per the County Treasurer, the County did not have any investments and information presented for audit did not identify any investments held by the County.
5. The County Treasurer's Monthly Financial Report (Form 47TR) was to be prepared monthly in quadruplicate with one copy retained by the County Treasurer and three copies filed with the County Auditor for transmission to the Board of Finance, Board of County Commissioners, and Indiana State Board of Accounts. The reported deposits in transit and outstanding warrants and interest reported could not be traced to supporting documentation. The balance of all ledger accounts reported was not in agreement with amounts reported on the County Treasurer's Cash Book.
6. The financial data reported by the County Treasurer to the County Auditor on the Supplemental Annual Financial Report (CAR-1 report) was not in agreement with the County Treasurer's Cash Book. The beginning cash and investments balance and disbursements both differed by \$1,052,402, and the receipts and ending cash and investments balance reported both differed by \$934,591.

COUNTY TREASURER
JEFFERSON 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 balances 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)

Indiana Code 5-13-5-1(a) states:

"Every public officer who receives or distributes public funds shall:

- (1) keep a cashbook into which the public officer shall enter daily, by item, all receipts of public funds; and
- (2) balance the cashbook daily to show funds on hand at the close of each day."

The Treasurer's Daily Balance of Cash and Depositories, Form 47, is the record prescribed to enable the treasurer to comply with IC 5-13-5-1. It reflects the daily receipts and disbursements, total amount of cash and investments on hand, and a proof of the financial condition of the office at the close of each day.

The record is designed to be posted "daily", with a separate page for each day. The left side of the page shows the total amount of money for which the treasurer is accountable (charges) and the right side of the page shows the money on deposit invested or on hand (credits), as proof of the financial condition (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 3)

COUNTY TREASURER
JEFFERSON COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

On or before the 16th day of each month the treasurer shall prepare a report showing the financial condition of the office as of the close of business on the last day of the preceding month.

This report shall show the amounts with which the treasurer is chargeable for the various funds and accounts, the amounts with which the treasurer is credited for money on deposit, invested and cash on hand and any long or short at the close of each month. The report also provides space for reconciliation with depositories.

The report shall be prepared in quadruplicate and each copy shall be verified by certificate of the treasurer. The treasurer shall retain one copy as a public record in the office and three copies shall be filed with the county auditor. The county auditor shall file the original of said reports with the records of the county board of finance, one copy shall be presented to the board of county commissioners at its next regular meeting, and the county auditor shall immediately transmit one copy to the State Board of Accounts.

This report has been prescribed by the state board of accounts and designated as Form 47TR. This form is self-explanatory and all of the information required can be obtained from the daily balance of cash and depositories, except for the bank balances shown on the bank statements and the amounts of the outstanding warrants which are obtained from the bank reconcilements. (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 3)

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](#)."

The supplemental annual report forms are submitted by other county offices and departments to be used by the county auditor to provide complete financial information for the annual report by reporting financial activity that is maintained outside of the county auditor's system. The supplemental annual reports are only to be submitted with financial activity that is not eventually accounted for in the county's general ledger system. (The County Bulletin and Uniform Compliance Guidelines, January 2014)

COUNTY TREASURER
JEFFERSON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on March 18, 2022, with Melinda L. Klopp, County Treasurer; Meghan Hoskins, First Deputy Treasurer; Heather Huff, County Auditor; Ron Lee, President of the Board of County Commissioners; Ray Denning, President of the County Council; and Judy L. Smith, County Council member.

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COUNTY SHERIFF
JEFFERSON COUNTY

COUNTY SHERIFF
JEFFERSON COUNTY
AUDIT RESULT AND COMMENT

BANK ACCOUNT RECONCILIATIONS

The same comment appeared in prior Report B53759.

Condition and Context

Monthly depository reconciliations of the fund balances to the bank account balance were not prepared for the Sheriff Inmate Trust fund for the entire audit period. In addition, the inmates' trust accounts were not reconciled to the ledger control during the audit period.

Criteria

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)

COUNTY SHERIFF
JEFFERSON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on March 18, 2022, with David W. Thomas, County Sheriff; Megan Humphrey, Sheriff Administrative Assistant; Heather Huff, County Auditor; Ron Lee, President of the Board of County Commissioners; Ray Denning, President of the County Council; and Judy L. Smith, County Council member.