

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

KOSCIUSKO COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
12/12/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Marsha A. McSherry	01-01-11 to 12-31-14
Treasurer	Sue Ann Mitchell	01-01-13 to 12-31-16
Clerk	Jason F. McSherry Ann M. Torpy	01-01-09 to 03-18-13 03-19-13 to 12-31-16
Sheriff	William R. Goshert	01-01-11 to 12-31-14
Recorder	Deborah A. Wright	01-01-11 to 12-31-14
President of the Board of County Commissioners	Ronald D. Truex Bradford Jackson	01-01-13 to 12-31-13 01-01-14 to 12-31-14
President of the County Council	Robert G. Sanders	01-01-13 to 12-31-14



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

TO: THE OFFICIALS OF KOSCIUSKO COUNTY, INDIANA

This report is supplemental to our audit report of Kosciusko 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 Result and Comment 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 Result and Comment contained herein describes the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

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

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

October 9, 2014

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COUNTY AUDITOR
KOSCIUSKO COUNTY

COUNTY AUDITOR
KOSCIUSKO COUNTY
FEDERAL FINDINGS

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

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

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 material misstatements, including notes to the financial statement. The Deputy Auditor independently prepared the annual report without oversight, review, or approval. The financial information entered into the Annual Report was used to compile 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 County Auditors of Indiana, Chapter 14)

FINDING 2013-002 - PREPARATION OF 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 Deputy Auditor independently prepares the SEFA without oversight, review, or approval.

During the audit of the SEFA, we noted the federal expenditures reported by the County were understated by \$288,183 with the following errors: Program Titles and Pass-Through Entity Identifying Numbers were not always accurate or were incomplete, and Total Federal Awards Expended included some State matching amounts. Audit adjustments were proposed, accepted by the County, and made to the SEFA 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.

COUNTY AUDITOR
KOSCIUSKO COUNTY
FEDERAL FINDINGS
(Continued)

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:

- (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.
- (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."



Kosciusko County

Office of the Auditor
Warsaw, Indiana 46580

Marsha McSherry
Auditor

CORRECTIVE ACTION PLAN

FINDING 2013-001

Marsha McSherry, Auditor
Kosciusko County
574-372-2328

Description of Corrective Action Plan:

Please see attached for the Annual Report Process and the Annual Report Process Internal Controls. This process was in place but not formerly presented and approved at the time of audit. At no time was any one Deputy Auditor independently preparing the financial (Annual Report) without oversight, review or approval.

Anticipated Completion Date: October 9, 2014

FINDING 2013-002

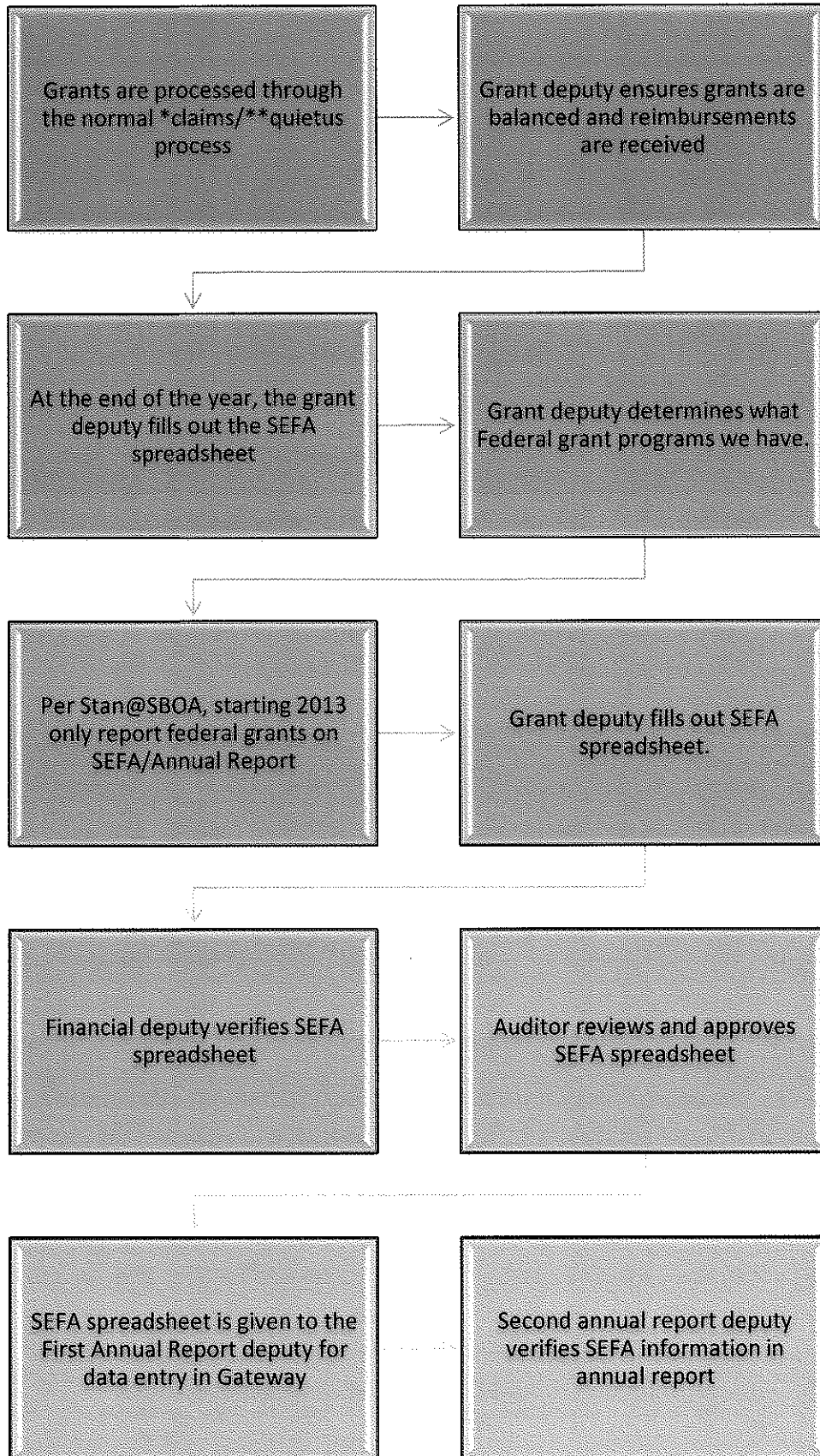
Description of Corrective Action Plan:

Please see attached for the SEFA Process and SEFA Internal Controls. This process was in place but not formerly presented and approved at the time of audit. In the 2013 Audit process we were informed by our SBOA Auditor to process differently than the current Auditor, so I feel that this should not be an audit comment.

Marsha McSherry
(Signature)

Auditor
(Title)

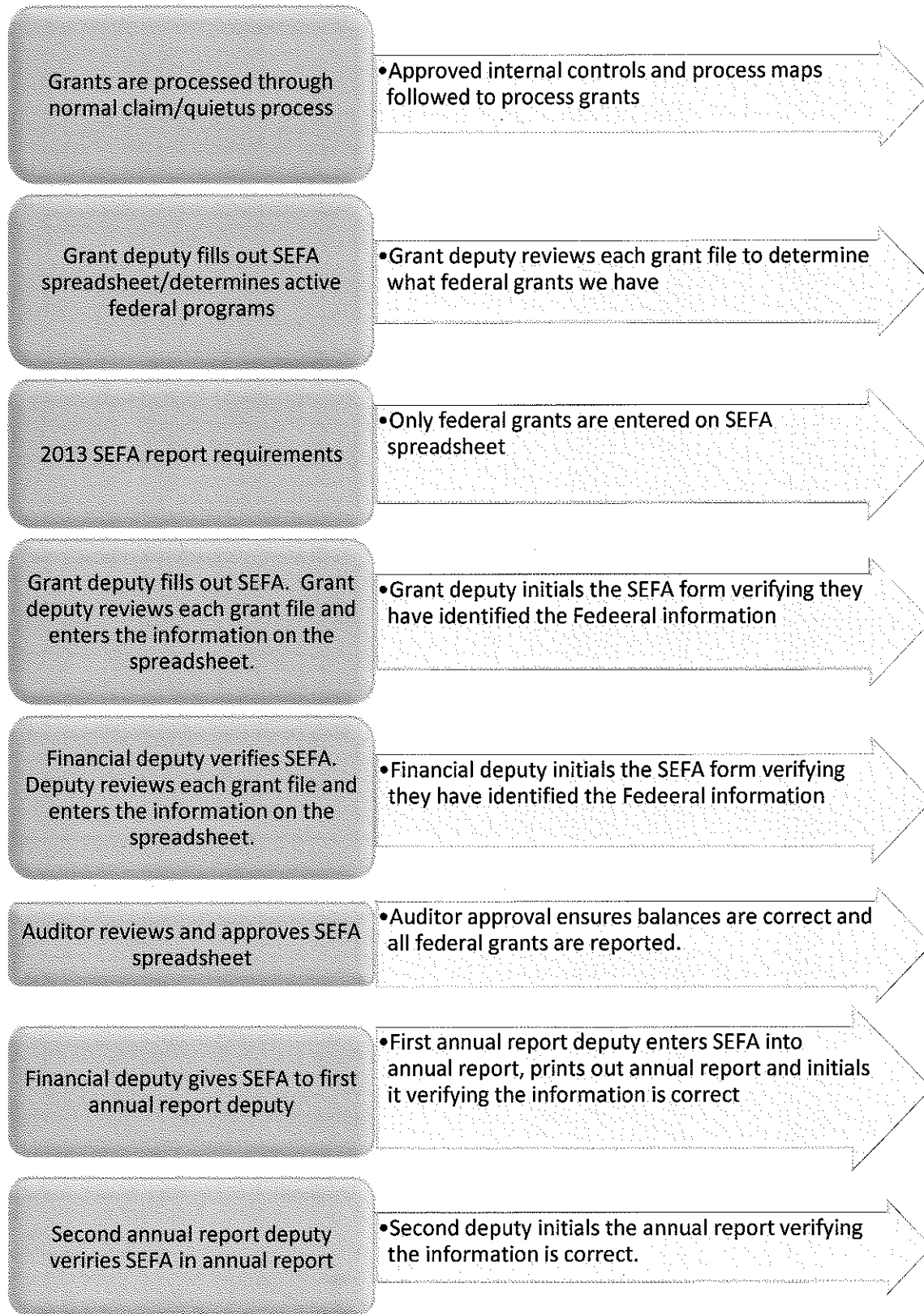
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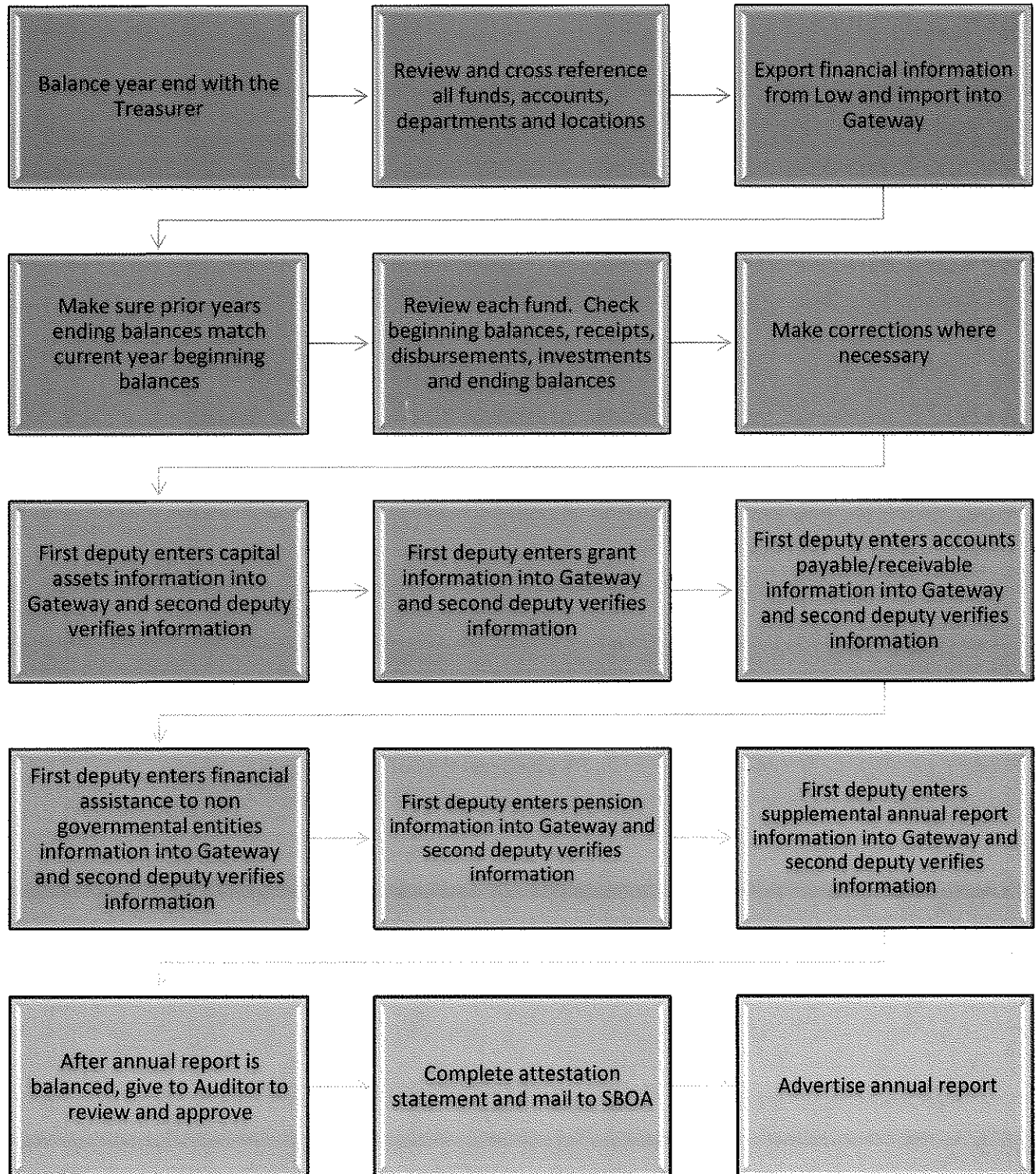
*See Claims process

**See Quietus Process

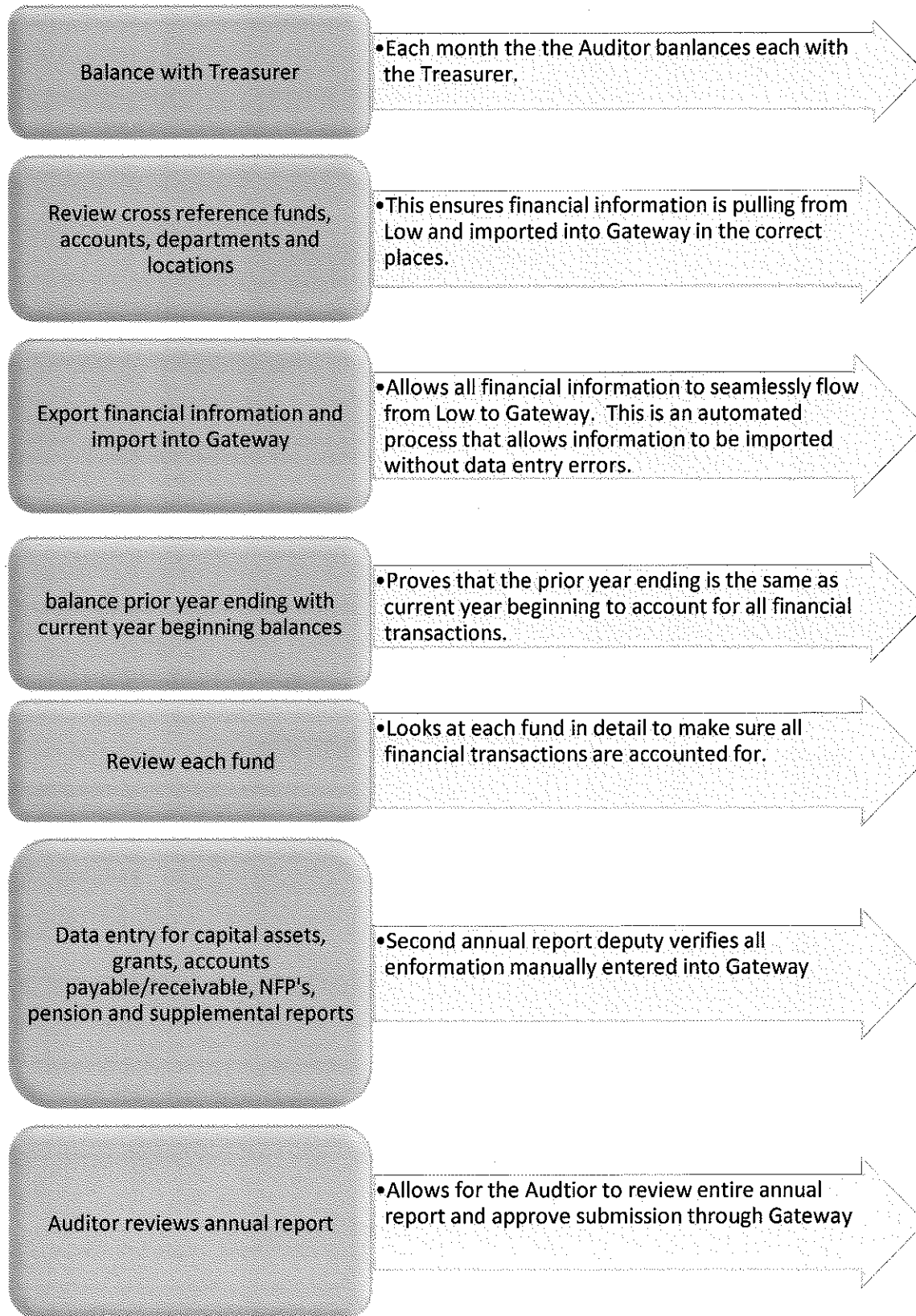
Controls for: SEFA Process



Annual Report Process



Controls for: Annual Report Process



COUNTY AUDITOR
KOSCIUSKO COUNTY
AUDIT RESULT AND COMMENT

COMPENSATION AND BENEFITS

Some County Sheriff officers receive a clothing allowance, which was not included on the salary ordinance or resolution. The officer included in our sample was paid \$11.54 each biweekly pay period, which calculates to \$300 for the year. The total paid from the 2013 Plain Clothes account was \$2,700.

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



Kosciusko County

Office of the Auditor
Warsaw, Indiana 46580

Marsha McSherry
Auditor

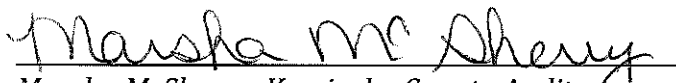
October 14, 2014

State Board of Accounts,

This is the "Official Response" to the 2013 audit finding regarding the absence of the clothing allowance detailed in the salary ordinance.

On September 11, 2014 the Kosciusko County Council adopted the 2015 Salary Ordinance. The ordinance identifies the employees that receive a yearly clothing allowance as well as the amount they receive.

Please let us know if you need anything further.



Marsha McSherry, Kosciusko County Auditor



Bob Sanders, Kosciusko County Council President



Michelle Puckett, Chief Deputy Auditor

COUNTY AUDITOR
KOSCIUSKO COUNTY
EXIT CONFERENCE

The contents of this report were discussed on October 9, 2014, with Marsha A. McSherry, Auditor; Michelle Puckett, Chief Deputy Auditor; and Robert G. Sanders, President of the County Council.

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COUNTY CLERK OF THE CIRCUIT COURT
KOSCIUSKO COUNTY

COUNTY CLERK OF THE CIRCUIT COURT
KOSCIUSKO COUNTY
FEDERAL FINDINGS

FINDING 2013-003 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO CHILD SUPPORT ENFORCEMENT

Federal Agency: Department of Health and Human Services
Federal Program: Child Support Enforcement
CFDA Number: 93.563
Federal Award Number and Year (or Other Identifying Number): Year 2013
Pass-Through Entity: Indiana Department of Child Services

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 to the program. This includes the following compliance requirements: Allowable Activities, Allowable Costs/Cost Principals, Cash Management, Equipment and Real Property, and Reporting. 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.

The County executed an agreement with Maximus Consulting, Inc., for the preparation of the monthly Court and Clerk of the Circuit Court Title IV-D expenditure reimbursement claims to the Department of Child Services (DCS) of the State of Indiana. During 2013, their services included the preparation of the Court's IV-D, and the Clerk's General fund monthly claims for reimbursement as well as the Clerk's IV-D Incentive quarterly reporting based on information provided by the Auditor's Office. The Judge of the Court and the Clerk of the Circuit Court would sign the reimbursement claims and reports, but did not monitor the compliance requirements of the program. During 2013, the Court and the Clerk of the Circuit Court relied on Maximus for all federal compliance requirements and did not review their work.

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

COUNTY CLERK OF THE CIRCUIT COURT
KOSCIUSKO COUNTY
FEDERAL FINDINGS
(Continued)

FINDING 2013-004 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: Department of Health and Human Services
Federal Program: Child Support Enforcement
CFDA Number: 93.563
Federal Award Number and Year (or Other Identifying Number): Year 2013
Pass-Through Entity: Indiana Department of Child Services

The Clerk of the Circuit Court did not maintain records that identify equipment and other property acquired with federal monies. A system did not exist that provided separate identification for items acquired with federal and nonfederal funds and a physical annual inventory of federally purchased equipment was not presented for audit.

As per the Clerk of the Circuit Court's Cooperative Agreement, Part III, Section 5, states: "To maintain an inventory record of equipment used in the Title IV-D program pursuant to instructions issued by the Child Support Bureau."

45 CFR 92.32 - Equipment states in part:

"(a) *Title*. Subject to the obligations and conditions set forth in this section, title to equipment acquired under a grant or subgrant will vest upon acquisition in the grantee or subgrantee respectively.

(b) *States*. A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures. Other grantees and subgrantees will follow paragraphs (c) through (e) of this section.

(c) *Use*.

- (1) Equipment shall be used by the grantee or subgrantee in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by Federal funds. When no longer needed for the original program or project, the equipment may be used in other activities currently or previously supported by a Federal agency.
- (2) The grantee or subgrantee shall also make equipment available for use on other projects or programs currently or previously supported by the Federal Government, providing such use will not interfere with the work on the projects or program for which it was originally acquired. First preference for other use shall be given to other programs or projects supported by the awarding agency. User fees should be considered if appropriate.
- (3) Notwithstanding the encouragement in §92.25(a) to earn program income, the grantee or subgrantee must not use equipment acquired with grant funds to provide services for a fee to compete unfairly with private companies that provide equivalent services, unless specifically permitted or contemplated by Federal statute.
- (4) When acquiring replacement equipment, the grantee or subgrantee may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property, subject to the approval of the awarding agency.

COUNTY CLERK OF THE CIRCUIT COURT
KOSCIUSKO COUNTY
FEDERAL FINDINGS
(Continued)

(d) *Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

(e) *Disposition.* When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment will be made as follows:

- (1) Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency.
- (2) Items of equipment with a current per unit fair market value in excess of \$5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment.
- (3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions."

Failure to maintain detailed and accurate equipment and property records and to reconcile physical inventory could result in assets being lost, stolen, misappropriated, or disposed of improperly and not detected within a reasonable time.

We recommended that Clerk of the Circuit Court ensure accurate detailed capital asset records are maintained and that inventories of property and equipment are conducted at least once every two years and reconciled to the detailed capital asset ledger. Any significant differences should be investigated and the appropriate adjustments made to the records. Also, any assets acquired with federal funds must be designated as such so that they are not disposed of improperly.



KOSCIUSKO CIRCUIT AND SUPERIOR COURTS

Ann Torpy, Clerk

Melissa Boggs, Chief Deputy

121 N Lake St, Room: D162, Warsaw, IN 46580

Telephone: 574-372-2331 Fax: 574-372-2338

Contact Person Responsible for Corrective Action: Ann Torpy, Clerk

Contact Phone Number: 574-265-2638

Finding 2013-003

We have made the following changes to our reporting process for IV-D claiming. We still continue to use Maximus as the preparer for the IV-D expenditure reimbursement claims. I have contacted the County Auditor and Maximus to request past reports that were used to complete the claim in reviewing the payroll and supply purchases reported each month in 2014. Starting with the September report, Maximus and the County Auditor will submit to the Clerk reports to verify that the data submitted on the expenditure reimbursement claim is correct. The claim will not be submitted to the Department of Family and Children until we have verified that the totals are correct.

Finding 2013-004

We have gone through our support office and also past purchases(2009-2014) made with Title IV-D money to verify what inventory we still have on hand and where it is located within the Kosciusko County Clerk's office. The inventory will be updated as purchases are made or products are replaced and logged onto our IV-D inventory spreadsheet. At the end of each year, our child support deputy will verify that the equipment is where it is stated on the inventory spreadsheet or that it is no longer in use by the County Clerk's office. She will sign off on the spreadsheet and it will be kept with our IV-D expenditure reimbursement claims and quarterly reports for the year.

Anticipated Completion Date: September 2014

October 9, 2014

Ann Torpy, Clerk

COUNTY CLERK OF THE CIRCUIT COURT
KOSCIUSKO COUNTY
EXIT CONFERENCE

The contents of this report were discussed on October 9, 2014, with Ann M. Torpy, Clerk.

COUNTY COURTS
KOSCIUSKO COUNTY

COUNTY COURTS
KOSCIUSKO COUNTY
FEDERAL FINDING

FINDING 2013-003 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO CHILD SUPPORT ENFORCEMENT

Federal Agency: Department of Health and Human Services
Federal Program: Child Support Enforcement
CFDA Number: 93.563
Federal Award Number and Year (or Other Identifying Number): Year 2013
Pass-Through Entity: Indiana Department of Child Services

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 to the program. This includes the following compliance requirements: Allowable Activities, Allowable Costs/Cost Principals, Cash Management, Equipment and Real Property, and Reporting. 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.

The County executed an agreement with Maximus Consulting, Inc., for the preparation of the monthly Court and Clerk of the Circuit Court Title IV-D expenditure reimbursement claims to the Department of Child Services (DCS) of the State of Indiana. During 2013, their services included the preparation of the Court's IV-D, and the Clerk's General fund monthly claims for reimbursement as well as the Clerk's IV-D Incentive quarterly reporting based on information provided by the Auditor's Office. The Judge of the Court and the Clerk of the Circuit Court would sign the reimbursement claims and reports, but did not monitor the compliance requirements of the program. During 2013, the Court and the Clerk of the Circuit Court relied on Maximus for all federal compliance requirements and did not review their work.

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

KOSCIUSKO CIRCUIT COURT

54th JUDICIAL CIRCUIT, STATE OF INDIANA

KOSCIUSKO COUNTY JUSTICE BUILDING

121 NORTH LAKE STREET

WARSAW, INDIANA 46580-2749

MICHAEL W. REED
JUDGE

Court Reporter:
(574) 372-2403
Court Administrators:
(574) 372-2402

CORRECTIVE ACTION PLAN

FINDING 2013-003

Contact Person Responsible for Corrective Action: The Honorable Michael W. Reed.
Contact Phone Number: (574) 372-2402

Description of Corrective Action Plan: The Kosciusko County Courts no longer use the services of Maximus Consulting, Inc., for the preparation of monthly Circuit Court Title IV-D Expenditure Reimbursement Claims to the Department of Child Services (DCS) of the State of Indiana as the Court no longer qualifies for reimbursement with respect to these expenses. Although the Agreement with Maximus Consulting, Inc. has not been terminated formally, there is simply no need to utilize their services and no future claim requests are anticipated. Should the Court qualify for these types of reimbursements in the future, and should the services of Maximus Consulting, Inc. be utilized in the future, the Court will assign a specific employee to review and verify the data submitted on the expenditure reimbursement claims to the Department of Child Services (DCS) of the State of Indiana.

Anticipated Completion Date: October 9, 2014.



Michael W. Reed, Judge
Kosciusko Circuit Court

October 9, 2014

COUNTY COURTS
KOSCIUSKO COUNTY
EXIT CONFERENCE

The contents of this report were discussed on October 9, 2014, with Michael W. Reed, Circuit Court Judge.