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Monroe County
100 W. Kirkwood Avenue
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Monroe Officials:

We have performed the procedures in which we had previously agreed upon, to reconcile the Treasurer's Cash Book to the corresponding bank accounts for the period January 1, 2012 to December 31, 2014. Our completion of the December 31, 2014 reconciliation indicated a cash necessary to balance of \$41.93. As you will note on the attached reconciliation, there were several errors on the Cash Book that have been identified and should be corrected going forward.

We have also conducted a review of accounting procedures within the office to ensure that proper cash reconciliations can be prepared in the future. During our review we have identified several procedures that need to be changed in order to successfully complete future reconciliations. A list of those findings have been attached for your review.

We did not audit any statements or annual reports as those services are provided by the State Board of Accounts.

If you have any questions, please call Mike Williams, Partner at 812-227-8075.

Sincerely yours,

Michael E. Williams

Michael E. Williams, CPA
Partner

Enclosure

Finding 1:

Bank Account Information Not Correct for Some Transactions Generated by Auditor's Office

The county's various bank accounts are assigned separate identifying codes within the Harris Open Windows accounting software (generally referred to as simply Harris by county employees). Each transaction recorded includes a bank code data field which defaults to FFB 01, the Operating account. The user must change the code for any entries relating to one of the other bank accounts. This practice was not followed throughout the period of the engagement, January 1, 2012 to December 31, 2014. Since the majority of transactions recorded in the Auditor's modules of Harris import directly into the Treasurer's module, the incorrect bank balance was then used by the Treasurer's office for reconciling purposes.

Recommendation:

Procedures should be in place to ensure the correct bank code field has been designated before finalizing any transaction generated within the Auditor's office.

Status:

At a meeting held March 12, 2015, County Auditor Steve Saulter stated procedures had been implemented in February 2015 to ensure the correct bank code is reflected for transactions originated from his office.

Finding 2:

Old Outstanding Checks

Indiana statute calls for outstanding checks to be void on December 31 of the year in which they remained outstanding for two years. In order to meet this requirement, the Auditor's office has followed the practice of issuing a quietus to receipt the amount of each such check back to the fund from which it was issued. While this action does increase the cash balance of the fund, the check remains outstanding within the Harris system. In order to remove the check from the list of outstanding items, the Treasurer's office must record it as a "cleared" check which resulted in the cleared transactions report not agreeing with the amount actually cleared by the bank.

Recommendation:

It is recommended that rather than issuing a quietus, the old outstanding checks be voided in the Auditor's modules of Harris. It is also recommended that the voided transaction be generated as a separate batch from other transactions and adequate supporting documentation be maintained for the batch. The void transaction will import into the Treasurer's portion of Harris thereby removing the check from the outstanding list and reducing the risk of differences between the Auditor and Treasurer's modules.

Status:

No changes in procedures have been made to date.

Finding 3:

Import of Payroll Transactions from Payroll Module to General Ledger Module

Settings in the Harris software allow information from the Payroll module to interface with and directly post payroll activity in the General Ledger module; both of which are used by the Auditor's office. It was discovered that these settings were not activated for some transactions during the period of the engagement. Manual entries were necessary to reflect payroll activity in the General Ledger resulting in a number of errors which went undetected.

Recommendation:

It is recommended that the Auditor's office work in conjunction with the software vendor to ensure that all settings which lead to the interface of Payroll and General Ledger modules are activated and remain in force at all times. The individual generating payroll transactions should not have the ability to make changes to these settings.

Status:

We do not have Administrator access to the Harris software; therefore we cannot confirm the current status of the settings.

Finding 4:

Voiding of Payroll Checks Issued to Replace Failed Direct Deposit Transactions

When a direct deposit transaction for an individual employee cannot be completed due to a closed bank account or incorrect routing number, it is returned by the bank as a credit to the Payroll bank account. In order to compensate the employee for wages due to them, the Auditor's office issues a payroll check. This means the net pay has been posted twice- once for the original direct deposit and once as a payroll check. To correct this duplicated disbursement, the Auditor's office voids the payroll check. Although this returns the Auditor's fund balance to the correct amount, it causes potential problems in the reconciling process. The check information which imports to the Treasurer's module reflects a valid check as voided. When paid by the bank, the check cannot be shown as cleared in the Treasurer's module nor is it reflected on the outstanding listing until paid.

Recommendation:

It is recommended that instead of voiding a valid check, a correcting entry be done for the amount of the direct deposit payment which was not actually made. The description of the entry and the supporting documentation should clearly explain the reason for the entry and refer to the check issued to serve as the employee's compensation.

Status:

Per a telephone conversation with the Auditor's payroll clerk on September 3, 2015, payroll checks issued to replace incomplete direct deposit transactions were continuing to be voided in the Auditor's software modules.

Finding 5:

ACH Vendor Payments Not Imported between Harris Modules

The Auditor's Accounts Payable module in the Harris software allows for disbursement entries to be made without printing a check. This type of entry is used for ACH transactions for which the Auditor's office generates disbursement postings in Harris. The Treasurer's office generates the payment on the online banking site which requires approval by two persons to be a valid transaction. When a physical check is not created, the Harris software is not capable of importing the transactions from the Auditor's modules to the Treasurer module necessitating manual posting by the Treasurer's office. These procedures and software protocols led to various errors including incorrect posted amounts, posting dates differing from the date actually generated by the Auditor's office, and failure to post some items.

A Harris representative confirmed in February 2015 that the transactions do not import between the modules and that manual posting by the Treasurer is the only option available. He indicated that he believed there were future plans for a programming change to provide for an import feature for all disbursement transactions.

Recommendation:

It is recommended that procedures over ACH transactions be put in place to provide for accurate posting and greater segregation of duties. It is recommended that an individual from the Auditor's office be designated on the online banking site to initiate ACH payments (similar to the printing of a check). Likewise, an individual from the Treasurer's office should be designated on the online banking site to approve the transaction after reviewing supporting documentation provided by the Auditor (similar to the Treasurer's counter-signing of checks). Procedures should ensure that the Auditor's office provide to the Treasurer, in a timely manner, supporting documentation for the ACH in order that the Treasurer's office may review the documents and the accuracy of the ACH prior to approval in order to result in timely and correct payment. The

Treasurer should then enter the transaction into the Harris Treasurer's module as of the date it was posted by the Auditor's office.

It is also recommended that the county follow up with the software vendor to request a programming change which results in the complete interface between all modules for all transactions.

Status:

The above recommendations have not yet been implemented.

Finding 6:

Failure to Post Late Penalty Paid on State Withholding Taxes

Payment of state taxes withheld from employees for the pay date of October 18, 2013 was not made until December 4, 2013. On that date, the person in the Auditor's office designated to access the State of Indiana's INTAX portal entered the taxes withheld and approved payment from the county's Payroll bank account. The INTAX site assessed a penalty of \$3,621.36 which was included in the payment approved. The penalty was not posted to the Auditor's ledger.

Although no other payments of late penalties were noted, similar procedures were in use for the payment of federal withholding, FICA, and PERF as the Auditor's office accessed portals designed for reporting and payment of these obligations.

Recommendation:

We recommend that procedures be implemented to provide greater segregation of duties and proper controls for these payments. In the absence of a two-person approval process for these portals, procedures for the Treasurer's approval prior to payment should be designed. A suggested method is to provide a printed copy of the portal's payment screen to the Treasurer along with supporting documents. The Treasurer's signature on this printed copy could be used as evidence of review and approval of the payment.

Status:

The above recommendations have not yet been implemented.

Finding 7:

Check Issued for Bank Service Charges

The First Financial Bank Operating account assesses bank service charges in the form of account analysis fees which are directly debited from the account. In order to reflect the fees in the Auditor's fund ledgers, the Auditor's office issued a check made out to Monroe County Treasurer. The check was then given to the Treasurer and is currently being held and not cashed in that office, but was shown as cleared in the Harris Treasurer's module in order to remove it from the outstanding check listing. The other option to clear the check from the outstanding list was to deposit the check to the same bank account it was written from. Either action results in a lack of agreement between the computerized records, Cash Book, and bank statements.

Recommendation:

We recommend that bank fees be recorded as a disbursement transaction on a monthly basis using the Harris option of not printing a check. This will accurately reflect the expense in both the Auditor's and Treasurer's records.

Status:

Another check was issued in February 2015 for 2014 bank service fees. It is also being held and not cashed in the Treasurer's office. No entries to reflect 2015 bank fees have been made to date.

Finding 8:

Adjustments to Treasurer's Cash Book Not Sufficiently Documented

In several instances in 2013, adjustments were made to the cash book with no explanation provided. Most often these adjustments affected the line for Advanced Collection of Taxes. Upon further review it was determined that these adjustments were in most cases related to the timing of the credit card payments received. Due to the delay in processing of credit cards in the Treasurer's Office and with the delay in bank processing these payments, there would often be additions and subtractions for credit card payments on the cash book. It took weeks of research by the Treasurer to determine the reason for each adjustment, most of which occurred in April and May of 2013.

Recommendation:

It is recommended that credit card payments be processed in a timely manner and recorded on the cash book once received. There should be very little need for adjustments and if necessary those should be documented with a detailed explanation.

Status:

The Treasurer's Office is no longer making adjustments on the cash book for credit cards. Credit cards are generally being processed timely thus eliminating the need for adjustments. If an adjustment is necessary to move funds from one line to another or if an item

returned by the bank for insufficient funds is to be recorded, notes are most often found on that day's cash book explaining what occurred.

Finding 9:

Adjustments Made to Treasurer's Cash Book in Error

Adjustments which could not be explained were made to some balances in the cash book. We were unable to determine the reasoning for the adjustments and consequently asked the Treasurer's Office to review them. Upon further research it was determined that these adjustments were made in error. The net amount of these adjustments as of December 31, 2014 was \$126,681.67. These errors resulted in the cash book to be overstated by this amount as compared to the bank balance.

Recommendation:

As stated above in Finding 8, it is recommended that very few adjustments be made to the balances on the cash book that do not reflect the day's collections. If an adjustment is deemed necessary (such as an NSF payment), it should be properly documented on that day's cash book.

Status:

Most errors occurred in 2013; only one error was noted on the cash book in 2014. These errors have been discussed with the Treasurer's Office in hopes that similar errors do not occur again.

Finding 10:

Changes to Form 47 Daily Balance of Cash and Depositories (Treasurer's Cash Book)

During the period under review, it was noted that lines were added to the cash book to keep particular funds separate from other sources. This is a State prescribed form therefore it should not be altered. Examples of lines added are Adjustments to Advance Collection of Taxes and Residual Excise. There were no reports or detail listings available to support these added lines.

Recommendation:

Each line on the cash book should have a corresponding report or detail listing that supports the balance of the line. If a line item requires further explanation to explain its composition, we recommend that a separate spreadsheet be used to provide detail of the cash book line item balance. It is recommended that all extra lines on the cash book be removed, and that the form be restored to the prescribed format.

Status:

No changes in this procedure have been made to date.

Finding 11:

Backdating of “On-Time” Tax Payments

A review of daily tax collections revealed that many payments were backdated to the tax due dates for a period of 7 to 10 days following the deadline. This was done in order to avoid assessment late penalties by the tax software to “on-time” tax payments. Some of these payments were received on time, but were not able to be processed by the due date because of the volume of payments received during “tax time”. Others were received after the due date, but reflected a postmark date prior to or on the tax due date making them “on-time”. Both types of payments were actually recorded in the tax system after the tax deadline, but processed in backdated batches. This created much confusion as the cash book for the tax deadline day was continually changed for the period it took to get all “on-time” tax payments entered. The backdating also affected the daily cash book for each of the 7 to 10 days following the tax deadline. Additionally, the tax system software reports supporting tax collections in the cash book had to be reprinted for each day on which a backdated payment occurred in order to support the changes on the cash book.

Recommendation:

It is recommended that all payments be recorded in the cash book and tax software on the date they are actually processed. It is recommended that all payments received by the deadline are processed on that date whenever possible. When payment volume or postal delivery time does not allow entry by the deadline, a procedure for removing any penalties assigned by the system should be implemented. The Treasurer’s cash book, as well as tax software reports should not require updating or reprinting for activity occurring after the date they represent.

Status:

Our recommendation to cease backdating payments was expressed to the Treasurer’s office early in the engagement. To our knowledge the Treasurer’s office is no longer backdating payments on the cash book or in their software. We have been informed that the new tax software has features which have resolved this issue.

Finding 12:

Coordination of Information Between County Auditor and Treasurer Offices

A deficit in sharing of information and handling of transactions between these offices was noted throughout the engagement. Issues regarding permissions and access levels in the Harris system arose numerous times. Some transactions were generated with insufficient consideration of the impact or end result to other software modules, reports, and required duties.

Recommendation:

We recommend that procedures be designed and implemented to increase the timeliness and extent of information sharing between the offices of County Auditor and County Treasurer. This is especially true of non-routine transactions which arise in the course of county business. An effort should be made to cause all county records to reflect activity in a manner which most closely represents the flow of transactions through the county's bank accounts. Documentation for all transactions should be carefully documented to provide ample explanation to all officials and employees involved, as well as for others reviewing the information as public records.

It is also our recommendation that the software vendor be consulted regarding detailed assistance in setting up software permissions and access, as well as determining the individual(s) best suited to serve as administrators over this function.

Status:

Conversations held throughout the course of our engagement revealed a desire for increased communication that will improve upon and better serve the needs of both offices in performing their specific duties and serving the public.