

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

HARRISON COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
12/19/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Karen Engleman	01-01-11 to 12-31-14
Treasurer	Carol A. Hauswald	01-01-11 to 12-31-14
Clerk	Sally A. Whitis	01-01-13 to 12-31-16
Sheriff	Rodney Seelye	01-01-11 to 12-31-14
Recorder	Barbara Best	01-01-13 to 12-31-16
President of the Board of County Commissioners	Kenny Saulman	01-01-13 to 12-31-14
President of the County Council	Gary Davis	01-01-13 to 12-31-14



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF HARRISON COUNTY, INDIANA

This report is supplemental to our audit report of Harrison 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 Plans for the Federal Findings incorporated within this report, were not verified for accuracy.

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

October 16, 2014

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COUNTY AUDITOR
HARRISON COUNTY

COUNTY AUDITOR
HARRISON COUNTY
FEDERAL FINDINGS

***FINDING 2013-001 - INTERNAL CONTROLS 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.

During the audit of the SEFA, we noted the following errors:

1. One federal grant in the amount of \$1,802 was not reported.
2. The amounts reported for three federal programs were incorrect resulting in an overstatement in the amount of \$181,608.
3. Eight federal awards reported did not include the correct federal program name.
4. The amount of federal awards provided to subrecipients was reported incorrectly.

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.

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
HARRISON COUNTY
FEDERAL FINDINGS
(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 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."

FINDING 2013-002 - 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:

In some instances, funds were disbursed without proper certification or authorization. The majority of disbursements had the County Auditor's signature on the accounts payable voucher certifying the expense. Judges sign accounts payable vouchers for court expenses, and the Park Board and Board of County Commissioners sign a claim docket authorizing other disbursements. Disbursements that were not required by state law to have the Board of County Commissioner's signatures and were made between Board meetings were not always certified or authorized for payment. These disbursements included surplus tax, refunds, education plate fees, tax distributions, and payroll vendor disbursements.

The employee responsible for processing County payroll produced a payroll report for the Board of County Commissioner's approval that included gross pay, net pay, and each deduction by employee. This employee was also responsible for calculating and making all employee and employer benefit payments. Supporting documentation for these payments was retained in the payroll files; however, no review of the documentation was completed by another employee, nor were the checks and/or electronic payments compared to the supporting documentation by any other County employee.

COUNTY AUDITOR
HARRISON COUNTY
FEDERAL FINDINGS
(Continued)

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)

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."

HARRISON COUNTY AUDITOR

245 ATWOOD STREET • STE. 211

CORYDON, INDIANA 47112

(812) 738-8241

CORRECTIVE ACTION PLAN

FINDING 2013-001

Contact Person Responsible for Corrective Action: Harrison County Auditor, Karen Engleman
Contact Phone Number: 812-738-8241

Description of Corrective Action Plan:

The Harrison County Auditor's Office has enacted procedures and started a system of internal controls to prevent or detect errors on the schedule of expenditures of Federal Awards.

Beginning immediately, the Auditor's Office will go to www.cfda.gov to ensure that we are using the correct CFDA# and the correct Federal Program Title/Project Name on all grants.

We will ensure that all federal payments are included on our grant spreadsheet so none are missed in the future.

The Harrison County Auditor and the claims clerk met with the State Board of Accounts Field Examiner for some additional grant training to ensure we are separating the federal, state and local allocations correctly for purposes of reporting on the SEFA and for reporting the correct amount of federal awards to subrecipients.

Anticipated Completion Date: Immediate

Karen Engleman
(Signature)

County Auditor
(Title)

10-7-14
(Date)

KAREN S. ENGLEMAN, AUDITOR

HARRISON COUNTY COMMISSIONERS

245 ATWOOD STREET, STE 211
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FAX: (812) 738-0531



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at Corydon

CORRECTIVE ACTION PLAN

FINDING 2013-002

Contact Person(s) Responsible for Corrective Action:

Harrison County Board of Commissioners President, Kenny Saulman
Harrison County Auditor, Karen Engleman

Contact Phone Number: 812-738-8241

Description of Corrective Action Plan:

The Harrison County Board of Commissioners and the Harrison County Auditor's Office has enacted procedures and started a system of internal controls over financial transactions and reporting.

Beginning September 15, 2014, the Auditor's Office began the practice of submitting an additional accounts payable voucher to the Board of Commissioners, which includes all warrants written after the prior Commissioner meeting accounts payable docket and prior to the current Commissioner meeting accounts payable docket. A balancing sheet presented to the Board of Commissioners at each meeting will verify that all warrants written by the Harrison County Auditor's Office are presented to the County Board of Commissioners or the Harrison County Park Board for approval.

Beginning October 8, 2014, the accounts payable clerk became responsible for auditing the employee and employer benefit documentation completed by the payroll clerk. The payroll clerk will continue to process the county payroll and calculate the employee and employer benefit payments and the County auditor will ensure the accuracy of and sign the payroll vouchers. The accounts payable clerk will review the employee benefits documentation for accuracy and after verifying the information is correct, will then issue checks to the appropriate vendor(s).

Anticipated Completion Date: Immediate

Kenny Saulman
Kenny Saulman

Karen Engleman
Karen Engleman

Commissioner
(Title)

County Auditor
(Title)



10-9-2014
(Date)

10-7-14
(Date)

GEORGE ETHRIDGE
JIM KLINSTIVER
KENNY SAULMAN
KAREN ENGLEMAN, AUDITOR
CHRIS BYRD, ATTORNEY

COUNTY AUDITOR
HARRISON COUNTY
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

The Cumulative Capital Development fund expenditures exceeded the budgeted appropriations by \$6,191.

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

PAYROLL CLEARING ACCOUNTS NOT RECONCILED

The County's Payroll Clearing fund changed from a balance of \$169,261 at December 31, 2008, to a negative balance of \$25,411 at December 31, 2009. Disbursements continued to exceed transfers into the Payroll Clearing fund during 2010 resulting in a negative balance of \$127,850 at December 31, 2010. On October 31, 2011, \$160,259 was transferred into the Payroll Clearing fund from the Riverboat fund to reduce the negative fund balance. Also, on November 1, 2011, individual payroll withholding funds were established to account for payroll withholdings and the Payroll Clearing fund was no longer to be used. As a result, the Payroll Clearing fund had a balance of \$56,545 at December 31, 2011. This balance did not reconcile to any particular withholding accounts. At December 31, 2012, the Payroll Clearing fund had an unidentified amount of \$54,523 and on December 31, 2013, the balance was \$58,726. Numerous other payroll withholding accounts remain with unidentified balances on December 31, 2013; although, the unidentified amounts are relatively immaterial. The County Auditor is currently analyzing all payroll withholding funds to get them reconciled.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconcile bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

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)

COUNTY AUDITOR
HARRISON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on October 16, 2014, with Karen Englemen, Auditor; Kenny Saulman, President of the Board of County Commissioners; and Gary Davis, President of the County Council.

BOARD OF COUNTY COMMISSIONERS
HARRISON COUNTY

BOARD OF COUNTY COMMISSIONERS
HARRISON COUNTY
FEDERAL FINDINGS

FINDING 2013-002 - 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:

In some instances, funds were disbursed without proper certification or authorization. The majority of disbursements had the County Auditor's signature on the accounts payable voucher certifying the expense. Judges sign accounts payable vouchers for court expenses, and the Park Board and Board of County Commissioners sign a claim docket authorizing other disbursements. Disbursements that were not required by state law to have the Board of County Commissioner's signatures and were made between Board meetings were not always certified or authorized for payment. These disbursements included surplus tax, refunds, education plate fees, tax distributions, and payroll vendor disbursements.

The employee responsible for processing County payroll produced a payroll report for the Board of County Commissioner's approval that included gross pay, net pay, and each deduction by employee. This employee was also responsible for calculating and making all employee and employer benefit payments. Supporting documentation for these payments was retained in the payroll files; however, no review of the documentation was completed by another employee, nor were the checks and/or electronic payments compared to the supporting documentation by any other County employee.

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.

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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;

BOARD OF COUNTY COMMISSIONERS
HARRISON COUNTY
FEDERAL FINDINGS
(Continued)

- (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."

FINDING 2013-003 - SUSPENSION AND DEBARMENT

Federal Agency: Department of Homeland Security
Federal Program: Port Security Grant Program
CFDA Number: 97.056
Federal Award Number (or Other Identifying Number): EMW-2011-PU-K00245-S
Pass-Through Entity: Larry D. Allen, LLC

The County does not have policies or standard procedures in place for determining whether or not a vendor has been suspended or excluded from doing business with the federal government.

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 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 and implement controls, including segregation of duties, related to the grant agreement and the compliance requirements applicable to Suspension and Debarment.

HARRISON COUNTY COMMISSIONERS

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CORRECTIVE ACTION PLAN

FINDING 2013-002

Contact Person(s) Responsible for Corrective Action:

Harrison County Board of Commissioners President, Kenny Saulman
Harrison County Auditor, Karen Engleman

Contact Phone Number: 812-738-8241

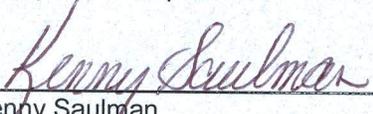
Description of Corrective Action Plan:

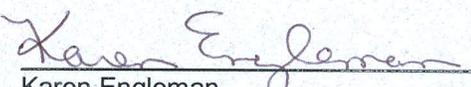
The Harrison County Board of Commissioners and the Harrison County Auditor's Office has enacted procedures and started a system of internal controls over financial transactions and reporting.

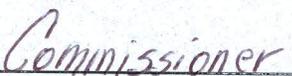
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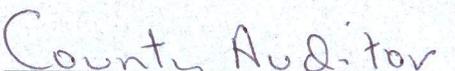
Beginning October 8, 2014, the accounts payable clerk became responsible for auditing the employee and employer benefit documentation completed by the payroll clerk. The payroll clerk will continue to process the county payroll and calculate the employee and employer benefit payments and the County auditor will ensure the accuracy of and sign the payroll vouchers. The accounts payable clerk will review the employee benefits documentation for accuracy and after verifying the information is correct, will then issue checks to the appropriate vendor(s).

Anticipated Completion Date: Immediate

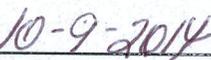

Kenny Saulman

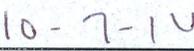

Karen Engleman


(Title)


(Title)




(Date)


(Date)

GEORGE ETHRIDGE
JIM KLINSTIVER
KENNY SAULMAN
KAREN ENGLEMAN, AUDITOR
CHRIS BYRD, ATTORNEY

HARRISON COUNTY COMMISSIONERS

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CORRECTIVE ACTION PLAN

FINDING 2013-003

Contact Person(s) Responsible for Corrective Action:

Harrison County Board of Commissioners President, Kenny Saulman

Contact Phone Number: 812-738-8241

Description of Corrective Action Plan:

The Harrison County Board of Commissioners have enacted procedures and started a system of internal controls over verification that vendors have not been suspended or excluded from doing business with the federal government.

At the October 20, 2014 Harrison County Board of Commissioners' meeting, the Commissioners will delegate the County Auditor to establish segregation of duties related to grant agreements and all compliance requirements applicable to suspension and debarment that have a direct and material effect to the program. The Auditor will be asked check the System for Award Management, or SAM, to verify that the vendor is not on the suspension and debarment list before any grant is approved.

Anticipated Completion Date: October 20, 2014

Kenny Saulman
(Signature)

Commissioner
(Title)

10-9-2014
(Date)



GEORGE ETHRIDGE
JIM KLINSTIVER
KENNY SAULMAN
KAREN ENGLEMAN, AUDITOR
CHRIS BYRD, ATTORNEY

BOARD OF COUNTY COMMISSIONERS
HARRISON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on October 16, 2014, with Kenny Saulman, President of the Board of County Commissioners, and Gary Davis, President of the County Council.