

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

AUDIT REPORT

OF

COUNTY AUDITOR

ELKHART COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
09/18/2013

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
County Officials	2
Transmittal Letter	3
Audit Results and Comments:	
Internal Controls Over Financial Transaction and Reporting - SEFA.....	4
Internal Controls for the Highway Planning and Construction Cluster	4-5
Internal Controls for the Lead-Based Hazard Control Grant	5-6
Exit Conference.....	7
Official Response	8

COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Pauline E. Graff	01-01-11 to 12-31-14
President of the County Council	John K. Letherman	01-01-12 to 12-31-13
President of the Board of County Commissioners	Terry Rodino	01-01-12 to 12-31-13



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 ELKHART COUNTY

We have audited the records of the County Auditor for the period from January 1, 2012 to December 31, 2012, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments. The financial transactions of this office are reflected in the Annual Report of Elkhart County for the year 2012.

STATE BOARD OF ACCOUNTS

August 26, 2013

COUNTY AUDITOR
ELKHART COUNTY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING - (SEFA)

The County did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The County should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: the schedule did not include Pass-Through Agencies when applicable; award numbers were not included; two major grants, CFDA 14.900 and 14.228, were omitted from the schedule for \$301,608 and \$292,091, respectively; the CFDA numbers for two other major grants, CFDA 20.205 and 93.563, were not included on the schedule and the amounts that were included were understated by \$366,382 and \$1,558,626, respectively; there was a total of \$930,055 of non-major grants omitted from the schedule; and there were many grants in which the name did not agree with the Catalog of Federal Domestic Assistance. Audit adjustments were proposed and accepted by the County, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statements.

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 County Auditors of Indiana, Chapter 14)

INTERNAL CONTROLS FOR THE HIGHWAY PLANNING AND CONSTRUCTION CLUSTER

Management of Elkhart County has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirement: Cash Management. 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 grant.

An internal control system 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, 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.

COUNTY AUDITOR
ELKHART COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

The grant consists of several projects, some of which are handled through the Elkhart County Highway Department and some of which go through the Elkhart County Park Department. All projects are on a reimbursement basis based on the terms of the grant agreement. One of the projects handled through the Park Department is for the Pumpkinvine Nature Trail. For the Pumpkinvine project, payments to vendors were made on August 27, 2012, September 24, 2012, and December 17, 2012, but the corresponding reimbursements were received on August 17, 2012, September 7, 2012, and October 8, 2012.

Requests for reimbursement from the Indiana Department of Transportation are prepared by Park Department personnel and forwarded to the County Auditor for review and approval. Copies of the invoices for the vendor payments should be included with the reimbursement form along with proof that the check has been issued to the vendor. The Auditor's office personnel are not receiving copies of the invoices from the Park Department and no one in the County Auditor's office is reviewing the dates checks are issued to vendors to ensure that payments have been made prior to reimbursements being requested.

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. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the County.

INTERNAL CONTROLS FOR THE LEAD-BASED PAINT HAZARD CONTROL GRANT

Management of Elkhart County has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements; Cash Management. 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 grant.

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, 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.

Elkhart County received a grant to be used to rehabilitate homes with high concentrations of lead. Per the terms of the grant agreement, this was to be a reimbursement grant. Grant expenditures were to be paid at the local level and a LOCCS VRS - Request Voucher for Grant Payment was to be submitted to the Department of Housing and Urban Development for reimbursement. In reviewing the payment requests and

COUNTY AUDITOR
ELKHART COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

discussing the issue with officials, it was determined that the reimbursement requests included estimated expenses rather than expenses paid. For example, the request dated July, 30, 2012 (received on August 30, 2012) included personnel expenses for the period June 1, 2012 through September 30, 2012. The request dated September 26, 2012 (received October 1, 2012) included amounts for the totals of contracts signed for rehabilitation work although the work had not yet been completed or paid.

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. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the County.

COUNTY AUDITOR
ELKHART COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 26, 2013, with Pauline E. Graff, Auditor; Terry Rodino, President of the Board of County Commissioners; and David L. Hess, Vice President of the County Council. The Official Response has been made a part of this report and may be found on page 8.

Elkhart County Auditor's Office

September 6, 2013

Bruce Hartman, State Examiner
State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, IN 46204-2769

Re: 2012 Audit for Elkhart County

Mr. Hartman:

The management of Elkhart County has reviewed the independent auditor's report for calendar year 2012. Elkhart County prepares our financial statement based on the reporting requirements established by the State Board of Accounts. This year's audit compromised using accounting principles generally accepted in the United States of America in auditing our Federal grants. Our audit noted a need for internal controls over financial transactions and report. We have now put a corrective action plan into place to be in compliance with this matter.

Respectfully submitted,



Pauline E. Graff
County Auditor

/peg