

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SCOTT COUNTY, INDIANA

January 1, 2021 to December 31, 2021



FILED
09/29/2022

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
County Auditor:	
Audit Result and Comment:	
Capital Assets	6
Exit Conference	7
County Treasurer:	
Audit Result and Comment:	
Internal Controls over Financial Transactions and Reporting - County Treasurer	10-11
Exit Conference	12
County Sheriff:	
Audit Results and Comments:	
Failure to Report Misappropriation of Funds	14
Monthly and Annual Uploads	14-15
Internal Controls over Financial Transactions and Reporting - County Sheriff.....	15-17
Official Response.....	18
Exit Conference	19

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Tammy Stout Johnson	01-01-21 to 12-31-22
County Treasurer	Missy Applegate	01-01-21 to 12-31-22
Clerk of the Circuit Court	Wendy McClain Michelle Shelton	01-01-21 to 02-24-22 02-25-22 to 12-31-22
County Sheriff	Jerry D. Goodin	01-01-21 to 12-31-22
County Recorder	Sheryl Jent	01-01-21 to 12-31-22
President of the Board of County Commissioners	Mike Jones	01-01-21 to 12-31-22
President of the County Council	Rachael Hardin	01-01-21 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF SCOTT COUNTY, INDIANA

This report is supplemental to our audit report of Scott County (County), for the period from January 1, 2021 to December 31, 2021. 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

September 15, 2022

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COUNTY AUDITOR
SCOTT COUNTY

COUNTY AUDITOR
SCOTT COUNTY
AUDIT RESULT AND COMMENT

CAPITAL ASSETS

The same comment also appeared in prior Report B57300.

Condition and Context

The County did not properly maintain capital asset records. Additions and deletions during the audit period had not been properly recorded and a physical inventory had not been taken in the past two years. Some assets listed had been recorded using insurance valuation figures instead of its acquisition value.

On March 17, 2021, the County contracted with a consulting firm to perform the appropriate and necessary services required by the County for meeting the Indiana State Board of Accounts requirements regarding County owned capital assets.

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 Counties of Indiana, Chapter 1)

COUNTY AUDITOR
SCOTT COUNTY
EXIT CONFERENCE

The contents of this report were discussed on September 15, 2022, with Tammy Stout Johnson, County Auditor; Teresa Vannarsdall, Deputy County Auditor; Mike Jones, President of the Board of County Commissioners; Rachael Hardin, President of the County Council; John Lizenby, County Commissioner; Randy Julian, County Commissioner; and Lyndi Hughbanks, County Council member.

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COUNTY TREASURER
SCOTT COUNTY

COUNTY TREASURER
SCOTT COUNTY
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS
AND REPORTING - COUNTY TREASURER**

A similar comment also appeared in the prior Reports B51387, entitled *FINDING 2017-003*; B53295, entitled *FINDING 2018-003*; B55649, entitled *INTERNAL CONTROLS OVER CASH AND INVESTMENTS*; and B57300, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING - COUNTY TREASURER*.

Condition and Context

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

1. The County Treasurer's Daily Balance of Cash and Depositories, Form 47 (Cash Book) was not accurately reconciled to the bank statements on a monthly basis. Internal controls were not effective to ensure that monthly bank reconciliations were accurate, and variances were investigated timely. A review of the December 31, 2021 reconciliation noted the following errors that had not been detected or timely investigated during the reconciliation process:
 - Five ACH payments totaling \$137,877, which did not clear the bank until January 2022, were recorded in the ledger, but were not listed as outstanding reconciling items on the reconciliation.
 - As of December 31, 2021, the total cash and investments, per the Cash Book, indicated a cash (short) necessary to balance of \$48,456. There was no information provided to indicate that the variance was investigated.
2. Three state distributions were not recorded timely. The three distributions were for Auto Rental Excise Tax, Vehicle Sharing Excise Tax, and Watercraft Distributions and were not recorded until 16, 36, and 23 days after the distribution was received, respectively.

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 TREASURER
SCOTT 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 5-13-5-1(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. (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 5)

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."

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)

COUNTY TREASURER
SCOTT COUNTY
EXIT CONFERENCE

The contents of this report were discussed on September 15, 2022, with Missy Applegate, County Treasurer; Tammy Stout Johnson, County Auditor; Teresa Vannarsdall, Deputy County Auditor; Mike Jones, President of the Board of County Commissioners; Rachael Hardin, President of the County Council; John Lizenby, County Commissioner; Randy Julian, County Commissioner; and Lyndi Hughbanks, County Council member.

COUNTY SHERIFF
SCOTT COUNTY

COUNTY SHERIFF
SCOTT COUNTY
AUDIT RESULTS AND COMMENTS

FAILURE TO REPORT MISAPPROPRIATION OF FUNDS

Condition and Context

The County Sheriff Commissary bank account was hacked and \$2,389 was removed from the bank account fraudulently. The County Sheriff Department filed a police report, and the incident was reviewed and documented by the Airport Authority and the FBI. As a result of the investigation, funds were returned to the County Sheriff Commissary bank account in 2022.

The County Sheriff Department did not notify the Indiana State Board of Accounts of the misappropriation of funds.

Criteria

Indiana Code 5-11-1-27(l) states:

"A public officer who has actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds or assets of the public office, including:

- (1) information obtained as a result of a police report;
- (2) an internal audit finding; or
- (3) another source indicating that a misappropriation has occurred;

shall immediately send written notice of the misappropriation to the state board of accounts and the prosecuting attorney serving in the area governed by the political subdivision."

MONTHLY AND ANNUAL UPLOADS

Condition and Context

The County Sheriff did not perform the required monthly and annual engagement document uploads for the audit period.

Criteria

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. . . . Thereafter, annual files must be uploaded no later than March 1st . . . for the prior year end unless the SBOA establishes a different date. . . .

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

For County Clerks, Recorders, and Sheriffs:

- Cash Balance Reports,
- Bank Reconcilements, Bank Statements, and Outstanding Check Lists

COUNTY SHERIFF
SCOTT 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): . . .

- Additionally, for County Sheriff only: Inmate Trust Fund Subsidiary Detail as of December 31 . . .

(Amended 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)

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING - COUNTY SHERIFF

A similar comment also appeared in the prior Reports B53295, entitled *FINDING 2018-004*; B55649, entitled *INTERNAL CONTROLS OVER COMMISSARY AND INMATE TRUST FUNDS*; and B57300, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING - COUNTY SHERIFF*.

Condition and Context

There were several deficiencies in the internal control system of the County Sheriff's Department related to financial transactions and reporting.

Sheriff's Commissary Fund

Internal controls over bank reconcilements were not effective in preventing, or detecting and correcting, errors. A re-creation of the December 31, 2021 bank reconciliation noted a cash short required to balance of \$14,842.

Internal controls over disbursements were not effective in preventing, or detecting and correcting, errors. One item tested from a sample of 34 disbursements did not have any supporting documentation. The monetary error for lack of supporting documentation was projected to the population of the Sheriff's Commissary fund, which resulted in an overall projected misstatement of \$1,911.

A ledger was being maintained to account for the transactions and balances of the Sheriff's Commissary fund, but it was not a prescribed or approved form.

Sheriff's Inmate Trust Fund

Internal controls over bank reconcilements were not effective in preventing, or detecting and correcting, errors. A re-creation of the December 31, 2021 bank reconciliation noted a cash short required to balance of \$4,763.

COUNTY SHERIFF
SCOTT COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Sheriff Evidence Fund

Internal controls were not in place to ensure proper recording of the transactions and balances of the Sheriff Evidence fund. The County Sheriff Department failed to maintain a separate ledger for the fund. Instead of maintaining a ledger, the transaction register attached to the checkbook was being used to record deposits, checks, and current balance.

Internal controls over receipts were not effective in preventing, or detecting and correcting, errors. Five deposits from February 2021 were not recorded in the transaction register as of August 1, 2022.

Internal controls over bank reconciliations were not effective in preventing, or detecting and correcting, errors. A re-creation of the December 31, 2021 bank reconciliation identified five deposits from February which had not been recorded in the Sheriff Evidence fund transaction register. These five items were not identified by the unit during the reconciliation process.

Internal controls over the Supplemental County Annual Report (CAR-1) for the Sheriff Evidence fund were not effective. The County Sheriff Department failed to prepare a CAR-1 report of the transactions and balances of the Sheriff Evidence fund.

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."

COUNTY SHERIFF
SCOTT COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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 5-11-10-1.6 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. . . ."

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

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 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](#)."

OFFICIAL RESPONSE

Date: 09/20/2022

Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: Failure to Report Misappropriation of Funds

*Sheriff's Commissary Bank account was hacked by a computer from outside of the Sheriff's Office. The Sheriff's Office filed a police report, and it was reported to the FBI and the Airport Authority. As a result of the investigation all funds were returned to the Sheriff's Office. The listed finding is not appropriate for the title given. There was no misappropriation of funds by any of the Sheriff's Office Employees. The violation was a failure to report the stolen and returned funds to the SBOA only which should be how it is listed. All other entities received notification. No monies are missing.

Jerry D. Goodin
Sheriff Scott County Sheriff's Office

COUNTY SHERIFF
SCOTT COUNTY
EXIT CONFERENCE

The contents of this report were discussed on September 15, 2022, with Jerry D. Goodin, County Sheriff; Amy Beverly, County Sheriff Department Chief Financial Officer; Patti Combs, County Sheriff Department Chief of Internal Operations; Tammy Stout Johnson, County Auditor; Teresa Vannarsdall, Deputy County Auditor; Mike Jones, President of the Board of County Commissioners; Rachael Hardin, President of the County Council; John Lizenby, County Commissioner; Randy Julian, County Commissioner; and Lyndi Hughbanks, County Council member.