

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

ELKHART COUNTY, INDIANA

January 1, 2013 to December 31, 2013



**FILED**  
03/06/2015



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Pauline E. Graff	01-01-11 to 12-31-14
Treasurer	Jackie L. Meyers	01-01-13 to 12-31-16
Clerk	Wendy S. Hudson	01-01-11 to 12-31-14
Sheriff	Bradley D. Rogers	01-01-11 to 12-31-14
Recorder	Jerry L. Weaver	01-01-11 to 12-31-14
President of the Board of County Commissioners	Terry J. Rodino	01-01-13 to 12-31-14
President of the County Council	John K. Letherman	01-01-13 to 12-31-14



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF ELKHART COUNTY, INDIANA

This report is supplemental to our audit report of Elkhart 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/](http://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 instance 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

December 22, 2014

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COUNTY AUDITOR  
ELKHART COUNTY

COUNTY AUDITOR  
ELKHART COUNTY  
FEDERAL FINDING

***FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE OVER PREPARATION  
OF 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 Auditor's staff independently prepares the SEFA for inclusion in the financial report without oversight, review, or approval. The County should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted that the County's schedule excluded several grants and included a state grant. Additionally, amounts paid to subrecipients were not disclosed, and there were several grants which did not include the correct CFDA number, grant name, or pass-through entity. 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  
ELKHART 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."

# Elkhart County Auditor's Office

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October 6, 2014

State Board of Accounts

Annual Audit 2013 Corrective Action

Finding 2013-1 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING – SEFA

The management of Elkhart County has reviewed the findings and offer the following corrective action:

The Grant Administrator has been utilizing the form that was established for 2013 based on a form presented at the 2005 Auditor's Spring Conference. However, we have been informed that Gateway information was not properly recorded. We have now received instructions on the completion of the Grant information as well as additional areas to research on Grant reporting that will be implemented immediately.

Respectfully submitted,



Pauline E. Graff  
Elkhart County Auditor

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COUNTY AUDITOR  
ELKHART COUNTY  
AUDIT RESULT AND COMMENT

**OVERDRAWN CASH BALANCES**

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

<u>Fund</u>	<u>Amount Overdrawn</u>
County Redevelopment Authority	\$ 734,996
License Excise Tax	55

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

COUNTY AUDITOR  
ELKHART COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on December 22, 2014, with Pauline E. Graff, Auditor; Terry J. Rodino, President of the Board of County Commissioners; and John K. Letherman, President of the County Council.

BOARD OF COUNTY COMMISSIONERS  
ELKHART COUNTY

BOARD OF COUNTY COMMISSIONERS  
ELKHART COUNTY  
FEDERAL FINDING

***FINDING 2013-002 - CASH MANAGEMENT AND REPORTING FOR LEAD-BASED  
PAINT HAZARD CONTROL IN PRIVATELY-OWNED HOUSING***

Federal Agency: Department of Housing and Urban Development  
Federal Program: Lead-Based Paint Hazard Control in Privately-Owned Housing  
CFDA Number: 14.900  
Federal Award Number and Year (or Other Identifying Number): INLHB0541-12

*Internal Controls*

Management of the County has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Cash Management and Reporting compliance requirements that have a direct and material effect to the program. The failure to establish an effective internal control system places the County at risk of noncompliance with the grant agreement and the Cash Management and Reporting 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 received a grant to be used to rehabilitate homes with high concentrations of lead. Per the terms of the grant agreement, this is a reimbursement grant and the County is to submit the LOCCS VRS - Request Voucher for Grant Payment which includes Part 3, Financial Reporting, to the Department of Housing and Urban Development for reimbursement. While there is a system in place to review the reimbursement request and associated reports, the review was not sufficient to detect duplicate reimbursement requests for several contractors.

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."

BOARD OF COUNTY COMMISSIONERS  
ELKHART COUNTY  
FEDERAL FINDING  
(Continued)

*Compliance*

In examining the payment requests and discussing the issue with officials, it was determined that there were several errors in the request process including requesting funds for contracts for which the County had previously been reimbursed. As a result of these errors, the Part 3, Financial Reporting included with the LOCCS was also incorrect.

During the prior audit, the County was made aware of several deficiencies related to reimbursement requests. As a result, they suspended requests for reimbursements until they could be certain that what they submitted for reimbursement was correct. At the end of 2013, there were several thousands of dollars in reimbursements that the County had not claimed. The County has now hired a consultant to examine the records and determine the accurate amount to request reimbursement for.

24 CFR 85.21(d) states in part: "Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met."

24 CFR 85.20 states in part:

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

- (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

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. We also recommended that the County request reimbursement for actual expenses and prepare and submit accurate reports in accordance with the Department of Housing and Urban Development's guidelines.

FINDING 2013-002

Contact Person Responsible for Corrective Action: Kristine Krueger, County Grants Administrator  
Contact Number: 574-535-6746

Corrective Action Plan:

The LHC program is being implemented by only three individuals. Due to the enormous amount of activities; staff time has been consumed with implementing appropriate activities to provide benefits to the community as efficiently and effectively as possible. Due to focus on "field work", and the small number of staff, other areas of the program were unintentionally not given the attention required to ensure successful program implementation. It was realized improvement was needed on the fiscal/reporting aspect. Recognizing the time demand and weight of staff responsibilities the program hired a part-time support person to assist with the improvement process.

At the time of the State Audit, Support staff, the fiscal manager, and program director had already been diligently evaluating fiscal and reporting issues. Support staff began by auditing all financial reports and draw requests from the start of the program (June 2012) forward. The fiscal manager has been conducting a thorough audit of expenses with the assistance of the County Auditor. Throughout this time adjustments have been made to procedures to improve the efficiency and accuracy of the financial and reporting process. These joint efforts have allowed us to locate and correct errors and provided us a clear view of how things are currently operating and what areas need improvement.

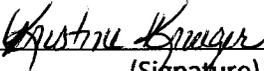
As we move forward, all program staff will be involved with re-evaluating and adapting program policies and standard operating procedures. Adaptation will focus first and foremost on the programs internal control system particularly relating to the financial and reporting practices.

Adaption will involve clear segregation duties, well defined solid accurate, appropriate job duties as means to ensure individuals are not in a position to initiate, approve undertake and review the same activities. Policies and standard operating procedures will be examined and modified to ensure strong and proper oversight, review, approval activities - checks and balances are in place that will assist in preventing inaccurate reporting, detection of errors, and taking corrective action in a more timely and efficient manner.

Policy and standard operating procedure modification will incorporate the following changes:

- Develop a review / audit checklist
- Have random more frequent internal audits
- Research the viability of external audits
- Establish a solid more effective financial and report review policy
- Confirm all reports and fund requests accurately reflect the actual expenditures of the program during the set timeframe – estimations will no longer be acceptable
- Create more fund / drawdown requests –creating a smaller inventory of invoices to track
- Ensure all expenses are clearly identified in fund requests (dates, invoice numbers, etc)
- Copies of all associated documents will be attached to each report and fund requests -  
These may invoices & vouchers, proof of match, and auditor reports.

Evaluation and adaptation of policies and standard operating procedures are scheduled to begin October 31, 2014. Policies and operating procedures will be implemented immediately upon adoption. It is our intent to have our improved internal control system developed, used and well established by the end of the year and will continue through the life of the program. These policies will diligently be used to monitor current and future activities to prevent, detect, and correct errors or implement improvements in an effective and timely manner.

  
\_\_\_\_\_  
(Signature)

Elkhart County Grants Administrator  
(Title)

October 9, 2014  
(Date)

BOARD OF COUNTY COMMISSIONERS  
ELKHART COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on December 22, 2014, with Pauline E. Graff, Auditor; Terry J. Rodino, President of the Board of County Commissioners; and John K. Letherman, President of the County Council.