

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

BROWN COUNTY, INDIANA

January 1, 2021 to December 31, 2021



FILED

07/05/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Julia Reeves	01-01-21 to 12-31-23
County Treasurer	Andrea A. Bond	01-01-21 to 12-31-23
Clerk of the Circuit Court	Kathy Smith Pearlette Banks	01-01-21 to 12-31-22 01-01-23 to 12-31-23
County Sheriff	Scott Southerland Brad Stogsdill	01-01-21 to 12-31-22 01-01-23 to 12-31-23
County Recorder	Mary E. Smith	01-01-21 to 12-31-23
President of the Board of County Commissioners	Jerry L. Pittman	01-01-21 to 12-31-23
President of the County Council	Gary Huett	01-01-21 to 12-31-23



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of Brown 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

June 22, 2023

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COUNTY AUDITOR
BROWN COUNTY

COUNTY AUDITOR
BROWN COUNTY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL CLOSE AND REPORTING AND DISBURSEMENTS

A similar comment also appeared in prior Report B58927, entitled *FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

Internal control activities should be selected and developed at various levels to reduce risks of error and/or fraud within financial close and reporting and disbursements.

Financial Close and Reporting

The County developed an internal control that the Bookkeeper enters the information into the Annual Financial Report (AFR) and the County Auditor reviews and certifies the AFR; however, there was no documentation or other evidence that the review occurred. The failure to establish the internal control enabled material misstatements to remain undetected.

The supplemental annual financial reports were not included in the submission of the AFR resulting in an understatement of beginning cash and investments balances, receipts, disbursements, and ending cash and investments balances of \$975,206, \$2,230,395, \$2,296,947, and \$908,654, respectively.

Adjustments were proposed, accepted by the County, and made to the financial statement presented in the Financial Statement Audit Report and to the combining schedule presented as Required Supplementary Information.

Disbursements

The County did not have a proper system of internal control over disbursements related to its self-insurance for healthcare benefits. 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. In addition, the County did not receive supporting documentation to adequately support the health insurance claims.

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. . . .

COUNTY AUDITOR
BROWN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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](#)."

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)

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 Counties of Indiana, Chapter 1)

ORDINANCES AND RESOLUTIONS AND FUND SOURCES AND USES

Condition and Context

The County adopted Ordinance 2021-07-19-001 (Ordinance) to obtain a loan in the amount of \$3,000,000 to be used for the capital improvements. Capital expenditures are considered those that are used to improve property, such as buildings or infrastructure. The County utilized \$735,767 of the loan proceeds to pay expenses related to hospital ambulance contracts, which did not qualify as capital improvements and did not meet the purpose of the Ordinance as adopted, and, therefore, were not allowable uses of the funds.

Criteria

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)

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

COUNTY AUDITOR
BROWN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

OVERDRAWN CASH BALANCES

Condition and Context

The following non-grant funds had an overdrawn cash balance at December 31, 2021:

Fund	Amount Overdrawn
Surplus Tax	\$ 1,726
Payroll	27,465
Health Ins Trust Fund	606,294

Criteria

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

CAPITAL ASSETS

The same comment also appeared in prior Report B58927.

Condition and Context

The County did not maintain a complete detailed listing of capital assets. Asset records presented contained some of the County's Assets, but it did not include any additions or deletions for the current audit period. Additionally, the County had not completed a physical inventory within 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)

PENALTIES, INTEREST, AND OTHER CHARGES

Condition and Context

The County was assessed a late filing fee by the Internal Revenue Service (IRS) in the amount of \$6,800. A letter detailing the filing fee was sent on September 21, 2020, with a follow-up letter sent on December 15, 2020, after the fee was disputed by the County. The County ultimately did not pay the fee until November 5, 2021. Since payment was not made in a timely fashion, the IRS assessed an additional \$135 in interest, resulting in total penalties and interest of \$6,935.

COUNTY AUDITOR
BROWN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

TRANSFERS

Condition and Context

Multiple issues were identified during a test of transfers. One transfer was receipted into the incorrect fund. Also, 9 of 23 transfers tested were missing the proper documentation to support the reason for the transfer. Several transfers were not included on the financial statement classified as transfers. Additionally, the County's ledger indicated that transfers made during the audit period totaled \$2,734,637. However, the financial statement reported total transfers of only \$2,001,594.

Criteria

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 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 Counties of Indiana, Chapter 1)

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 ledger, 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 5-11-1-4(a) states:

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COUNTY AUDITOR
BROWN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on June 22, 2023, with Julia Reeves, County Auditor; Andrea A. Bond, County Treasurer; Jerry L. Pittman, President of the Board of County Commissioners; and Gary Huett, President of the County Council.

COUNTY TREASURER
BROWN COUNTY

COUNTY TREASURER
BROWN COUNTY
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS OVER RECEIPTS

Condition and Context

The County Treasurer did not have an internal control in place over the receipting and depositing process that could be observed or inspected. There was no evidence of an oversight, review, or approval process to ensure the accuracy of the of the receipts and deposits.

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
BROWN COUNTY
EXIT CONFERENCE

The contents of this report were discussed June 22, 2023, with Julia Reeves, County Auditor; Andrea A. Bond, County Treasurer; Jerry L. Pittman, President of the Board of County Commissioners; and Gary Huett, President of the County Council.