

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

DELAWARE COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
11/26/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Judy Rust	01-01-11 to 12-31-14
Treasurer	John Dorer	01-01-13 to 12-31-16
Clerk	Steven Craycraft	01-01-12 to 12-31-15
Sheriff	Michael Scroggins	01-01-11 to 12-31-14
President of the County Council	Kevin Nemyer Michael Jones	01-01-13 to 12-31-13 01-01-14 to 12-31-14
President of the Board of County Commissioners	Larry Bledsoe James King	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
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TO: THE OFFICIALS OF DELAWARE COUNTY, INDIANA

This report is supplemental to our audit report of Delaware 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 26, 2014

COUNTY AUDITOR
DELAWARE COUNTY

COUNTY AUDITOR
DELAWARE COUNTY
FEDERAL FINDING

***FINDING 2013-002 - 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 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.

The SEFA presented for audit did not properly reflect federal expenditures of the county, state, and local grants totaling \$397,479 were incorrectly included on the schedule. Federal expenditures totaling \$329,354 were omitted from the schedule in error and other miscellaneous errors caused the schedule to be overstated by \$24,904.

The County approved and made the necessary adjustments to correct these errors.

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)

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:

"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:

COUNTY AUDITOR
DELAWARE COUNTY
FEDERAL FINDING
(Continued)

- (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 total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."



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Corrective Action Plan

FINDING 2013-002 INTERNAL CONTROL AND COMPLIANCE OVER THE SCHEDULE OF FEDERAL EXPENDITURES

A spreadsheet record has been implemented to track the Federal Grant monies separately as the monies are received. CFDA numbers will be located with the name of the grant for additional identification. Grant funds are now identified in the funds ledger by CFDA numbers.

This corrective action was put in place for the 2014 calendar year.


Judy Rust, Delaware County Auditor

Dated: August 28, 2014

COUNTY AUDITOR
DELAWARE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 26, 2014, with Phyllis Kuhl, Deputy Auditor; Donna Patterson, Deputy Auditor; Michael Jones, President of the County Council; and Mary Chambers, County Council member; and on September 9, 2014, with Judy Rust, Auditor, and Sherry Riggin, County Commissioner.

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COUNTY TREASURER
DELAWARE COUNTY

COUNTY TREASURER
DELAWARE COUNTY
FEDERAL FINDING

***FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE
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. **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 failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements, including notes to the financial statement.
2. **Monitoring of Controls:** Effective internal control over financial reporting requires the Board of County Commissioner's to monitor and assess the quality of the County's system of internal control. The Board of County Commissioners have not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility place the County at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Board of County Commissioners have no process to identify or communicate corrective actions to improve controls.
3. **Redevelopment:** There have been no controls established over the trust accounts held by the Redevelopment Commission. There are currently 24 trust accounts held for redevelopment accounts. Some of these trust accounts statements are received by the Redevelopment Commission, some are received by the County Auditor, some are sent to the former President of the Redevelopment Commission, and some are sent to the company receiving the bond revenues. There is no comprehensive review of these accounts performed and therefore, they are not properly monitored. Additionally, not all claims are reviewed by the Redevelopment Commission prior to payment and some claims presented did not contain adequate supporting documentation.

The failure to establish controls over financial transactions and reporting resulted in errors to the financial statement as follows:

- Two funds that were included in the County Auditor's Fund Ledger were also added by the Redevelopment Commission causing receipts to be overstated by \$1,130,500 and disbursements to be overstated by \$62,582.
- Several bond and interest trust funds held by the Redevelopment Commission did not report their receipts or bond payments causing both receipts and disbursements to be understated by \$876,800.

COUNTY TREASURER
DELAWARE COUNTY
FEDERAL FINDING
(Continued)

4. Treasurer's Office - There were not controls established to determine that the County Treasurer was properly reconciled to the County Auditor's Office or that all accounts were included in the reconciliation. The controls over cash receipts were not properly implemented. Of the 60 receipts tested, 7 receipts could not be tested to determine if deposits were intact due to inadequate classification of receipts or deposit slips not retained for audit. Additionally, adjustments were made to tax collections subsequent to the day of collection based on reports provided by the software vendor. No explanation for or detail of these adjustments was obtained by the County Treasurer's Office. Tax duplicates were not prepared until requested for audit and resulted in unexplained differences between the County Auditor's and County Treasurer's records. A difference of \$247,354 existed at December 31, 2013, between the amount reported in the records and the net bank balance. Due to the condition of the records, the reason for this difference could not be identified.

The failure to establish these controls resulted in the following errors to the financial statement:

- Receipts and ending cash balance were overstated by \$7,774,194 for excise tax and homestead exemptions that were incorrectly included in the County Treasurer's Cash Book.
- Receipts and ending cash balance were understated by \$728,122 for excise tax funds not included in the County Treasurer's Cash Book.

Audit adjustments were proposed, accepted by the County, and made to the financial statement presented in this report.

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 Treasurers of Indiana, Chapter 10)

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."



JOHN B. DORER
DELAWARE COUNTY TREASURER

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CORRECTIVE ACTION PLAN—FINDING 2013-001

The Delaware County Treasurer's office has specifically addressed some issues presented in the preliminary audit report through a response provided in a separate document. We offer the following corrective action plan addressing Finding 2013-001—Internal Controls and Compliance over Financial Transactions and Reporting.

Our new head bookkeeper was in place in late-April 2013. Through her learning experience, she has been diligent in correcting issues as they are identified regarding posting or balance discrepancies and we are confident she will continue with that due diligence.

Regarding the reconciliation of fund ledger balances to the cash book, the head bookkeeper is again working diligently to reconcile the balances. On the financial side of the software system, the Treasurer's assistant bookkeeper and the Auditor's head bookkeeper reconcile the fund sheets on a monthly basis. We have implemented a more efficient plan to be certain our bank accounts are reconciled monthly with our bank statements. We have also initiated a more effective plan for filing bank receipts.

With respect to the excise funds/BMV bank account not being included in the cash book, we have remedied the issue and that bank account is now part of the cash book.

To summarize, we make every effort to be efficient and effective with our procedures and practices and take action immediately as we become aware of any discrepancy. We will continue to work with record-keeping aspects, to include proper interaction with our software provider, our IT department, and the Auditor's office to ensure the reliability of all financial information that is the responsibility of the Treasurer's office.

Sincerely,

A handwritten signature in black ink that reads "John B. Dorer". The signature is written in a cursive style.

John B. Dorer
Treasurer Delaware County



JOHN B. DORER
DELAWARE COUNTY TREASURER

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RESPONSE TO 2013 PRELIMINARY AUDIT FINDINGS

The Delaware County Treasurer's office works diligently to properly record and account for the many and varied transactions entrusted to the county through the Treasurer's office. Effective in late-April 2013, a new head bookkeeper assumed the position and was charged with responsibilities to research and rectify bookkeeping errors that existed at that time, due both in part to the prior bookkeeper's lack of understanding of the data system and in large part to the data system itself. To that end, our bookkeepers have navigated through many circumstances to investigate discrepancies in balances, often including making a barrage of necessary inquiries and requests to the Nikish data representatives.

The new head bookkeeper and the Treasurer have also been proactive in consulting when appropriate with SBOA representatives and, as issues have been identified, have acted immediately to address and remedy those issues.

Nonetheless, there remain areas in which recording errors are discovered and for which answers are sought. We, therefore, respond to the following items addressed in our SBOA audit for 2013 and appreciate the opportunity to explain what we are doing, or have done to position the office for more efficient operation going forward.

Regarding the finding that controls were not in place to properly reconcile to the Auditor's office and to include all accounts in the reconciliation:

The Treasurer's office has initiated a better way to collect and process quietus receipts. A dedicated cashier station has been established for quietus collections, with only one cashier having the responsibility for any given day to receive quietuses. This has been done to provide a cleaner and clearer cut definition of deposits. The Treasurer requires that a tape of the cash on each transaction be attached to the quietus, and we are monitoring to see that the cashiers indicate a breakdown of the transaction: amounts of cash, checks, and EFTs.

Regarding the finding that there was no explanation for, or detail of, adjustments made to tax collection based on reports provided by the software vendor:

In June of this year, we initiated a requirement with the software vendor (Nikish) to provide full details and explanations on any adjustments they make. While the vendor agreed to comply, they have been hit and miss, and we continue to remind the representatives of their responsibility.

Regarding the finding that receipts and ending cash balance were overstated by \$7,774,194 for excise tax and homestead exemptions that were incorrectly included in the treasurer's cash book:

Head Bookkeeper Tonya Dunsmore, in a June 4, 2014 message to SBOA Representative Theresa Alexander, explained that two record-keeping errors, both in December 2013, account for the discrepancy: 1) Bookkeeper did not subtract the settled Cedit Homestead amount (\$2,533,636.05) from the cash book; once realized, the bookkeeper corrected and Treasurer's office records show the amount coming out on May 1, 2014, in time for Spring 2014 settlement. 2) Bookkeeper did not subtract the settled Aircraft, Auto Rental, Vehicle and Boat Excise (totaling \$5,240,622.20) from the cash book; once realized, the correction was made May 21, 2014, in time for Spring 2014 settlement.

Regarding the finding that financial records presented for audit were incomplete and not reflective of the activity of the Treasurer's tax collections and the discrepancies addressed:

This has been an ongoing issue with our data software provider (Nikish). We have met repeatedly with our IT department and the software representatives. IT has identified that reports given to the Auditor's office and the same reports generated for the Treasurer's office differ. We will continue to work with the software company to remedy the issue.

Regarding the finding that the cash book prepared by the Treasurer's office did not include the bank account in which excise tax is deposited by the Bureau of Motor Vehicles:

The bookkeepers became aware of this discrepancy after spring settlement 2014 and we have added this information to the cash book, effective August 1, 2014.

We fully recognize our responsibility as an integral part of the county's fiscal arm and note that, as we have identified issues over the past months, we have worked to reconcile any record-keeping discrepancies and implement procedures to remedy them. In the interest of continuing education, both bookkeepers attended this year's annual ICTA conference in August, so that they could experience the sessions first-hand.

We genuinely appreciate the cooperation that has been extended by State Board of Accounts representatives, who have assisted us through the past several months by answering our questions as we have asked. We pledge to be proactive in seeking available resources that will further help us to identify issues and remedy them in an effective manner.

In conclusion, we continue to work cooperatively with the Auditor's office, our IT department, and our data software company to most efficiently serve our constituents.

Sincerely,



John B. Dorer
Delaware County Treasurer

COUNTY TREASURER
DELAWARE COUNTY
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS - CASH BOOK

Financial records presented for audit were incomplete and not reflective of the activity of the After Settlement Collections fund. The records presented did not provide sufficient information to audit or establish beginning balances, receipts, disbursements, ending balances, or the accuracy or correctness of the transactions. Some of the deficiencies include:

1. Posting errors.
2. Amounts posted as tax collections were adjusted to agree to year to date reports without proper explanation.
3. Advance draws were not posted when the transaction occurred.
4. Fund Ledger balances in the Cash Book did not agree to the County Auditor's Fund Ledger.
5. Amounts posted as transferred by quietus did not agree to amounts received by the County Auditor.

Indiana Code 5-13-5-1 states:

"(a) Every public officer who receives or distributes public funds shall:

- (1) keep a cashbook into which the public officer shall enter daily, by item, all receipts of public funds; and
- (2) balance the cashbook daily to show funds on hand at the close of each day.

(b) The cashbook is a public record and is open to public inspection in accordance with IC 5-14-3.

(c) A person who violates this section is subject to criminal prosecution under IC 35-44.2-2-2."

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 Treasurers, Chapter 10)

BANK ACCOUNT RECONCILIATIONS

The County Treasurer's Office depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliation contained unidentifiable errors resulting in a net short of \$247,354 which included an outstanding check list for December 31, 2013, that was incorrectly totaled. Therefore, the reconciliation was not accurate. The amount in the County Treasurer's Cash Book representing the Funds Ledger was \$256,835 less than the actual Fund Ledger maintained by the County Auditor.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

COUNTY TREASURER
DELAWARE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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 for County Treasurers of Indiana, Chapter 4)

SUPPORTING DOCUMENTATION

We noted that some applications for exemptions and certificate of errors were not presented for audit.

Due to the lack of supporting information, we could not verify the validity of the exemption or deductions.

Indiana Code 6-1.1-15-12(f) states: "If a correction or change is made in the tax duplicate after it is delivered to the county treasurer, the county auditor shall transmit a certificate of correction to the county treasurer. The county treasurer shall keep the certificate as the voucher for settlement with the county auditor."

TAX COLLECTIONS

Financial records presented for audit were incomplete and not reflective of the activity of the County Treasurer's tax collections. The records presented did not provide sufficient information to audit or establish beginning balances, receipts, disbursements, ending balances, or the accuracy or correctness of the transactions. Some of the deficiencies include:

1. Amounts in the tax duplicates did not agree to the amounts given to the County Auditor for settlement.
2. Amounts collected per the tax duplicates exceed the amount certified to the County Auditor for the County Treasurer's tax collections by \$46,720.
3. Prior period delinquencies reported on the tax duplicate summary sheets were \$575,473 less than prior period delinquencies reported on the apportionment sheets.
4. Penalties on the taxes unpaid at the November settlement were not added to either the apportionment sheets or the duplicates and we could not determine if these penalties were correctly added to taxpayer accounts.

Indiana Code 6-1.1-27-2 states:

"At each semi-annual meeting required under section 1 of this chapter, the county treasurer shall make a settlement with the county auditor for the amount of taxes and special assessments which the county treasurer has collected. At each semi-annual meeting, the county treasurer shall also certify to the county auditor, under oath and on the form prescribed by the state board of accounts, the correctness of:

COUNTY TREASURER
DELAWARE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

- (1) the credits for cash collected for each taxing unit appearing on the tax duplicate; and
- (2) any other amounts collected by the county treasurer as required by law."

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)

LICENSE EXCISE TAX

The Cash Book prepared by the County Treasurer's Office did not include the bank account in which excise tax is deposited by the Bureau of Motor Vehicles.

Indiana Code 5-13-5-1(a) states:

"Every public officer who receives or distributes public funds shall:

- (1) keep a cashbook into which the public officer shall enter daily, by item, all receipts of public funds; and
- (2) balance the cashbook daily to show funds on hand at the close of each day."

COUNTY TREASURER
DELAWARE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 26, 2014, with John Dorer, Treasurer; Tonya Dunsmore, Deputy Treasurer; Phyllis Kuhl, Deputy Auditor; Donna Patterson, Deputy Auditor; Mary Chambers, County Council member; and Michael Jones, President of the County Council.

BOARD OF COUNTY COMMISSIONERS
DELAWARE COUNTY

BOARD OF COUNTY COMMISSIONERS
DELAWARE COUNTY
FEDERAL FINDING

***FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE
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. **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 failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements, including notes to the financial statement.
2. **Monitoring of Controls:** Effective internal control over financial reporting requires the Board of County Commissioner's to monitor and assess the quality of the County's system of internal control. The Board of County Commissioners have not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility place the County at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Board of County Commissioners have no process to identify or communicate corrective actions to improve controls.
3. **Redevelopment:** There have been no controls established over the trust accounts held by the Redevelopment Commission. There are currently 24 trust accounts held for redevelopment accounts. Some of these trust accounts statements are received by the Redevelopment Commission, some are received by the County Auditor, some are sent to the former President of the Redevelopment Commission, and some are sent to the company receiving the bond revenues. There is no comprehensive review of these accounts performed and therefore, they are not properly monitored. Additionally, not all claims are reviewed by the Redevelopment Commission prior to payment and some claims presented did not contain adequate supporting documentation.

The failure to establish controls over financial transactions and reporting resulted in errors to the financial statement as follows:

- Two funds that were included in the County Auditor's Fund Ledger were also added by the Redevelopment Commission causing receipts to be overstated by \$1,130,500 and disbursements to be overstated by \$62,582.
- Several bond and interest trust funds held by the Redevelopment Commission did not report their receipts or bond payments causing both receipts and disbursements to be understated by \$876,800.

BOARD OF COUNTY COMMISSIONERS
DELAWARE COUNTY
FEDERAL FINDING
(Continued)

4. Treasurer's Office - There were not controls established to determine that the County Treasurer was properly reconciled to the County Auditor's Office or that all accounts were included in the reconciliation. The controls over cash receipts were not properly implemented. Of the 60 receipts tested, 7 receipts could not be tested to determine if deposits were intact due to inadequate classification of receipts or deposit slips not retained for audit. Additionally, adjustments were made to tax collections subsequent to the day of collection based on reports provided by the software vendor. No explanation for or detail of these adjustments was obtained by the County Treasurer's Office. Tax duplicates were not prepared until requested for audit and resulted in unexplained differences between the County Auditor's and County Treasurer's records. A difference of \$247,354 existed at December 31, 2013, between the amount reported in the records and the net bank balance. Due to the condition of the records, the reason for this difference could not be identified.

The failure to establish these controls resulted in the following errors to the financial statement:

- Receipts and ending cash balance were overstated by \$7,774,194 for excise tax and homestead exemptions that were incorrectly included in the County Treasurer's Cash Book.
- Receipts and ending cash balance were understated by \$728,122 for excise tax funds not included in the County Treasurer's Cash Book.

Audit adjustments were proposed, accepted by the County, and made to the financial statement presented in this report.

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 Treasurers of Indiana, Chapter 10)

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."



**DELAWARE
COUNTY
COMMISSIONERS**

James King
District #1

Sherry K. Riggan
District #2

Larry W. Bledsoe, Jr.
District #3

Patricia Lackey
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An Equal Opportunity Employer

DATE: September 2, 2014
TO: State of Indiana State Board of Accounts
RE: 2013 Corrective Action Plan

Please find the actions the Delaware County Commissioners will attempt to implement pursuant to the following findings;

Finding 2013-001-Internal Controls and Compliance Over Financial Transactions and Reporting

1 & 2)

Noting that the Delaware County Auditor is an elected official the Delaware County Commissioners will still request to be a part of and work closer with the Auditor's office where financial reporting is concerned.

3)

The problems associated with the Delaware County Redevelopment Commission should be alleviated now that Donna Patterson, Auditor Settlement Clerk, has been assigned as their treasurer.

4)

Noting that the Delaware County Treasurer is also an elected official the Delaware County Commissioners will begin requesting copies of reconciled reports between the Auditor's Office and the Treasurer's Office.

The Delaware County Commissioners are hopeful these practices will ensure compliance of the above four (4) items targeted by the State Board of Accounts in their 2013 Corrective Action Plan.

Respectfully,

James King, President

JK/pl

BOARD OF COUNTY COMMISSIONERS
DELAWARE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 26, 2014, with Jeni Honeycutt, Commissioners Assistant; Phyllis Kuhl, Deputy Auditor; Donna Patterson, Deputy Auditor; Michael Jones, President of the County Council; and Mary Chambers, County Council member; and on September 9, 2014, with Sherry Riggan, County Commissioner.

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COUNTY REDEVELOPMENT COMMISSION
DELAWARE COUNTY

COUNTY REDEVELOPMENT COMMISSION
DELAWARE COUNTY
FEDERAL FINDINGS

**FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE
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. **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 failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements, including notes to the financial statement.
2. **Monitoring of Controls:** Effective internal control over financial reporting requires the Board of County Commissioner's to monitor and assess the quality of the County's system of internal control. The Board of County Commissioners have not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility place the County at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Board of County Commissioners have no process to identify or communicate corrective actions to improve controls.
3. **Redevelopment:** There have been no controls established over the trust accounts held by the Redevelopment Commission. There are currently 24 trust accounts held for redevelopment accounts. Some of these trust accounts statements are received by the Redevelopment Commission, some are received by the County Auditor, some are sent to the former President of the Redevelopment Commission, and some are sent to the company receiving the bond revenues. There is no comprehensive review of these accounts performed and therefore, they are not properly monitored. Additionally, not all claims are reviewed by the Redevelopment Commission prior to payment and some claims presented did not contain adequate supporting documentation.

The failure to establish controls over financial transactions and reporting resulted in errors to the financial statement as follows:

- Two funds that were included in the County Auditor's Fund Ledger were also added by the Redevelopment Commission causing receipts to be overstated by \$1,130,500 and disbursements to be overstated by \$62,582.
 - Several bond and interest trust funds held by the Redevelopment Commission did not report their receipts or bond payments causing both receipts and disbursements to be understated by \$876,800.
4. **Treasurer's Office -** There were not controls established to determine that the County Treasurer was properly reconciled to the County Auditor's Office or that all accounts were included in the reconciliation. The controls over cash receipts were not properly implemented. Of the 60 receipts tested, 7 receipts could not be tested to determine if deposits were intact due to inadequate classification of receipts or deposit slips not retained for audit. Additionally, adjustments were made to tax collections subsequent to the day of collection based on reports provided by the software vendor. No explanation for or detail of these

COUNTY REDEVELOPMENT COMMISSION
DELAWARE COUNTY
FEDERAL FINDINGS
(Continued)

adjustments was obtained by the County Treasurer's Office. Tax duplicates were not prepared until requested for audit and resulted in unexplained differences between the County Auditor's and County Treasurer's records. A difference of \$247,354 existed at December 31, 2013, between the amount reported in the records and the net bank balance. Due to the condition of the records, the reason for this difference could not be identified.

The failure to establish these controls resulted in the following errors to the financial statement:

- Receipts and ending cash balance were overstated by \$7,774,194 for excise tax and homestead exemptions that were incorrectly included in the County Treasurer's Cash Book.
- Receipts and ending cash balance were understated by \$728,122 for excise tax funds not included in the County Treasurer's Cash Book.

Audit adjustments were proposed, accepted by the County, and made to the financial statement presented in this report.

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 Treasurers of Indiana, Chapter 10)

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 - ECONOMIC ADJUSTMENT ASSISTANCE -
INTERNAL CONTROLS OVER REPORTING***

Federal Agency: Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307
Federal Award Number and Year (or Other Identifying Number): 06-79-05416
Pass-Through Entity: Direct

COUNTY REDEVELOPMENT COMMISSION
DELAWARE 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 reporting compliance 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 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, 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 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.

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



Mr. Bill Vinson
District Office
State Board of Accounts
100 West Main Street
Muncie, Indiana 47305

August 29, 2014

Re: Response to Findings 2013-001 and 2013-003

Dear Mr. Vinson,

On behalf of the Delaware County Redevelopment Commission, please allow this letter to serve as the formal response to the 2013 Indiana State Board of Accounts Annual Audit.

Finding 2013-001 – Internal Controls and Compliance over Financial Transactions and Reporting

Corrective Action: The Commission's Treasurer is the fiscal officer of the unit that established the Commission per IC 36-7-14-8(b) as amended through SEA 118-2014. All records for 2014 are now required to be kept by the Auditor's Office of Delaware County and annually will be reviewed by the Redevelopment Commissions independent financial advisors.

Finding 2013-003 – Economic Adjustment Assistance – Internal Controls over Reporting

Federal Agency: Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307
Federal Award Number and Year: EDA Project 06-79-05416 – 2013

Corrective Action: Reports will be signed by the President of the County Commissioners

If you have any questions regarding this response, please do not hesitate to contact me.

Sincerely,

Brad Bookout
Director, Delaware County Redevelopment Commission

COUNTY REDEVELOPMENT COMMISSION
DELAWARE COUNTY
AUDIT RESULT AND COMMENT

ERRORS ON CLAIMS

A test of redevelopment claims identified the following deficiencies with an error rate greater than 10 percent:

Of the expenditures tested, 18 percent did not have adequate supporting documentation. This error resulted in \$1,679,071 of expenditures which did not have adequate supporting documentation.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

COUNTY REDEVELOPMENT COMMISSION
DELAWARE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 26, 2014, with Brad Bookout, Director DCRC; Phyllis Kuhl, Deputy Auditor; Donna Patterson, Deputy Auditor; Mary Chambers, County Council member; and Michael Jones, President of the County Council.

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COUNTY FAIRGROUNDS
DELAWARE COUNTY

COUNTY FAIRGROUNDS
DELAWARE COUNTY
AUDIT RESULTS AND COMMENTS

FEES

The fees for camping, building rental, and storage at the fairgrounds have not been approved by the Board of County Commissioners.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

INTERNAL CONTROLS - FAIRGROUNDS

Internal controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient. During the fair, the income generated from several events was used to pay expenses of the event in cash, rather than depositing the receipts and paying the expenses using the claim process. In addition, rodeo expenses were paid in cash using the proceeds of two unrelated events which were not deposited.

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. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

ERRORS ON CLAIMS

A test of claims identified the following deficiencies with an error rate greater than 10 percent:

Of the 23 claims submitted by the Delaware County Exposition Center, Inc., 43 percent did not have adequate supporting documentation. This error resulted in \$9,729 of expenditures which did not have adequate supporting documentation.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

COUNTY FAIRGROUNDS
DELAWARE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 26, 2014, with Donna Patterson, Treasurer of the Fair Board; Phyllis Kuhl, Deputy Auditor; and Mary Chambers, County Council member.

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COUNTY HEALTH DEPARTMENT
DELAWARE COUNTY

COUNTY HEALTH DEPARTMENT
DELAWARE COUNTY
AUDIT RESULT AND COMMENT

COLLECTION OF AMOUNTS DUE

A total amount of \$14,160 was due to the governmental unit as of December 31, 2013, as a result of the following:

1. The Health Department did not charge the \$430 Food Service Inspection Permit fee to 33 schools in Delaware County for the year 2013.
2. The Health Department did not charge the \$430 Food Service Inspection Permit fee to the Elks Club for the year 2013.
3. The \$430 Food Service Inspection Permit fee was incorrectly charged in 3 of the 41 items selected for testing.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

COUNTY HEALTH DEPARTMENT
DELAWARE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 26, 2014, with Jammie Bane, Administrator; Dr. Donna Wilkins, Health Officer; Phyllis Kuhl, Deputy Auditor; Donna Patterson, Deputy Auditor; Michael Jones, President of the County Council; and Mary Chambers, County Council member.

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COUNTY COURTS
DELAWARE COUNTY

COUNTY COURTS
DELAWARE COUNTY
AUDIT RESULT AND COMMENT

RECORD OF HOURS WORKED

A separate record showing which hours were worked for each position was not presented for audit for employees working in probation, courts, or the Public Defender's Office.

Indiana Code 5-11-9-4 requires that records be maintained showing which hours are worked each day for employees employed . . . by (a) public agency. This requirement can be met by indicating the number of hours worked on each Employee's Service Record, General Form No. 99A and/or General Form No. 99B.

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form 99A, Employees' Service Record
General Form 99B, Employee's Earnings Record
General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 5)

COUNTY COURTS
DELAWARE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 26, 2014, with Thomas Cannon Jr., Presiding Judge, and Lana Scroggins, Court Administrator.

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COUNTY PUBLIC DEFENDER'S OFFICE
DELAWARE COUNTY

COUNTY PUBLIC DEFENDER'S OFFICE
DELAWARE COUNTY
AUDIT RESULT AND COMMENT

RECORD OF HOURS WORKED

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COUNTY PUBLIC DEFENDER'S OFFICE
DELAWARE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 26, 2014, with Michael Jones, President of the County Council; Phyllis Kuhl, Deputy Auditor, Donna Patterson, Deputy Auditor; and Mary Chambers, County Council member.