

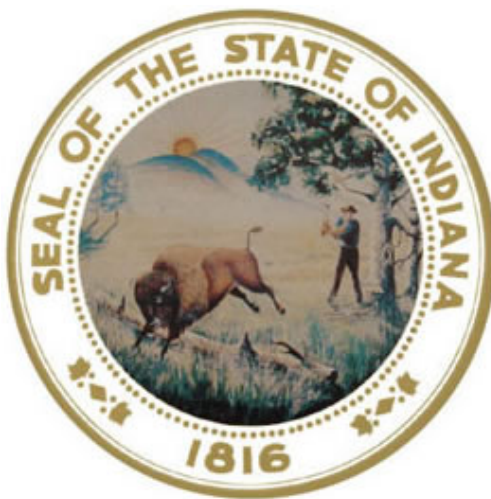
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SUPPLEMENTAL COMPLIANCE REPORT

OF

MONTGOMERY COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
09/30/2014

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
County Council:	
Federal Finding:	
Finding 2013-001 - Internal Controls Over Financial Transactions and Reporting.....	6
Corrective Action Plan... ..	7-8
Exit Conference	9
Board of County Commissioners:	
Federal Finding:	
Finding 2013-001 - Internal Controls Over Financial Transactions and Reporting.....	12
Corrective Action Plan... ..	13-14
Exit Conference	15
County Court:	
Federal Findings:	
Finding 2013-004 - Internal Controls Over Child Support Enforcement	18
Finding 2013-005 - Activities Allowed, Allowable Costs, and Cash Management.....	19-20
Corrective Action Plan	21
Exit Conference	22
County Auditor:	
Federal Findings:	
Finding 2013-001 - Internal Controls Over Financial Transactions and Reporting.....	24
Finding 2013-002 - Compliance Over Financial Transactions and Reporting	25
Finding 2013-003 - Internal Control and Compliance Over the Schedule of Expenditures of Federal Awards	25-26
Finding 2013-006 - Internal Controls Over Capitalization Grants for Clean Water State Revolving Funds	27
Corrective Action Plan	28-29
Audit Results and Comments:	
Overdrawn Cash Balances	30
Chart of Accounts.....	30-31
Reconcilement Between Treasurer and Auditor	31
Exit Conference	32
County Treasurer:	
Federal Finding:	
Finding 2013-001 - Internal Controls Over Financial Transactions and Reporting.....	34
Corrective Action Plan... ..	35-36
Audit Results and Comments:	
Reconcilement Between Treasurer and Auditor	37
Condition of Records.....	37
County Treasurer Excise, Surtax, and Wheel Tax.....	37
Exit Conference	38
County Sheriff:	
Audit Result and Comment:	
Condition of Records.....	40
Exit Conference	41

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Michelle R. Cash	01-01-11 to 12-31-14
Treasurer	Janet S. Johnson	01-01-11 to 12-31-14
Clerk	Jennifer Bentley	01-01-13 to 12-31-16
Sheriff	Mark A. Casteel	01-01-11 to 12-31-14
Recorder	Kathy Traugher	01-01-12 to 12-31-15
President of the Board of County Commissioners	Phillip Bane	01-01-13 to 12-31-14
President of the County Council	Brian Keim Aaron Morgan	01-01-13 to 12-31-13 01-01-14 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 MONTGOMERY COUNTY, INDIANA

This report is supplemental to our audit report of Montgomery 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 and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

August 6, 2014

(This page intentionally left blank.)

COUNTY COUNCIL
MONTGOMERY COUNTY

COUNTY COUNCIL
MONTGOMERY COUNTY
FEDERAL FINDING

FINDING 2013-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the County related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. **Lack of Segregation of Duties:** Control activities should be selected and developed at various levels of the County to reduce risks to the achievement of financial reporting objectives. The County has not separated incompatible activities related to receipts and cash and investment balances. The County Treasurer's Office has one cash drawer, which is used by all employees in the office. The same person balances the drawer, prepares the deposit ticket, and takes the deposit to the bank. A daily report is not printed at the end of the day and compared to the quietuses issued. The County Treasurer prepares a monthly reconciliation but doesn't compare the balance to the County Treasurer's Cash Book. The cancelled checks are not returned with the bank statements and are not reviewed through another source. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the County's audited financial statement and then determining how those identified risks should be managed. The County has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements, including notes to the financial statement. The County Auditor uploaded the County's financial activity from the County's software directly into the Gateway system, a financial reporting system established by the State of Indiana to allow government units to file annual financial reports. There was no review or approval of the information prior to submission.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the Board of County Commissioners and County Council to monitor and assess the quality of the County's system of internal control. The Board of County Commissioners and County Council have not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places 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) (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14) (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 10)



Montgomery County Council

100 East Main Street Room 102 • Crawfordsville, IN 47933 • (765) 364-6400 Fax (765) 364-6404

CORRECTIVE ACTION PLAN

FINDING 2013-001 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Aaron Morgan, President – Montgomery County Council

Contact Phone Number: 765-376-5100

Subpart 1. Lack of Segregation of Duties:

Description of Corrective Action Plan: Montgomery County will establish by policy control activities to reduce risks to the achievement of financial reporting objectives. Specifically, this policy will separate incompatible activities related to receipts, cash and investment balances. This policy will also require all employees, officers and agents to establish separate cash drawers and procedures for confirmation that each cash drawer balances with the daily transaction record and receipts. This policy will also include a policy for the completion of deposit records and other procedures to ensure the proper treatment of all cash transactions consistent with accounting and uniform compliance guidelines applicable to local government. This policy will also require the County Treasurer to promptly prepare monthly reconciliation reports, to compare the balance to the Treasurer's cash book, and to report her findings to the Auditor and County Commissioners. This policy will also require the Treasurer to ensure that cancelled checks are returned with bank statements, reviewed by the Treasurer and Auditor, and reported to the County Commissioners. The County Council will monitor the implementation of these policies.

Anticipated Completion Date: Montgomery County anticipates that it will complete these corrective actions on or before September 30, 2014. For the last 12 months, the County has studied and developed draft policies to manage risk. Therefore, the County has been in the process of addressing some of these issues prior to receiving the audit findings.

Subpart 2. Preparing Financial Statements:

Description of Corrective Action Plan: Montgomery County will establish effective Control over financial reporting. This control will include identification and analysis of the risks of Material misstatement to the County's audited financial statements and the determination of how Those risks should be managed. This control will be established by policy. The policy will include controls relating to all reporting and notes to the financial statements. The policy will also



require review of County financial records required to be submitted to the State of Indiana by the Auditor, Treasurer, County Council, Board of Commissioners and other required officers. The County Council will monitor the implementation of these policies.

Anticipated Completion Date: Montgomery County anticipates that it will complete the adoption of policies requiring these controls on or before September 30, 2014.

Subpart 3. Monitoring of Controls:

Description of Corrective Action Plan: Montgomery County will establish effective internal control over financial reporting which involves proper oversight by the Board of Commissioners and County Council. This policy will require separate evaluation of the County's system of internal controls. This control policy will require a process to identify and communicate corrective actions necessary to improve these internal controls. The County Council will monitor implementation of these policies.

Anticipated Completion Date: Montgomery County anticipates that it will complete the adoption of control policies on or before September 30, 2014.


(Signature)

(Title)

COUNTY COUNCIL
MONTGOMERY COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 6, 2014, with Aaron Morgan, President of the County Council, and Tom Utley, Vice President of the County Council.

(This page intentionally left blank.)

BOARD OF COUNTY COMMISSIONERS
MONTGOMERY COUNTY

BOARD OF COUNTY COMMISSIONERS
MONTGOMERY COUNTY
FEDERAL FINDING

FINDING 2013-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the County related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. **Lack of Segregation of Duties:** Control activities should be selected and developed at various levels of the County to reduce risks to the achievement of financial reporting objectives. The County has not separated incompatible activities related to receipts and cash and investment balances. The County Treasurer's Office has one cash drawer, which is used by all employees in the office. The same person balances the drawer, prepares the deposit ticket, and takes the deposit to the bank. A daily report is not printed at the end of the day and compared to the quietuses issued. The County Treasurer prepares a monthly reconciliation but doesn't compare the balance to the County Treasurer's Cash Book. The cancelled checks are not returned with the bank statements and are not reviewed through another source. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the County's audited financial statement and then determining how those identified risks should be managed. The County has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements, including notes to the financial statement. The County Auditor uploaded the County's financial activity from the County's software directly into the Gateway system, a financial reporting system established by the State of Indiana to allow government units to file annual financial reports. There was no review or approval of the information prior to submission.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the Board of County Commissioners and County Council to monitor and assess the quality of the County's system of internal control. The Board of County Commissioners and County Council have not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places 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) (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14) (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 10)



MONTGOMERY COUNTY COMMISSIONERS

110 West South Boulevard

Crawfordsville, IN 47933

Office: (765) 361-2623

Fax: (765) 361-3238

Email: commissioners@montgomeryco.net

Website: www.montgomeryco.net

Commissioners

Phillip Bane, President

Terry Hockersmith, VP

Jim Fulwider, Member

August 29, 2014

CORRECTIVE ACTION PLAN

FINDING 2013-001 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Phil Bane, President – Montgomery County
Board of Commissioners

Contact Phone Number: 765-366-2141

Subpart 1. Lack of Segregation of Duties:

Description of Corrective Action Plan: Montgomery County will establish by policy control activities to reduce risks to the achievement of financial reporting objectives. Specifically, this policy will separate incompatible activities related to receipts, cash and investment balances. This policy will also require all employees, officers and agents to establish separate cash drawers and procedures for confirmation that each cash drawer balances with the daily transaction record and receipts. This policy will also include a policy for the completion of deposit records and other procedures to ensure the proper treatment of all cash transactions consistent with accounting and uniform compliance guidelines applicable to local government. This policy will also require the County Treasurer to promptly prepare monthly reconciliation reports, to compare the balance to the Treasurer's cash book, and to report her findings to the Auditor and County Commissioners. This policy will also require the Treasurer to ensure that cancelled checks are returned with bank statements, reviewed by the Treasurer and Auditor, and reported to the County Commissioners. The County Commissioners will monitor the implementation of these policies.

Anticipated Completion Date: Montgomery County anticipates that it will complete these corrective actions on or before September 30, 2014. For the last 12 months, the County has studied and developed draft policies to manage risk. Therefore, the County has been in the process of addressing some of these issues prior to receiving the audit findings.

Subpart 2. Preparing Financial Statements:

Description of Corrective Action Plan: Montgomery County will establish effective Control over financial reporting. This control will include identification and analysis of the risks of Material misstatement to the County's audited financial statements and the determination of how Those risks should be managed. This control will be established by policy. The policy will include controls relating to all reporting and notes to the financial statements. The policy will also require review of County financial records required to be submitted to the State of Indiana by the Auditor, Treasurer, County Council, Board of Commissioners and other required officers. The County Commissioners will monitor the implementation of these policies.

Anticipated Completion Date: Montgomery County anticipates that it will complete the adoption of policies requiring these controls on or before September 30, 2014.

Subpart 3. Monitoring of Controls:

Description of Corrective Action Plan: Montgomery County will establish effective internal control over financial reporting which involves proper oversight by the Board of Commissioners and County Council. This policy will require separate evaluation of the County's system of internal controls. This control policy will require a process to identify and communicate corrective actions necessary to improve these internal controls. The County Commissioners will monitor implementation of these policies.

Anticipated Completion Date: Montgomery County anticipates that it will complete the adoption of control policies on or before September 30, 2014.

Date: 8/29/2014



Phillip Bane, President
Montgomery County Commissioners

Attorneys
Kirtley, Taylor, Sims, Chadd & Minnette

Auditor
Michelle Cash

BOARD OF COUNTY COMMISSIONERS
MONTGOMERY COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 6, 2014, with Phillip Bane, President of the Board of County Commissioners.

(This page intentionally left blank.)

COUNTY COURT
MONTGOMERY COUNTY

COUNTY COURT
MONTGOMERY COUNTY
FEDERAL FINDINGS

FINDING 2013-004 - INTERNAL CONTROLS OVER CHILD SUPPORT ENFORCEMENT

Federal Agency: Department of Health and Human Services

Federal Program: Child Support Enforcement

CFDA Number: 93.563

Federal Award Year: 2013

Pass-Through Entity: Indiana Department of Child Services

Management of the County has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Activities Allowed, Allowable Costs, Cash Management, and Reporting compliance requirements that have a direct and material effect on the program. The County contracted with a third party to prepare the monthly expense claims for the Court. These monthly expense reports were provided to and submitted for reimbursement by the County without supporting documentation. Failure to obtain supporting documentation from the contractor prevents the County from reviewing the amounts requested for reimbursement. They were unable to determine if the amounts requested were for allowable activities and costs, and if they were paid prior to the reimbursement request in compliance with Cash Management requirements. 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.

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 all compliance requirements that have a direct and material effect on the program.

COUNTY COURT
MONTGOMERY COUNTY
FEDERAL FINDINGS
(Continued)

FINDING 2013-005 - ACTIVITIES ALLOWED, ALLOWABLE COSTS, AND CASH MANAGEMENT

Federal Agency: Department of Health and Human Services

Federal Program: Child Support Enforcement

CFDA Number: 93.563

Federal Award Year: 2013

Pass-Through Entity: Indiana Department of Child Services

The County is required to submit monthly expense claims to receive reimbursement of their expenditures related to the Child Support Enforcement program (Title IV-D). No supporting documentation was provided with the 2013 Monthly Expense Claims for Title IV-D for the County Court expenses. Without the supporting documentation, we were unable to determine which expenditures were claimed for reimbursement or how the amounts requested were calculated. In addition, we could not determine whether the County Court expenditures claimed were for activities allowed, were in compliance with allowable cost principles, or were paid prior to the claim for reimbursement. This resulted in questioned costs of \$14,513.

Monthly Expense Claims for Title IV-D (for the County Court) are prepared by Maximus, an independent contractor. Maximus submits the claim to the County with a breakdown by court, but does not include any supporting documentation, such as time studies, names of persons included in the personal services amounts, or other expenditures included. The County submitted the requests for reimbursement without receiving or compiling appropriate supporting documentation.

45 CFR 92.20 states in part:

"(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to—

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. . . .
- (5) *Allowable cost.* Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.
- (6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

COUNTY COURT
MONTGOMERY COUNTY
FEDERAL FINDINGS
(Continued)

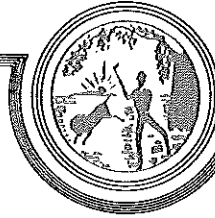
- (7) *Cash management.* Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

Without appropriate supporting documentation, it was not possible to verify the accuracy or allowability of expenditures claimed for reimbursement. This could cause all expenditures to be questioned costs or cause the County to be required to repay the amount of undocumented expenditures.

We recommended that the County Court comply with the applicable requirements by maintaining documentation to support the amounts claimed for reimbursement.

MONTGOMERY CIRCUIT COURT

22nd Judicial Circuit
Courthouse
Crawfordsville, IN 47933



Telephone (765) 364-6450
Fax (765) 364-7251

HARRY A. SIAMAS
Judge

JILL FROEDGE
Court Reporter

CHRISTIE WELIVER
Secretary / Bailiff

AMIE HODGES
Court Administrator

CORRECTIVE ACTION PLAN

FINDING 2013-004

FINDING 2013-005

Contact Person Responsible for Corrective Action: Harry A. Siamas, Judge Montgomery Circuit Court
Contact Phone Number: (765) 364-6450

Description of Corrective Action Plan:

Both findings will be addressed in the same way. The Montgomery County Courts were not aware that necessary "back-up" documentation was not made available to SBOA for the 2013 audit until recently. Maximus has provided "back-up" documentation to the Montgomery Circuit Court for January through May 2014. This documentation will be available to the SBOA for the next audit. The program ended June 2014 and the Montgomery County Courts will not be participating in the Title IV-D reimbursement program in the future.

Anticipated Completion Date:

The documentation for 2014 is available to the SBOA at any time.

(Signature)

Judge, Montgomery Circuit Court

(Title)

August 7, 2014

(Date)

COUNTY COURT
MONTGOMERY COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 6, 2014, with Honorable Harry A. Siamas, Judge.

COUNTY AUDITOR
MONTGOMERY COUNTY

COUNTY AUDITOR
MONTGOMERY COUNTY
FEDERAL FINDINGS

FINDING 2013-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the County related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the County to reduce risks to the achievement of financial reporting objectives. The County has not separated incompatible activities related to receipts and cash and investment balances. The County Treasurer's Office has one cash drawer, which is used by all employees in the office. The same person balances the drawer, prepares the deposit ticket, and takes the deposit to the bank. A daily report is not printed at the end of the day and compared to the quietuses issued. The County Treasurer prepares a monthly reconciliation but doesn't compare the balance to the County Treasurer's Cash Book. The cancelled checks are not returned with the bank statements and are not reviewed through another source. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the County's audited financial statement and then determining how those identified risks should be managed. The County has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements, including notes to the financial statement. The County Auditor uploaded the County's financial activity from the County's software directly into the Gateway system, a financial reporting system established by the State of Indiana to allow government units to file annual financial reports. There was no review or approval of the information prior to submission.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Board of County Commissioners and County Council to monitor and assess the quality of the County's system of internal control. The Board of County Commissioners and County Council have not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places 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) (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14) (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 10)

COUNTY AUDITOR
MONTGOMERY COUNTY
FEDERAL FINDINGS
(Continued)

FINDING 2013-002 - COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING

During the audit of the financial statement, we noted that the following funds were not included: Clerk ISETS Trust, Clerk's Trust, After Settlement Collections, Sheriff's Inmate Trust, Sheriff's Commissary, Redevelopment Commission, BONY SRF P & I Account, and BONY SRF 2012 Reserve. The County Auditor entered the Clerk's Trust, Sheriff's Inmate Trust, and After Settlement Collections into Gateway, a financial reporting system established by the State of Indiana to allow governmental units to file annual financial reports. These amounts were entered prior to uploading financial information from the County's financial software; however, this information was overwritten during the upload process.

Fund	January 1, 2013 Balance	Receipts	Disbursements	December 31, 2013 Balance
Clerk ISETS Trust	\$ 3,710	\$ 800,035	\$ 798,224	\$ 5,521
Clerk's Trust	567,953	2,944,249	2,894,781	617,421
After Settlement Collections	1,003,550	1,201,978	1,003,550	1,201,978
Sheriff's Inmate Trust	20,160	256,350	254,034	22,476
Sheriff's Commissary	135,676	248,707	234,324	150,059
Redevelopment Commission	-	1,003,635	1,003,635	-
BONY SRF P & I Account	-	296,269	123,438	172,831
BONY SRF 2012 Reserve	105,099	285,602	-	390,701

Audit adjustments were proposed and accepted by the County. The financial statement presented in this report reflects these adjustments and resulted in a presentation of the financial statement that is materially correct.

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

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality 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."

**FINDING 2013-003 - INTERNAL CONTROL AND COMPLIANCE OVER
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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 SEFA was prepared by the County Auditor without proper oversight, review, or approval. 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.

COUNTY AUDITOR
MONTGOMERY COUNTY
FEDERAL FINDINGS
(Continued)

During the audit of the SEFA, we noted the following errors: the ARRA - State Broadband Data and Development Program and the Capitalization Grants for Clean Water State Revolving fund were omitted from the schedule. The Child Support Enforcement amount reported did not include the reimbursement portion of the funding. There were some amounts included that were not from federal funding sources such as local match money, program income, a state grant, and an error correction from the prior period. The Department of Homeland Security Grants were commingled and some were shown with the wrong CFDA numbers. For several grants, program years and projects were combined into one line. Audit adjustments were proposed, 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 statement.

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

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states in part:

"Schedule of expenditures of Federal awards: The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide the total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available."

COUNTY AUDITOR
MONTGOMERY COUNTY
FEDERAL FINDINGS
(Continued)

***FINDING 2013-006 - INTERNAL CONTROLS OVER CAPITALIZATION
GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS***

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458
Federal Award Number: WW09755401
Pass-Through Entity: Indiana Finance Authority

Management of the 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 on the program. This includes the following compliance requirements: Activities Allowed; Allowable Costs; Cash Management; Davis-Bacon Act; Period of Availability; and Procurement, Suspension and Debarment. The failure to establish an effective internal control system places the County at risk of noncompliance with the grant agreement and the compliance requirements.

The County had no internal control or knowledge of the compliance requirements by anyone other than the grant administrator, a third party contractor. A lack of segregation of duties within an internal control system could 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.

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. Noncompliance 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 all compliance requirements that have a direct and material effect on the program.



Michelle Cash ***Montgomery County Auditor***

100 E Main Street, Room 102 * Crawfordsville, Indiana 47933
Phone: 765-364-6400 Fax: 765-364-6404

Corrective Action Plan

Contact Person: Michelle Cash

Contact Information: Montgomery County Auditor
100 East Main Street
Crawfordsville, IN 47933
(765) 364-6400

FINDING 2013-001 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Establish controls over receipting, disbursing, and recording over the financial activities and require the County Council and Commissioners to monitor and assess the quality of the financial reporting.

Completion date: Effective Immediately with completion date being daily.

FINDING 2013-002 – COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING

Established a corrected manual for Gateway Software that shows the order of which the annual report must be entered. Upload of receipt, disbursements must be done first in order to save data already in system and not create an override.

Completion date: Effective Immediately with completion date being 2014 Audit.

FINDING 2013-003 - IC AND COMPLIANCE OVER THE SEFA

The county went to a new financial software system for the 2012 fiscal year. Within the accounting system there has been an established grant module for the auditor's office to use that will require us to set up new funds with each grant that has a beginning and ending date within the same year. The grant module will include all necessary information regarding the grant. The auditor put in the missing grant information but had to resubmit the annual report and did not have the knowledge that the prior information would be deleted during the upload. Some of the grants not listed were considered

Reimbursements and were not shown as the auditor had not shown them before. The auditor shall prepare appropriate financial statements, including the schedule of expenditures of Federal Awards and do all necessary reporting as required by the compliance of SEFA.

Completion date: December 21, 2014

FINDING 2013-6 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS

The county will appoint a Financial administrator to monitor the activity of the grant. The administrator will enforce the internal controls of the claims, recordings and balancing the bank statement.

The financial administrator will not only establish some internal controls to verify reimbursements due or not due to the county, including amounts to be reimbursed but will enter the annual report for the Clean Water State Revolving Funds as well.

Completion Date: December 31, 2014

Signature

Janet S. Johnson
Michelle R. Cook

Date - August 6, 2014

COUNTY AUDITOR
MONTGOMERY COUNTY
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statement presented for the County included the following funds with overdrawn cash balances at December 31, 2013:

<u>Fund</u>	<u>Amount Overdrawn</u>
HEA 1001 Sate Homestead Credit	\$ 3,985
Commissioner Tax Sale	385

A similar comment was included in prior Report B43109.

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)

CHART OF ACCOUNTS

The County has not implemented the new chart of accounts for counties that went into effect on January 1, 2013. In addition, federal grant funds, except for Title IV-D, were not appropriately labeled with the CFDA number.

A chart of accounts is a listing of account titles, with numerical symbols, employed in the compilation of financial data. It also serves to facilitate processing of claims, warrants and other documents and as a convenience in posting ledgers.

A numerical coding system has been established for use in accounting for funds, revenues, appropriations and expenditures, which is adaptable to all counties having a manual or mechanized accounting system, as distinguished from electronic data processing. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 5)

COUNTY AUDITOR
MONTGOMERY COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

All counties must implement the use of the new chart of accounts by January 1, 2013. (County Bulletin, January 2012, Vol No. 381, pg 11)

Federal Grants – These funds will be assigned by the county auditor for each federal grant award received. The Fund Number, Title, Fund Type, and Department code will be assigned by the county auditor within the ranges and parameters provided in the chart of accounts. The Fund Numbers will be from 8100 to 8999. The Titles must begin with the federally assigned Catalog of Federal Domestic Assistance (CFDA) number which is a 2 digit number followed by a period, then 3 more digits (XX.XXX). (County Bulletin, January 2011, Vol No. 376, pg 3)

RECONCILEMENT BETWEEN TREASURER AND AUDITOR

The County Treasurer's and County Auditor's Ledgers do not agree. At December 31, 2013, the County Auditor's Ledger balance was \$18,178 less than the County Treasurer's.

At the close of each calendar month a Monthly Financial Statement, County Form No. 61, shall be prepared, showing the financial transactions for the month and year to date, for each fund and in total.

The county treasurer is also required to independently prepare a Monthly Financial Statement on the same form and the two statements must be reconciled. If any differences exist between the records of the auditor and the treasurer, they must be identified and immediate steps taken to bring the records of the two offices into agreement.

The statements are prescribed to be placed in a post-binder and shall be carefully preserved as a permanent record. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 6)

COUNTY AUDITOR
MONTGOMERY COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 6, 2014, with Michelle R. Cash, Auditor.

COUNTY TREASURER
MONTGOMERY COUNTY

COUNTY TREASURER
MONTGOMERY COUNTY
FEDERAL FINDING

FINDING 2013-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the County related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. **Lack of Segregation of Duties:** Control activities should be selected and developed at various levels of the County to reduce risks to the achievement of financial reporting objectives. The County has not separated incompatible activities related to receipts and cash and investment balances. The County Treasurer's Office has one cash drawer, which is used by all employees in the office. The same person balances the drawer, prepares the deposit ticket, and takes the deposit to the bank. A daily report is not printed at the end of the day and compared to the quietuses issued. The County Treasurer prepares a monthly reconciliation but doesn't compare the balance to the County Treasurer's Cash Book. The cancelled checks are not returned with the bank statements and are not reviewed through another source. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the County's audited financial statement and then determining how those identified risks should be managed. The County has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements, including notes to the financial statement. The County Auditor uploaded the County's financial activity from the County's software directly into the Gateway system, a financial reporting system established by the State of Indiana to allow government units to file annual financial reports. There was no review or approval of the information prior to submission.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the Board of County Commissioners and County Council to monitor and assess the quality of the County's system of internal control. The Board of County Commissioners and County Council have not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places 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) (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14) (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 10)



Michelle Cash ***Montgomery County Auditor***

100 E Main Street, Room 102 * Crawfordsville, Indiana 47933
Phone: 765-364-6400 Fax: 765-364-6404

Corrective Action Plan

Contact Person: Michelle Cash

Contact Information: Montgomery County Auditor
100 East Main Street
Crawfordsville, IN 47933
(765) 364-6400

FINDING 2013-001 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Establish controls over receipting, disbursing, and recording over the financial activities and require the County Council and Commissioners to monitor and assess the quality of the financial reporting.

Completion date: Effective Immediately with completion date being daily.

FINDING 2013-002 – COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING

Established a corrected manual for Gateway Software that shows the order of which the annual report must be entered. Upload of receipt, disbursements must be done first in order to save data already in system and not create an override.

Completion date: Effective Immediately with completion date being 2014 Audit.

FINDING 2013-003 - IC AND COMPLIANCE OVER THE SEFA

The county went to a new financial software system for the 2012 fiscal year. Within the accounting system there has been an established grant module for the auditor's office to use that will require us to set up new funds with each grant that has a beginning and ending date within the same year. The grant module will include all necessary information regarding the grant. The auditor put in the missing grant information but had to resubmit the annual report and did not have the knowledge that the prior information would be deleted during the upload. Some of the grants not listed were considered

Reimbursements and were not shown as the auditor had not shown them before. The auditor shall prepare appropriate financial statements, including the schedule of expenditures of Federal Awards and do all necessary reporting as required by the compliance of SEFA.

Completion date: December 21, 2014

FINDING 2013-6 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS

The county will appoint a Financial administrator to monitor the activity of the grant. The administrator will enforce the internal controls of the claims, recordings and balancing the bank statement.

The financial administrator will not only establish some internal controls to verify reimbursements due or not due to the county, including amounts to be reimbursed but will enter the annual report for the Clean Water State Revolving Funds as well.

Completion Date: December 31, 2014

Signature

Janet S. Johnson
Michelle R. Cook

Date - August 6, 2014

COUNTY TREASURER
MONTGOMERY COUNTY
AUDIT RESULTS AND COMMENTS

RECONCILEMENT BETWEEN TREASURER AND AUDITOR

The County Treasurer's and County Auditor's Ledgers do not agree. At December 31, 2013, the County Auditor's Ledger balance was \$18,178 less than the County Treasurer's.

MONTHLY FINANCIAL STATEMENT: The Monthly Financial Statement, Form 61, is a permanent record prepared from the treasurer's funds ledger at the close of each month. It is prepared after all postings to the ledger have been completed for the month and reflects the total receipts and disbursements and the balance for each fund for the month and for the year to date. The statement must agree with a similar statement kept by the county auditor, giving consideration to any adjustments required to reconcile the ledgers of the two offices. (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 4)

CONDITION OF RECORDS

The Treasurer does not prepare a report that shows the daily total receipts collected for each business day.

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 Treasurers of Indiana, Chapter 10)

COUNTY TREASURER EXCISE, SURTAX, AND WHEEL TAX

The License Excise Tax line on the Treasurer's Cash Book includes surtax and wheel tax, auto rental excise tax, and boat and aircraft collections.

Indiana Code 6-3.5-4-13(a) states: "In the case of a county that does not contain a consolidated city of the first class, the county treasurer shall deposit the surtax revenues in a fund to be known as the '_____ County Surtax Fund'."

The treasurer's receipt should be issued for the excise tax and it is entered to the excise tax account in the Other Sources Section of the Cashbook. In the counties where wheel tax and surtax have been adopted, the wheel tax and surtax is deposited by quietus to the county auditor's wheel tax/surtax fund or the individual funds each. (County Bulletin and Uniform Compliance Guidelines, April 2014)

COUNTY TREASURER
MONTGOMERY COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 6, 2014, with Janet S. Johnson, Treasurer.

COUNTY SHERIFF
MONTGOMERY COUNTY

COUNTY SHERIFF
MONTGOMERY COUNTY
AUDIT RESULT AND COMMENT

CONDITION OF RECORDS - SHERIFF'S DEPARTMENT

The supplemental CAR-1 report that was completed by the Matron did not reflect the activity of the Sheriff's Commissary fund. The wrong cut-off date was used instead of December 31, 2013. With the permission of the Matron, the adjustments were made to reflect the right reporting period.

The Sheriff's Department does not have a ledger for the Sheriff's Inmate Trust fund. The supplemental CAR-1 was completed by using the transactions from the bank statements.

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)

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

COUNTY SHERIFF
MONTGOMERY COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 6, 2014, with Mark A. Casteel, Sheriff.