

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

BROWN COUNTY, INDIANA

January 1, 2022 to December 31, 2022



FILED
07/07/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Julia Reeves	01-01-22 to 12-31-23
County Treasurer	Andrea A. Bond	01-01-22 to 12-31-23
Clerk of the Circuit Court	Kathy Smith Pearlette Banks	01-01-22 to 12-31-22 01-01-23 to 12-31-23
County Sheriff	Scott Southerland Brad Stogsdill	01-01-22 to 12-31-22 01-01-23 to 12-31-23
County Recorder	Mary E. Smith	01-01-22 to 12-31-23
President of the Board of County Commissioners	Jerry L. Pittman	01-01-22 to 12-31-23
President of the County Council	Gary Huett	01-01-22 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, 2022 to December 31, 2022. 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

TIMELY RECORDING

Condition and Context

Testing of state and local distributions indicated that there were multiple instances in which receipts were not recorded in the correct accounting period. Two state distributions received in 2021, totaling \$50,323, were not recorded until 2022. Additionally, three state distributions received in 2022, totaling \$52,922, were not recorded until 2023. Also, the December 2022 local distributions for property and excise taxes, totaling \$2,446,983, were not recorded until 2023.

Criteria

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)

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 investment balances, receipts, disbursements, and ending cash and investment balances of \$907,899, \$1,963,256, \$1,943,753, and \$927,402, respectively.

The County failed to properly review the federal grant information prepared and submitted into the Indiana Gateway for Government Units (Gateway) financial reporting system. Although the Deputy County Auditor compiled and entered the federal award information into Gateway, and the County Auditor reviewed and submitted the information entered, the internal control was not effective and did not detect and allow correction of errors prior to submission.

Due to the lack of internal controls, the grant information presented for audit included the following errors:

1. The COVID-19 - Coronavirus State and Local Fiscal Recovery Funds grant was omitted, which understated expenditures by \$1,123,178.
2. The Community Development Block Grants/State's program and Non Entitlement Grants in Hawaii grant was omitted, which understated expenditures by \$600,000.

COUNTY AUDITOR
BROWN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

3. The Child Support Enforcement grant expenditures were understated by \$189,935.
4. The BRIC: Building Resilient Infrastructure and Communities grant was omitted, which understated expenditures by \$56,000.
5. Nine additional immaterial grants were omitted, which understated expenditures by \$187,503.
6. Four additional grants had individually immaterial errors that resulted in misstatements of expenditures of \$58,530, in total.
7. Grant expenditures for two grants were incorrectly reported as passed through to sub-recipients. The total amount reported incorrectly as passed through was \$89,457.
8. Other errors included incorrect program names and identifying numbers.

The County failed to present two leases totaling \$560,000 on the leases schedule submitted as part of the AFR in Gateway.

Adjustments were proposed, accepted by the County, and made to the financial statement presented in the Financial Statement Audit Report and to the Schedule of Leases and Debt presented as Other Information. Additionally, adjustments were proposed, accepted by the County, and made to the Schedule of Expenditures of Federal Awards presented in the Federal Compliance Audit Report.

Disbursements

The County did not have a proper system of internal controls 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.

COUNTY AUDITOR
BROWN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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 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)

OVERDRAWN CASH BALANCES

Condition and Context

The Health Ins Trust Fund had an overdrawn cash balance of \$586,253 at December 31, 2022.

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)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The County certified for 2022 on the Indiana Gateway for Government Units financial reporting system that all personnel defined by Indiana Code 5-11-1-27(c) had received training concerning the internal control standards adopted by the County; however, during the engagement, the County indicated that all personnel had not received training concerning the internal control standards.

COUNTY AUDITOR
BROWN COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity financial report 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](#)."

TRANSFERS

Condition and Context

A test of transfers indicated that 11 of 18 transfers did not have proper documentation to support the reason for the transfer.

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 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)

CAPITAL ASSETS

A similar comment also appeared in prior Report B58927, entitled *CAPITAL ASSETS*.

Condition and Context

The County did not maintain a complete detailed listing of capital assets. Asset records presented contained some of the County's asset information. Construction in Progress was the only asset class with information reported, a reduction of \$3,808,940, and this amount was not transferred to any other asset class. 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)

COUNTY AUDITOR
BROWN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on June 22, 2023, 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 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:

"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. . . ."

COUNTY TREASURER
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.

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BOARD OF COUNTY COMMISSIONERS
BROWN COUNTY

BOARD OF COUNTY COMMISSIONERS
BROWN COUNTY
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

County employees whose official duties included receiving, processing, depositing, disbursing, or otherwise having access to funds that belonged to the County, had not received training over internal control standards that was developed or approved by the Indiana State Board of Accounts.

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
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.