

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

JACKSON COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
05/22/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Kathy S. Hohenstreiter	01-01-13 to 12-31-16
County Treasurer	Maria L. Fisher	01-01-13 to 12-31-16
Clerk of the Circuit Court	Amanda L. Lowery	01-01-11 to 12-31-18
County Sheriff	Michael E. Carothers	01-01-11 to 12-31-18
County Recorder	Linda Jo Auleman	01-01-11 to 12-31-18
President of the Board of County Commissioners	Jerry Hounshel	01-01-13 to 12-31-15
President of the County Council	Charles S. Murphy Leon Pottschmidt	01-01-13 to 12-31-13 01-01-14 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF JACKSON COUNTY, INDIANA

This report is supplemental to our audit report of Jackson 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

January 15, 2015

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COUNTY AUDITOR
JACKSON COUNTY

COUNTY AUDITOR
JACKSON COUNTY
FEDERAL FINDINGS

***FINDING 2013-001 - INTERNAL CONTROLS AND NONCOMPLIANCE
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:

Annual Report

The financial information input into the County's Annual Report, which is used to compile the County's financial statement, was not properly reviewed and verified to the records of the County's outside offices to determine that no material errors occurred. Receipts, disbursements, and cash and investment balances in the amounts of \$1,797,659, \$872,042, and \$933,496, respectively, were improperly excluded in the Annual Report. As a result, the receipt and disbursement transactions and the beginning cash and investment balances reported on the County's financial statement were understated. Audit adjustments were proposed, approved by the County Auditor, and made to the County's financial statement.

Disbursements

Internal Controls and Segregation of Duties - Payroll

The County Auditor's payroll employee processes the County payroll. This employee was also responsible for calculating and making all employee and employer benefit payments. Supporting documentation for these payments were 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. The County Auditor did not certify these disbursements. The Board of County Commissioners authorized the disbursements for gross pay, but did not authorize the disbursements to payroll vendors.

Internal Controls and Segregation of Duties - Vendor

Numerous vendor disbursements were approved in total by the Board of County Commissioners. The Board of County Commissioners approved some vendor disbursements by individual claim or check numbers, but several were approved from summary sheets listing totals by fund or by vendor. In these cases, the Board of County Commissioners did not see enough detail to be able to determine if a claim with supporting documentation had been approved.

Without the proper system of internal controls in place that operates effectively, material misstatements of the financial statement could occur and remain undetected.

Indiana Code 5-11-4(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 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."

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
JACKSON 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 Counties of Indiana, Chapter 1) (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

FINDING 2013-002 - INTERNAL CONTROLS AND NONCOMPLIANCE OVER THE 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.

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

1. Eight federal grants totaling \$90,499 in expenditures were not reported.
2. The expenditures were reported incorrectly on multiple grants resulting in an overstatement of \$7,123,852.
3. Two federal awards were reported under incorrect federal program names.

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."

COUNTY AUDITOR
JACKSON COUNTY
FEDERAL FINDINGS
(Continued)

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."

Section III - Federal Award Findings and Questioned Costs

FINDING 2013-003 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT ON 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): 2013
Pass-Through Entity: Indiana Department of Child Services

Management of the County has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and some of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Activities Allowed or Unallowed and Allowable Costs/Cost Principles.

COUNTY AUDITOR
JACKSON COUNTY
FEDERAL FINDINGS
(Continued)

The County Auditor's payroll employee processes the County payroll. 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. The County Auditor did not certify these disbursements. The Board of County Commissioners authorized the payments for gross pay, but did not authorize the disbursements to payroll vendors.

Numerous vendor disbursements were approved in total by the Board of County Commissioners. The Board of County Commissioners approved some vendor disbursements by individual claim or check numbers, but several were approved from summary sheets listing totals by fund or by vendor. In these cases, the Board of County Commissioners did not see enough detail to be able to determine if a claim with supporting documentation had been approved.

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 applicable to Activities Allowed or Unallowed and Allowable Costs/Cost Principles.



Kathy S. Hohenstreiter
Auditor of Jackson County

Courthouse

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Brownstown, IN 47220

Phone: 812-358-6161
Fax: 812-358-6172

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FINDING 2013-001-Internal Controls and Noncompliance over Financial transactions and reporting:

Contact Person Responsible for Corrective Action: Kathy S. Hohenstreiter, County Auditor; and Jerry Hounshel, President of the Board of County Commissioners
Contact Phone Number: 812-358-6161

Description of Corrective Action Plan:

Annual Report finding on Supplemental Reports-CAR-1 from Departments –Corrective action (as suggested) will be as follows: when the Supplemental completed form is received into the Auditor's office from the outside department, the Auditor will now request a report to be attached to the CAR-1 form to confirm the information provided on the CAR-1.

Disbursements finding on Payroll and Vendor-Corrective action has already been engaged. Mid 2014, there is now a new financial/payroll vendor for the county. All claims and payroll vouchers produced to the Commissioners for approval have a breakdown which includes physical checks and electronic payment information. All claims received into the Auditor's office have attached invoices for verification. Deductions for payroll are reviewed after being entered by payroll deputy into the payroll systems by Auditor and/or financial deputy. The process that is in place was reviewed by SBOA auditors who were on site while doing the 2013 audit and approved the procedures that are now being used.

Anticipated Completion Date: Already implemented.

Kathy S. Hohenstreiter
(Signature)

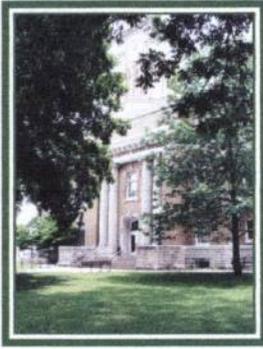
County Auditor
(Title)

January 15, 2015
(Date)

Jerry Hounshel
(Signature)

Co. Commissioner - President
(Title)

Jan. 15, 2015
(Date)



Kathy S. Hohenstreiter
Auditor of Jackson County

Courthouse

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FINDING 2013-002 –Internal Controls and noncompliance over the preparation of the schedule of expenditures of federal awards.

Contact Person Responsible for Corrective Action: Kathy S. Hohenstreiter, County Auditor
Contact Phone Number: 812-358-6161

Description of Corrective Action Plan:

Reporting on Federal Grant information to Gateway:

The reporting of some grants did not have the federal amount received into the county but the entire grant amount. The information that is received from departments will be reviewed closely with department heads to help prevent any omission of grants not being reported. Information that was entered into Gateway that was incomplete or incorrect was not done intentionally.

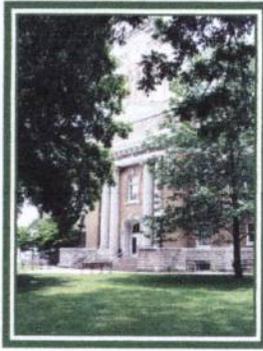
The Auditor will continue to work closely with the departments that have Federal grants and will strive to obtain correct information and to report correct information onto the Gateway site.

Anticipated Completion Date: Implemented for 2014 Gateway reporting.

Kathy S. Hohenstreiter
(Signature)

County Auditor
(Title)

January 15, 2015
(Date)



Kathy S. Hohenstreiter
Auditor of Jackson County

Courthouse

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FINDING 2013-003-Internal Controls over Compliance Requirements that have a Direct and Material Effect on Child Support Enforcement

Contact Person Responsible for Corrective Action: Kathy S. Hohenstreiter, County Auditor; and Jerry Hounshel, President of the Board of County Commissioners
Contact Phone Number: 812-358-6161

Description of Corrective Action Plan:

This finding was explained as being connected to Finding 2013-001, so the corrective action plan for both findings are the same.

Corrective action has already been engaged. Mid 2014, there is now a new financial/payroll vendor for the county. All claims and payroll vouchers produced to the Commissioners for approval have a breakdown which includes physical checks and electronic payment information. All claims received into the Auditor's office have attached invoices for verification. Deductions that are entered into the payroll system by the payroll deputy are viewed by the Auditor and/or financial deputy also. The process that is in place was reviewed by SBOA auditors who were on site while doing the 2013 audit and approved the procedures that are now being used.

Anticipated Completion Date: Already Implemented

Kathy S. Hohenstreiter
(Signature)

Jerry Hounshel
(Signature)

County Auditor
(Title)

Co-Commissioner - President
(Title)

January 15, 2015
(Date)

Jan. 15, 2015
(Date)

COUNTY AUDITOR
JACKSON COUNTY
AUDIT RESULTS AND COMMENTS

COUNTY TREASURER AND COUNTY AUDITOR EXCISE TAX RECONCILIATION AT SETTLEMENT

The County Auditor's and County Treasurer's Excise Tax Reconciliation at Settlement worksheet filed with the Auditor of State's Office for the 2013 spring and fall settlements was not completed properly. Line 8, Minus Excise Tax Received After The Auditor Cut Off Date, was incorrect. The County Auditor's Office was just entering the amount from Line 6, Equals Treasurer and Auditor Excise Tax Difference on Line 8, Minus Excise Tax Received After The Auditor Cut Off Date to balance the report and was not actually reconciling the amount of excise tax received after the auditor cutoff date to the County Auditor's excise tax reports. As a result, there was an error during the Spring Settlement of 2013 resulting in \$737,992 in excise tax not being distributed. In the Spring Settlement of 2014, there was an additional \$7,308 in watercraft excise that did not get distributed. Also, there is an amount of \$390,467 in excise tax that is unidentified from prior years. The amount of excise tax identified as undistributed from the Spring Settlements of 2013 and 2014 is being distributed as part of the Fall Settlement of 2014. The unidentified excise tax is going to be investigated further by the County Auditor's Office prior to being distributed.

County Form No. 24 F, County Auditor's Record of Annual License Excise Tax, has been designed to account for the amounts received, the amounts distributed at each semiannual tax settlement, and the balance of license excise tax on hand.

At the time of each semiannual tax settlement the county treasurer shall report such tax collections, together with the auto rental excise tax and aircraft license excise tax collections discussed in this section, on County Form No. 49TC, County Treasurer's Certificate of Tax Collections, and the total shown by the auditor's records shall be verified with the treasurer's certificate before distribution is made. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 9)

OVERPAYMENT OF STATE'S SHARE OF MORTGAGE FEES

In addition to others fees collected, when the County Recorder records a mortgage on real estate an additional fee of \$3 is to be collected, of which \$.50 is to be deposited into the Recorder's Record Perpetuation fund and \$2.50 to be deposited with the County Auditor into a fund for state share of mortgage recording fees. The County Auditor is responsible for remitting the state share of mortgage fees collected semiannually to the Auditor of State. In May of 2011, the County purchased new software for the County Recorder and there was an error in the set up as to which funds the different fees were to be posted. As a result, the \$3 fee was being deposited to the Recorder's Records Perpetuation fund, and the fee of \$6 for the first page and \$2 for each additional page recorded was being posted to the Mortgage Fee Fund and subsequently remitted semiannually to the state. Since December of 2011, the County has remitted \$143,912.50 more to the state than actual fees collected for the state's share of mortgage fees. The County Recorder contacted the software vendor who has since corrected the error, and the fees are currently being reported correctly to the County Auditor. The County Auditor has contacted the Auditor of State's Office to try and resolve the overpayment.

Indiana Code 36-2-7-10 states in part:

"(a) The county recorder shall tax and collect the fees prescribed by this section for recording, filing, copying, and other services the recorder renders, and shall pay them into the county treasury at the end of each calendar month. The fees prescribed and collected under this section supersede all other recording fees required by law to be charged for services rendered by the county recorder.

(b) The county recorder shall charge the following: . . .

COUNTY AUDITOR
 JACKSON COUNTY
 AUDIT RESULTS AND COMMENTS
 (Continued)

(11) Three dollars (\$3) for each mortgage on real estate recorded, in addition to other fees required by this section, distributed as follows:

(A) Fifty cents (\$0.50) is to be deposited in the recorder's record perpetuation fund.

(B) Two dollars and fifty cents (\$2.50) is to be distributed to the auditor of state on or before June 20 and December 20 of each year as provided in IC 24-9-9-3."

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

OVERDRAWN CASH BALANCES

The financial statement included the following fund with an overdrawn cash balance at December 31, 2013:

Fund	Amount Overdrawn
Comm Corr Grant-157	\$ <u>12,000</u>

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)

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Year	Excess Amount Expended
Emergency Medical Services	2013	\$ <u>11,977</u>

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."

CLASSIFICATION OF QUIETUSES

Instances were noted in which the County Auditor received collections in the form of both cash and checks and noted the classification as "other" on the quietus. Therefore, it was not possible to determine if the quietuses were deposited intact.

Indiana Code 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."



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January 26, 2015

Here are the responses to the following findings for the 2013 audit for Jackson County.

County Treasurer and County Auditor Excise Tax Reconciliation at Settlement-

The Excise Software was changed in late 2011. With this change came multiple reports. The report given to perform the settlement disbursement was the incomplete report. This report did not encompass the entire excise amount. All batches received from the BMV were processed in the system are in balance. This error has resulted in the excess funds of \$737,991.59. This amount was distributed in the Fall 2014 settlement.

In the spring of 2014, the error in Watercraft excise for the amount of \$7,307.60 results from the delay of posting the transaction in the excise software. These were not posted before the report was given for settlement purposes. All batches are now posted and in balance. This amount was distributed in the Fall 2014 settlement.

The unidentified balance amount of \$390,467.14 was brought forth from the prior excise software. The amount has been investigated by the Auditor's office and completed. The amount will be disbursed to the appropriate places at the June Settlement in 2015.

Overpayment of State's Share of Mortgage Fees-

When the overpayment was verified, the vendor who installed the collection distribution data (mid year 2011) was contacted by the Recorder immediately. The data was corrected by vendor within 24 hours and collection that were received into the Auditor's office for the month of December were correct. The State was notified and information with breakdown was sent to the Settlement department on December 4, 2014. At this time the Settlement department is reviewing the information, but stated that they were aware of the overpayment and stated there would not be a problem with the overpaid amount being sent back to the County once the review is completed.

Community Correction Grant -fund 157 - Overdrawn amount of \$12,000

This fund is in the corrective phase.

In 2005 when information was brought from the old financial accounting system to the new software - this fund was -\$15,544.44. When the negative fund balance was reviewed in 2011 or 2012 the agreement was made with the Community Corrections Board to reimburse this fund back to a zero balance. On October 30, 2013 there was a payment of \$3,331.51 and on August 29, 2014 there was another payment of \$6,000.00. When the last payment of \$6,000.00 is made in 2015 this fund will then be zero. The understanding is that this was a recording error, there was more than one fund tied to the

Community Corrections and the revenues were receipted into the wrong fund-causing the negative balance.

Emergency Medical Services – 2013-Excess Amount Expended

At the end of December in 2013, EMS had two appropriations that were negative. There was not adequate time to advertise for the additional. The situation was taken to the County Attorney. With a supporting cash balance in the EMS fund, the County Attorney prepared Ordinance 2013-No. 31, Council Bill No. 23. The Ordinance was taken to the last Council meeting of the year and approved by the Council. This situation was out of the ordinary. SBOA has always instructed to consult your County Attorney, which was done.

Respectively Submitted,



Kathy S. Hohenstreiter
Jackson County Auditor

COUNTY AUDITOR
JACKSON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on January 15, 2015, with Kathy S. Hohenstreiter, County Auditor; Jerry Hounshel, President of the Board of County Commissioners; and Leon Pottschmidt, President of the County Council.

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BOARD OF COUNTY COMMISSIONERS
JACKSON COUNTY

BOARD OF COUNTY COMMISSIONERS
JACKSON COUNTY
FEDERAL FINDINGS

***FINDING 2013-001 - INTERNAL CONTROLS AND NONCOMPLIANCE
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:

Annual Report

The financial information input into the County's Annual Report, which is used to compile the County's financial statement, was not properly reviewed and verified to the records of the County's outside offices to determine that no material errors occurred. Receipts, disbursements, and cash and investment balances in the amounts of \$1,797,659, \$872,042, and \$933,496, respectively, were improperly reported in the Annual Report. As a result, the receipt and disbursement transactions and the beginning cash and investment balances reported on the County's financial statement were understated. Audit adjustments were proposed, approved by the County Auditor, and made to the County's financial statement.

Disbursements

Internal Controls and Segregation of Duties - Payroll

The County Auditor's payroll employee processes the County payroll. This employee was also responsible for calculating and making all employee and employer benefit payments. Supporting documentation for these payments were 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. The County Auditor did not certify these disbursements. The Board of County Commissioners authorized the disbursements for gross pay, but did not authorize the disbursements to payroll vendors.

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Without the proper system of internal controls in place that operates effectively, material misstatements of the financial statement could occur and remain undetected.

Indiana Code 5-11-4(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 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."

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.

BOARD OF COUNTY COMMISSIONERS
JACKSON 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 Counties of Indiana, Chapter 1) (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

FINDING 2013-003 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT ON 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): 2013
Pass-Through Entity: Indiana Department of Child Services

Management of the County has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and some of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Activities Allowed or Unallowed and Allowable Costs/Cost Principles.

The County Auditor's payroll employee processes the County payroll. 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. The County Auditor did not certify these disbursements. The Board of County Commissioners authorized the payments for gross pay, but did not authorize the disbursements to payroll vendors.

Numerous vendor disbursements were approved in total by the Board of County Commissioners. The Board of County Commissioners approved some vendor disbursements by individual claim or check numbers, but several were approved from summary sheets listing totals by fund or by vendor. In these cases, the Board of County Commissioners did not see enough detail to be able to determine if a claim with supporting documentation had been approved.

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
JACKSON COUNTY
FEDERAL FINDINGS
(Continued)

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 applicable to Activities Allowed or Unallowed and Allowable Costs/Cost Principles.



Kathy S. Hohenstreiter
Auditor of Jackson County

Courthouse

111 South Main Street
Suite 118
Brownstown, IN 47220

Phone: 812-358-6161
Fax: 812-358-6172

Email: auditor@jacksoncounty.in.gov

FINDING 2013-001-Internal Controls and Noncompliance over Financial transactions and reporting:

Contact Person Responsible for Corrective Action: Kathy S. Hohenstreiter, County Auditor; and Jerry Hounshel, President of the Board of County Commissioners
Contact Phone Number: 812-358-6161

Description of Corrective Action Plan:

Annual Report finding on Supplemental Reports-CAR-1 from Departments –Corrective action (as suggested) will be as follows: when the Supplemental completed form is received into the Auditor's office from the outside department, the Auditor will now request a report to be attached to the CAR-1 form to confirm the information provided on the CAR-1.

Disbursements finding on Payroll and Vendor-Corrective action has already been engaged. Mid 2014, there is now a new financial/payroll vendor for the county. All claims and payroll vouchers produced to the Commissioners for approval have a breakdown which includes physical checks and electronic payment information. All claims received into the Auditor's office have attached invoices for verification. Deductions for payroll are reviewed after being entered by payroll deputy into the payroll systems by Auditor and/or financial deputy. The process that is in place was reviewed by SBOA auditors who were on site while doing the 2013 audit and approved the procedures that are now being used.

Anticipated Completion Date: Already implemented.

Kathy S. Hohenstreiter
(Signature)

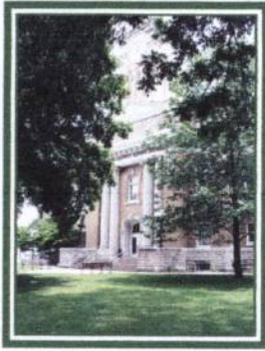
County Auditor
(Title)

January 15, 2015
(Date)

Jerry Hounshel
(Signature)

Co. Commissioner - President
(Title)

Jan. 15, 2015
(Date)



Kathy S. Hohenstreiter
Auditor of Jackson County

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FINDING 2013-003-Internal Controls over Compliance Requirements that have a Direct and Material Effect on Child Support Enforcement

Contact Person Responsible for Corrective Action: Kathy S. Hohenstreiter, County Auditor; and Jerry Hounshel, President of the Board of County Commissioners
Contact Phone Number: 812-358-6161

Description of Corrective Action Plan:

This finding was explained as being connected to Finding 2013-001, so the corrective action plan for both findings are the same.

Corrective action has already been engaged. Mid 2014, there is now a new financial/payroll vendor for the county. All claims and payroll vouchers produced to the Commissioners for approval have a breakdown which includes physical checks and electronic payment information. All claims received into the Auditor's office have attached invoices for verification. Deductions that are entered into the payroll system by the payroll deputy are viewed by the Auditor and/or financial deputy also. The process that is in place was reviewed by SBOA auditors who were on site while doing the 2013 audit and approved the procedures that are now being used.

Anticipated Completion Date: Already Implemented

Kathy S. Hohenstreiter
(Signature)

Jerry Hounshel
(Signature)

County Auditor
(Title)

Co-Commissioner-President
(Title)

January 15, 2015
(Date)

Jan. 15, 2015
(Date)

BOARD OF COUNTY COMMISSIONERS
JACKSON COUNTY
AUDIT RESULT AND COMMENT

CONTRACTING DISCLOSURE REQUIREMENTS

Reedy Financial Group PC was paid \$96,664.02 during the year 2013.

Eric Reedy, owner of Reedy Financial Group, PC, is a brother to County Commissioner, Matt Reedy. Eric Reedy was under the direct supervision of the Board of County Commissioners.

On December 31, 2013, Matt Reedy filed an annual certification of compliance with the nepotism law with the Jackson County Clerk of the Circuit Court. The certification states the Matt Reedy had not violated the Jackson County Nepotism Policy in hiring and supervision of employees.

No evidence could be located during the audit that the required contract disclosure requirements had been followed during the audit period.

Indiana Code 36-1-21-5 states:

"Contract disclosure requirements

(a) A unit may enter into a contract or renew a contract for the procurement of goods and services or a contract for public works with:

- (1) an individual who is a relative of an elected official; or
- (2) a business entity that is wholly or partially owned by a relative of an elected official; only if the requirements of this section are satisfied and the elected official does not violate IC 35-44.1-1-4.

(b) A unit may enter into a contract or renew a contract with an individual or business entity described in subsection (a) if:

- (1) the elected official files with the unit a full disclosure, which must:
 - (A) be in writing;
 - (B) describe the contract or purchase to be made by the unit;

BOARD OF COUNTY COMMISSIONERS
JACKSON COUNTY
AUDIT RESULT AND COMMENT
(Continued)

(C) describe the relationship that the elected official has to the individual or business entity that contracts or purchases;

(D) be affirmed under penalty of perjury;

(E) be submitted to the legislative body of the unit and be accepted by the legislative body in a public meeting of the unit prior to final action on the contract or purchase; and

(F) be filed, not later than fifteen (15) days after final action on the contract or purchase, with:

(i) the state board of accounts; and

(ii) the clerk of the circuit court in the county where the unit takes final action on the contract or purchase;

(2) the appropriate agency of the unit:

(A) makes a certified statement that the contract amount or purchase price was the lowest amount or price bid or offered; or

(B) makes a certified statement of the reasons why the vendor or contractor was selected; and

(3) the unit satisfies any other requirements under IC 5-22 or IC 36-1-12.

(c) An elected official shall also comply with the disclosure provisions of IC 35-44.1-1-4, if applicable.

(d) This section does not affect the initial term of a contract in existence at the time the term of office of the elected official of the unit begins."

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Telephone 812.524.9000
Facsimile 812.524.9001

April 21, 2015

OFFICIAL RESPONSE

State Board of Accounts
302 W. Washington Street
Room E418
Indianapolis, IN 46204-2765

Re: Jackson County Audit

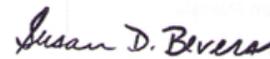
Dear Sir/Madam:

Please consider this the official response of the Jackson County Commissioners with regard to the audit of the records of the Jackson County Auditor for the year 2013. For calendar year 2013, the Jackson County Council voted to retain Reedy Financial Group as the financial advisor to the council. I.C. 32-2-3-6 specifically states, "the fiscal body may employ legal and administrative personnel necessary to assist and advise it in the performance of its functions and duties."

The Jackson County Commissioners do not agree that Eric Reedy was under the direct supervision of the Board of County Commissioners, which is commented on under *Audit Results and Comment – Contracting Disclosure Requirements*. The financial advisor is hired by the county council. The county council negotiates and determines the pay of the financial advisor. Commissioner Reedy did not have communications with anyone at Reedy Financial Group regarding the work being performed on behalf of Jackson County. Additionally, neither Commissioner Reedy, nor any other county commissioner, have supervisory authority over the work of Reedy Financial Group.

Thank you for your attention to this matter.

Sincerely,



Susan D. Bevers

SDB/ms

BOARD OF COUNTY COMMISSIONERS
JACKSON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on January 15, 2015, with Jerry Hounshel, President of the Board of County Commissioners, and Leon Pottschmidt, President of the County Council.

COUNTY TREASURER
JACKSON COUNTY

COUNTY TREASURER
JACKSON COUNTY
AUDIT RESULT AND COMMENT

COUNTY TREASURER AND COUNTY AUDITOR EXCISE TAX RECONCILIATION AT SETTLEMENT

The County Auditor's and County Treasurer's Excise Tax Reconciliation at Settlement Worksheet filed with the Auditor of State's Office for the 2013 spring and fall settlements was not completed properly. Line 8, Minus Excise Tax Received After The Auditor Cut Off Date, was incorrect. The County Auditor's Office was just entering the amount from Line 6, Equals Treasurer and Auditor Excise Tax Difference on Line 8, Minus Excise Tax Received After The Auditor Cut Off Date to balance the report and was not actually reconciling the amount of excise tax received after the auditor cutoff date to the County Auditor's excise tax reports. As a result, there was an error during the Spring Settlement of 2013 resulting in \$737,992 in excise tax not being distributed. In the Spring Settlement of 2014, there was an additional \$7,308 in watercraft excise that did not get distributed. Also, there is an amount of \$390,467 in excise tax that is unidentified from prior years. The amount of excise tax identified as undistributed from the Spring Settlements of 2013 and 2014 is being distributed as part of the Fall Settlement of 2014. The unidentified excise tax is going to be investigated further by the County Auditor's Office prior to being distributed.

County Form No. 24 F, County Auditor's Record of Annual License Excise Tax, has been designed to account for the amounts received, the amounts distributed at each semiannual tax settlement, and the balance of license excise tax on hand.

At the time of each semiannual tax settlement the county treasurer shall report such tax collections, together with the auto rental excise tax and aircraft license excise tax collections discussed in this section, on County Form No. 49TC, County Treasurer's Certificate of Tax Collections, and the total shown by the auditor's records shall be verified with the treasurer's certificate before distribution is made. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 9)

COUNTY TREASURER
JACKSON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on January 15, 2015, with Maria L. Fisher, County Treasurer; Jerry Hounshel, President of the Board of County Commissioners; and Leon Pottschmidt, President of the County Council.

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COUNTY RECORDER
JACKSON COUNTY

COUNTY RECORDER
JACKSON COUNTY
AUDIT RESULTS AND COMMENT

OVERPAYMENT OF STATE'S SHARE OF MORTGAGE FEES

In addition to others fees collected, when the County Recorder records a mortgage on real estate an additional fee of \$3 is to be collected, of which \$.50 is to be deposited into the Recorder's Record Perpetuation fund and \$2.50 to be deposited with the County Auditor into a fund for state share of mortgage recording fees. The County Auditor is responsible for remitting the state share of mortgage fees collected semiannually to the Auditor of State. In May of 2011, the County purchased new software for the County Recorder and there was an error in the set up as to which funds the different fees were to be posted. As a result, the \$3 fee was being deposited to the Recorder's Records Perpetuation fund, and the fee of \$6 for the first page and \$2 for each additional page recorded was being posted to the Mortgage Fee Fund and subsequently remitted semiannually to the state. Since December of 2011, the County has remitted \$143,912.50 more to the state than actual fees collected for the state's share of mortgage fees. The County Recorder contacted the software vendor who has since corrected the error, and the fees are currently being reported correctly to the County Auditor. The County Auditor has contacted the Auditor of State's Office to try and resolve the overpayment.

Indiana Code 36-2-7-10 states in part:

"(a) The county recorder shall tax and collect the fees prescribed by this section for recording, filing, copying, and other services the recorder renders, and shall pay them into the county treasury at the end of each calendar month. The fees prescribed and collected under this section supersede all other recording fees required by law to be charged for services rendered by the county recorder.

(b) The county recorder shall charge the following: . . .

(11) Three dollars (\$3) for each mortgage on real estate recorded, in addition to other fees required by this section, distributed as follows:

(A) Fifty cents (\$0.50) is to be deposited in the recorder's record perpetuation fund.

(B) Two dollars and fifty cents (\$2.50) is to be distributed to the auditor of state on or before June 20 and December 20 of each year as provided in IC 24-9-9-3."

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for County Recorders of Indiana, Chapter 9)

COUNTY RECORDER
JACKSON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on January 15, 2015, with Brittaney McIlquham, First Deputy Recorder; Jerry Hounshel, President of the Board of County Commissioner; and Leon Pottschmidt, President of the County Council.