

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

STARKE COUNTY, INDIANA

January 1, 2021 to December 31, 2021



FILED
12/20/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Rachel Oesterreich	01-01-21 to 12-31-22
County Treasurer	Lauri Venckus	01-01-21 to 12-31-22
Clerk of the Circuit Court	Bernadette Manuel	01-01-21 to 12-31-22
County Sheriff	William Dulin	01-01-21 to 12-31-22
County Recorder	Mandy Thomason	01-01-21 to 12-31-22
President of the Board of County Commissioners	Charlie Chesak	01-01-21 to 12-31-22
President of the County Council	Dave Pearman	01-01-21 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF STARKE COUNTY, INDIANA

This report is supplemental to our audit report of Starke 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

November 28, 2022

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COUNTY AUDITOR
STARKE COUNTY

COUNTY AUDITOR
STARKE COUNTY
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT - OTHER INFORMATION

Condition and Context

Financial and supplementary information are required to be reported annually on the Indiana Gateway for Government Units financial reporting system. The County was not in compliance as follows:

Schedule of Leases and Debt

The lease with the Starke County Building Corporation was not properly classified as a lease. This resulted in the overstatement of the debt information and the understatement of the County's outstanding leases. Adjustments were proposed, accepted by the County, and made to the Schedule of Leases and Debt presented in the Financial Statement Audit Report.

Schedule of Payables and Receivables

The County provided supporting documentation for the reported accounts payable amount. However, supporting documentation for the reported accounts receivable amount was not provided, and the County approved the omission of the accounts receivable amount from the Schedule of Payables and Receivables.

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](#)."

MOTOR VEHICLE HIGHWAY (MVH) RESTRICTED EXPENDITURES

The same comment appeared in the prior Report B57621.

Condition and Context

The County created a Motor Vehicle Highway (MVH) Restricted sub-fund within the Highway Department (MVH Fund) fund and posted 50 percent of the state motor vehicle highway distributions to the sub-fund as required. The MVH Restricted sub-fund is to be used exclusively for the construction, reconstruction, and preservation of the County's highways.

The County paid for maintenance repairs, drug testing, linen and towel cleaning services, and payroll for maintenance work such as mowing and a mechanic's compensation. These expenditures were not for the construction, reconstruction, and preservation of the County's highways.

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."

COUNTY AUDITOR
STARKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

CARES ACT FUND

The same comment appeared in the prior Report B57621.

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.

As of December 31, 2020, the CARES Act fund had a balance of \$41,446. The balance should have been claimed to the Co General fund, which would have resulted in zero balance in the CARES Act fund, and allowed the money to be expended for any general unit purpose.

During 2021, the County spent \$32,427 from the unappropriated CARES Act fund for "comp time" for administering shots at the clinic and supplies. As of December 31, 2021, the remaining cash balance of the fund was \$3,469. The balance remains as of November 8, 2022, and should immediately be claimed to the Co General fund which would allow it to be used for any general unit purpose.

Criteria

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.

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. . . .

COUNTY AUDITOR
STARKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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)

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

Indiana Code 36-2-5-2(b) states: "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."

COUNTY AUDITOR
STARKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on November 28, 2022, with Rachel Oesterreich, County Auditor; Dave Pearman, President of the County Council; Charlie Chesak, President of the Board of County Commissioners; and William Dulin, County Sheriff.

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COUNTY TREASURER
STARKE COUNTY

COUNTY TREASURER
STARKE COUNTY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING - TREASURER

The same comment appeared in the prior Reports B55643 and B57621.

Condition and Context

There were several deficiencies in the internal control system of the County Treasurer related to financial transactions and reporting. There was a lack of segregation of duties as the County Treasurer had not separated incompatible activities related to cash and investments, receipts, and financial reporting. There were no documented internal controls to ensure the accuracy and timeliness of the recordkeeping and reporting functions.

Cash and Investments

The County Treasurer performed the monthly reconciliations of the accounting records balance to the bank depository balances without an oversight or review process in place to ensure their accuracy and timeliness. As of December 31, 2021, the adjusted bank balance was \$136,104 greater than the funds ledger balance. The financial statement was not adjusted for these variances.

Receipts

The County Treasurer stated that a process of review and oversight over receipts to ensure the accuracy, completeness, timeliness, and classification of the receipts posted had been designed. However, implementation of the process could not be verified.

Financial Reporting

The County Treasurer failed to design an internal control process to ensure the Treasurer fund was properly reported in the County's financial statement. The County Treasurer failed to prepare and submit a Supplemental Annual Report (SAR) to the County Auditor. This information was required to be submitted as part of the County's Annual Financial Report into the Indiana Gateway for Government Units financial reporting system, which was the source for the County's financial statement.

The County Auditor obtained the after-settlement collections amount from the Treasurer's bank reconciliation, and reported it as the Treasurer fund's receipts and ending cash and investments balance in the financial statement due to the County Treasurer not submitting the SAR.

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
STARKE 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](#)."

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."

DAILY DEPOSITS

Condition and Context

Daily deposits were not being completed in the County Treasurer's Office.

A test for the timeliness of deposit of the property tax collections from November 22 through December 31, 2021, was conducted. Four of the five days tested, or 80 percent, of property tax collections tested were not deposited timely as required by state statute. The deposits were between two and eight days after collection.

Criteria

Indiana Code 5-13-6-1(c) states in part:

". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

COUNTY TREASURER
STARKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on November 28, 2022, with Lauri Venckus, County Treasurer; Rachel Oesterreich, County Auditor; Dave Pearman, President of the County Council; Charlie Chesak, President of the Board of County Commissioners; and William Dulin, County Sheriff.

CLERK OF THE CIRCUIT COURT
STARKE COUNTY

CLERK OF THE CIRCUIT COURT
STARKE COUNTY
AUDIT RESULTS AND COMMENTS

FINANCIAL REPORTING - CLERK

A similar comment also appeared in prior Report B57621, entitled *FINANCIAL TRANSACTIONS AND REPORTING - CLERK*.

Condition and Context

There were deficiencies in the internal control system of the Clerk of the Circuit Court's (Clerk) office related to financial reporting.

The Clerk did not have an effective internal control system over financial reporting to ensure the preparation of accurate and complete financial reports to be included in the County's Annual Financial Report and financial statement. The Supplemental Annual Report information submitted to the County Auditor for inclusion in the County's financial statement overstated the Clerk ISETS fund beginning cash and investments balance by \$70,648, receipts by \$72,269, and ending cash and investments balance by \$142,917.

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. . . ."

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](#)."

CLERK OF THE CIRCUIT COURT
STARKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

CLERK'S TRUST ITEMS

The same comment appeared in the prior Report B57621.

Condition and Context

The Clerk 's office had \$493,680 held in trust on December 31, 2021. Of the 25 trust items tested, 16, or 64 percent, were determined to not have been properly distributed. These trust items had orders to distribute, which had not occurred.

There were 13 checks totaling \$5,054 that were five years old or more listed as outstanding on the December 31, 2021, depository reconciliation.

Criteria

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 Clerks of the Circuit Courts of Indiana, Chapter 1)

In order to eliminate old outstanding checks from the records, perform the following:

1. Consider the costs and benefits of issuing a formal stop payment order to the bank upon which each check is drawn. A stop payment is not required but may be paid for as an expense of the county when the clerk considers it prudent based on the risk of loss.
2. If the check was for child support, follow the procedures established to enter the check into ISETS. For all other checks, enter the amount of each check as a receipt in the cash book. Post the respective amounts to the trust column of the cash book and enter each amount in the name of the payee in the register of trust.
3. Since the checks have never cleared the bank, the amount is still on deposit. Therefore, when all such checks are charged to the records and reinstated in the trust register or ISETS, the original check numbers will be eliminated as outstanding in the next reconciliation with the bank.
4. If, at the time such checks are restored to the records, (ten years for child support checks) the original dates indicate the checks have been outstanding for at least five years, they should be paid over to the Attorney General immediately. The original date should be shown in the register of trust or on ISETS. If the checks are not old enough to be collected by the Attorney General they should be held until the proper time period has elapsed.

The entry in the cash book, for non-child support outstanding checks, should be:

"Old Outstanding Check No. _____ issued _____ (date) _____, to _____(Name) ," and extend the amounts to the total and trust fund columns. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 9)

CLERK OF THE CIRCUIT COURT
STARKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on November 28, 2022, with Bernadette Manuel, Clerk of the Circuit Court; Rachel Oesterreich, County Auditor; Dave Pearman, President of the County Council; Charlie Chesak, President of the Board of County Commissioners; and William Dulin, County Sheriff.