

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

STARKE COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
08/08/2014

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
County Auditor:	
Federal Findings:	
Finding 2013-001 - Internal Controls Over the Schedule of Expenditures of Federal Awards	6
Finding 2013-002 - Internal Control Over Compliance Requirements That Have a Direct and Material Effect to Davis-Bacon	6-7
Corrective Action Plan	8-9
Audit Results and Comments:	
Overdrawn Cash Balances	10
Compensation and Benefits	10
Appropriations	10
Exit Conference	11
County Commissioners:	
Federal Finding:	
Finding 2013-001 - Internal Controls Over the Schedule of Expenditures of Federal Awards	14
Corrective Action Plan	15
Audit Result and Comment:	
Public Purchases	16
Exit Conference	17

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Katherine Chaffins	01-01-11 to 12-31-14
Treasurer	Kasey Clark	01-01-13 to 12-31-16
Clerk	Evelyn A. Skronski	01-01-11 to 12-31-14
Sheriff	Oscar O. Cowen	01-01-11 to 12-31-14
Recorder	Lisa Minix	01-01-11 to 12-31-14
President of the Board of County Commissioners	Kathryn Norem Jennifer Davis	01-01-13 to 12-31-13 01-01-14 to 12-31-14
President of the County Council	Dave Pearman	01-01-13 to 12-31-14



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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, 2013 to December 31, 2013. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the County. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the County, which provides our opinions on the County's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

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 Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

July 2, 2014

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COUNTY AUDITOR
STARKE COUNTY

COUNTY AUDITOR
STARKE COUNTY
FEDERAL FINDINGS

***FINDING 2013-001 - INTERNAL CONTROL OVER THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

We noted deficiencies in the internal control system of the County related to the preparation of the Schedule of Expenditures of Federal Awards. We believe the following deficiencies constitute material weaknesses:

1. Preparing the Schedule of Expenditures of Federal Awards (SEFA): Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the County's SEFA and then determining how those identified risks should be managed. The County has not identified risks to the preparation of a reliable SEFA, and as a result, has failed to design effective controls over the preparation of the SEFA to prevent, or detect and correct, material misstatements. The Auditor was solely responsible for preparation of the SEFA. There was no segregation of duties, including no oversight, review, or approval process.
2. Monitoring of Controls: Effective internal control over financial reporting requires the Board of Commissioners to monitor and assess the quality of the County's system of internal control. The Board of Commissioners has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility placed the County at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the County has no process to identify or communicate corrective actions to improve controls.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

***FINDING 2013-002 - INTERNAL CONTROL OVER COMPLIANCE REQUIREMENTS
THAT HAVE A DIRECT AND MATERIAL EFFECT TO DAVIS-BACON***

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's Program
and Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number and Year: DR2-09-220
Pass-Through Entity: Indiana Office of Community and Rural Affairs

COUNTY AUDITOR
STARKE COUNTY
FEDERAL FINDINGS
(Continued)

Management of the County has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and to the Davis-Bacon Act compliance requirements that have a direct and material effect on the program. The failure to establish an effective internal control system places the County at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Controls over the monitoring of the Davis-Bacon Act were not designed or implemented. Although the contract for the project included a clause that the contractor will pay prevailing wages to the laborers who are employed to work under the contract, no monitoring, reviewing or testing of wages paid was performed by the County. They relied completely on the Grant Administrator to verify compliance with the Davis-Bacon Act requirements.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements that have a direct and material effect on the program could result in the loss of federal funds to the County.

We recommended that the County's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements that have a direct and material effect on the program.

STARKE COUNTY AUDITOR

KATHERINE CHAFFINS

53 EAST MOUND STREET

KNOX, IN 46534

(574) 772-9101

CORRECTIVE ACTION PLAN

FINDING 2013-001: Internal Control over the Schedule of Expenditure of Federal Awards

Katherine Chaffins, Auditor
574-772-9105

Jennifer Davis, President Board of Commissioners
574-772-9106

Description of Corrective Action Plan:

The preparation of the Starke County SEFA report is the responsibility of the County Auditor and therefore, in the past, has always been completed, along with the County's Annual Report, by the Auditor. Starting with the preparation of the 2014 SEFA and the 2014 County's Annual Report, the Auditor's Office will establish a system in which both the Auditor and the 1st Deputy Auditor will participate in the compiling of those reports and will be establishing a checks and balances between the two within the Auditor's Department. More care will be taken to verify the correct program names are identified as well as the correct total expenditures for each grant reported.

The Starke County Board of County Commissioners is presently addressing their need to establish the effective internal control over financial reporting, and in general, over all aspects of operations and information processing.

Anticipated Completion Date: The completion date for part one of this finding will be March 1, 2015, as that is the date when the SEFA and CAR are to be completed.

The anticipated completion date of the establishment of effective internal controls, and the monitoring of those internal controls, will begin immediately, and remain in effect with no completion date. The monitoring of the internal controls will not allow for an ending date.

Jennifer Davis
President, Board of Commissioners


Katherine Chaffins
Auditor of Starke County

STARKE COUNTY AUDITOR

KATHERINE CHAFFINS

53 EAST MOUND STREET

KNOX, IN 46534

(574) 772-9101

CORRECTIVE ACTION PLAN

FINDING 2013-002: Internal Control over Compliance Requirements that have a Direct and Material Effect to Davis Bacon.

Katherine Chaffins, Auditor
574-772-9105

Jennifer Davis, President Board of Commissioners
574-772-9106

Description of Corrective Action Plan:

Starke County management must establish an internal control system to monitor all contractors on federally funded projects for compliance with Davis Bacon Wage regulations. In order to establish a Davis Bacon monitoring process, the Starke County Auditor will be requesting payroll verification through KIRPC to monitor the proper wage rates are being followed. The payroll verifications will be randomly requested, and will be well documented. Also, as another layer of control, the Payroll Deputy will also review the same payroll records, in order to establish a system of checks and balances within the Auditor's Department. Therefore this system will be creating the checks and balances with KIRPC, who administers the grant for Starke County, to verify they are in compliance with the grant requirements.

Anticipated Completion Date: The plan has already been established, effected June 1, 2014, in the monitoring with Federal Grant 06-01-05747, the CR300E SR8 Intersection Grant, and will continue with the Federal Grant A249-11-320633, the CR300E Project. The CR300E Project held its Pre-Construction Meeting on Friday, June 27th.


Katherine Chaffins
Auditor of Starke County

COUNTY AUDITOR
STARKE COUNTY
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statement presented for the County includes several funds with overdrawn cash balances at December 31, 2013. Most are grant funds that have been reimbursed in the subsequent month.

The Hamlet Project With Grant fund has had the same negative balance, \$269,412 since at least December 31, 2011. This fund expended monies for a project to attract an industry to the County. On May 7, 2014, the County received \$194,264 from the Starke County Economic Development Foundation via Baugh Midwest TIF bonds to reimburse the County for some of those project costs. The County must decide on a funding source for the remaining unreimbursed costs.

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 governmental unit. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

COMPENSATION AND BENEFITS

Compensation and benefits which were not included on the salary ordinance or resolution were paid to three employees. The compensation and benefits paid to these employees totaled \$2,470 which included pay for Board meetings attended and car allowances.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 18)

APPROPRIATIONS

The records presented for audit indicated expenditures in excess of budgeted appropriations of \$226,020 in the Cumulative Bridge fund for 2013.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

COUNTY AUDITOR
STARKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on July 2, 2014, with Jennifer Davis, President of the Board of County Commissioners; Dave Pearman, President of the County Council; and Katherine Chaffins, Auditor.

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COUNTY COMMISSIONERS
STARKE COUNTY

COUNTY COMMISSIONERS
STARKE COUNTY
FEDERAL FINDING

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STARKE COUNTY AUDITOR

KATHERINE CHAFFINS

53 EAST MOUND STREET

KNOX, IN 46534

(574) 772-9101

CORRECTIVE ACTION PLAN

FINDING 2013-001: Internal Control over the Schedule of Expenditure of Federal Awards

**Katherine Chaffins, Auditor
574-772-9105**

**Jennifer Davis, President Board of Commissioners
574-772-9106**

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**Jennifer Davis
President, Board of Commissioners**


**Katherine Chaffins
Auditor of Starke County**

COUNTY COMMISSIONERS
STARKE COUNTY
AUDIT RESULT AND COMMENT

PUBLIC PURCHASES

The County purchased three trucks for the Highway Department on November 4, 2013. The total cost was \$272,138; however, there was no evidence presented for audit that the County issued an invitation for bids. Quotes were obtained indicating that the County considered this a small purchase; however, information presented for audit indicated that the purchase was not awarded to the vendor with the lowest quote.

Indiana Code 5-22-7-1 states: "A purchasing agent shall follow the procedure described in this chapter in awarding a contract for supplies, unless another purchasing method is required or authorized by this article."

Indiana Code 5-22-7-2 states in part: "(a) A purchasing agent shall issue an invitation for bids."

Indiana Code 5-22-7-5(a) states: "The purchasing agency shall give notice of the invitation for bids in the manner required by IC 5-3-1."

Indiana Code 5-22-7-6 states: "The purchasing agent shall open bids publicly in the presence of one (1) or more witnesses at the time and place designated in the invitation for bids."

Indiana Code 5-22-7-7 states:

"Bids must be:

- (1) unconditionally accepted without alteration or correction, except as provided in sections 11 through 13 of this chapter; and
- (2) evaluated based on the requirements provided in the invitation for bids."

Indiana Code 5-22-7-8 states: "A contract must be awarded with reasonable promptness by written notice to the lowest responsible and responsive bidder."

Indiana Code 5-22-8-1 states: "(a) This chapter applies only to a purchase expected by the purchasing agent to be less than one hundred fifty thousand dollars (\$150,000). (b) Purchase requirements may not be artificially divided so as to constitute a small purchase under this chapter."

COUNTY COMMISSIONERS
STARKE COUNTY
EXIT CONFERENCE

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