

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

NORTHWEST INDIANA HEALTH
DEPARTMENT COOPERATIVE
LAKE COUNTY, INDIANA

January 1, 2013 to December 31, 2014



FILED
11/24/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Project Director	Rise Ratney	01-01-13 to 12-31-15
Executive Director	Dr. Roland Walker	01-01-13 to 12-31-15
Fiscal Officer	Kimberly Anderson M. Celita Green	01-01-13 to 08-15-13 08-16-13 to 12-31-15
President of the Board	Roosevelt Allen, Jr.	01-01-13 to 12-31-15



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

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

TO: THE OFFICIALS OF THE NORTHWEST INDIANA HEALTH
DEPARTMENT COOPERATIVE, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the Northwest Indiana Health Department Cooperative (Cooperative), for the period from January 1, 2013 to December 31, 2014. 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 Cooperative. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Cooperative, which provides our opinions on the Cooperative'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

September 15, 2015

NORTHWEST INDIANA HEALTH DEPARTMENT COOPERATIVE
FEDERAL FINDINGS

***FINDING 2014-001 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING***

The Cooperative has deficiencies in the internal control system related to financial transactions and reporting.

Monitoring of Controls

An evaluation of the Cooperative's system of internal control has not been conducted. The failure to monitor the internal control system places the Cooperative at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, misstatements in a timely manner. Additionally, the Cooperative has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the Cooperative to monitor and assess the quality of the system of internal control.

Financial Reporting

The internal controls over financial reporting were not effective. The financial statement did not include donations received in both 2013 and 2014. Additionally, when the records were transferred to the new fiscal agent the NWI Health Department Cooperative fund was closed out and a new fund, Elimination of Disparities, was established. Both funds were presented on the financial statement resulting in the balance of \$48,498 to be reported twice.

Schedule of Expenditures of Federal Awards (SEFA)

The internal controls over the SEFA were not effective. The Cooperative should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

The SEFA presented for audit included \$96,279 in state grant funds which were not federally funded.

Audit adjustments were proposed, approved, and made to the financial statement and 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 Special Districts, Chapter 10)

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

NORTHWEST INDIANA HEALTH DEPARTMENT COOPERATIVE
FEDERAL FINDINGS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide 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 2014-002 - ALLOWABLE COSTS/COSTS PRINCIPLES

Federal Agency: Department of Health and Human Services

Federal Program: Healthy Start Initiative

CFDA Number: 93.926

Federal Award Numbers: 5 H49MC00083-12-00, 5 H49MC00083-13-00,
6 H49MC00083-11-01, 6 H49MC00083-12-01

NORTHWEST INDIANA HEALTH DEPARTMENT COOPERATIVE
FEDERAL FINDINGS
(Continued)

The Cooperative operates an Eliminating Disparities in Prenatal Health Program funded by the Healthy Start Initiative grant from the Department of Health and Human Services. All transactions related to the program are recorded in the Elimination of Disparities fund maintained by the fiscal agent. This includes, but is not limited to, salaries and benefits, transportation for clients, and supplies and services.

Management of the Cooperative has not established an effective internal control system, to ensure that only allowable, approved, and adequately documented costs are paid with Healthy Start Initiative program funds.

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis.

The grant fund is used for the payment of wages of Healthy Start employees, including a portion of the Fiscal Officers' salary for fiscal years 2013 and 2014. The Fiscal Officers worked a portion of their time on Healthy Start activities and a portion of their time on other City duties. Time records were not the basis to support the distribution of a portion of their salaries to the program. The basis for the payment was the Salary Ordinance adopted by the Common Council of the City. Documentation of the calculation or determination of the basis for the allocated amount in the Salary Ordinance was not provided for audit. This resulted in the payment of salaries without adequate support as required by OMB Circular A-87. The gross wages charged to the federal grant for Fiscal Officer compensation from January 1, 2013 to December 31, 2014, totaled \$33,664 and is considered a questioned cost.

OMB Circular A-87, Attachment B, Section 8, Compensation for personal services, states in part:

"h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation. . . .

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost 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."

NORTHWEST INDIANA HEALTH DEPARTMENT COOPERATIVE
FEDERAL FINDINGS
(Continued)

The failure to establish internal controls enabled noncompliance to go undetected. The failure to comply with compliance requirements could result in the loss of federal funds to the Cooperative.

We recommended that the Cooperative's management establish controls to ensure compliance and comply with the Allowable Costs/Costs Principles requirements of the program.

FINDING 2014-003 - PERIOD OF AVAILABILITY

Federal Agency: Department of Health and Human Services

Federal Program: Healthy Start Initiative

CFDA Number: 93.926

Federal Award Numbers: 5 H49MC00083-12-00, 5 H49MC00083-13-00,
6 H49MC00083-11-01, 6 H49MC00083-12-01

Internal Controls

The Cooperative operates an Eliminating Disparities in Prenatal Health Program funded by the Healthy Start Initiative grant from the Department of Health and Human Services. All transactions related to the program are recorded in the Elimination of Disparities fund maintained by the Fiscal Agent.

Management of the Cooperative has not established an effective internal control system, to ensure that grant obligation and disbursements are within the allowed period of availability. Records are not maintained in a manner to identify the period of availability that a disbursement would be covered by.

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis.

Compliance

The Cooperative changed Fiscal Agents in August 2013. The computerized accounting system and the ledgers generated from the new Fiscal Agent's accounting software did not contain identifying account numbers assigned or used for the different grant periods to track expenses from the various periods of obligation. A separate spreadsheet or other record is not maintained to identify the correct grant period or track period of availability. Four separate grant funding periods were possible during the audit period. It could not be determined which obligations were being charged to which funding period due to the lack of adequate identifying information. Period of availability could not be determined from the records, and therefore could not be tested for compliance.

45 CFR 92.23 states in part:

"(a) Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period . . .

(b) A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period . . . "

NORTHWEST INDIANA HEALTH DEPARTMENT COOPERATIVE
FEDERAL FINDINGS
(Continued)

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 enabled material noncompliance to go undetected. The failure to materially comply with the compliance requirements could result in the loss of federal funds to the Cooperative.

We recommended that the Cooperative's management establish controls to ensure compliance and comply with Period of Availability requirements of the program.

FINDING 2014-004 - REPORTING

Federal Agency: Department of Health and Human Services

Federal Program: Healthy Start Initiative

CFDA Number: 93.926

Federal Award Numbers: 5 H49MC00083-12-00, 5 H49MC00083-13-00, 6 H49MC00083-12-01

Management of the Cooperative has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Reporting compliance requirement.

The quarterly financial reports and the annual financial report were prepared by the Fiscal Officer. The Fiscal Officer was solely responsible for verifying the data online, submitting the reports, and signing the reports. As a result, there was a lack of segregation of duties over the Reporting compliance requirement for these reports.

The failure to establish an effective internal control system places the Cooperative at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

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 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."

NORTHWEST INDIANA HEALTH DEPARTMENT COOPERATIVE
FEDERAL FINDINGS
(Continued)

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the Cooperative.

We recommended that the Cooperative's management establish controls, including segregation of duties, related to the grant agreement, and the Reporting compliance requirement.

CORRECTIVE ACTION PLAN

FINDING

Contact Person Responsible for Corrective Action: Risë L. Ratney, Project Director, NWI Healthy Start
Contact Phone Number: 219 886-0028

Description of Corrective Action Plan:

2014-001 INTERNAL CONTROLS AND COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING

In 2013, the Health Cooperative transferred its Fiscal Agent responsibilities from the City of East Chicago to the City of Gary. The files, the annual report, and previous audits did not reflect the fact that the donations had been deposited and recorded with the grant revenues, therefore, the City of Gary had no knowledge of donations received prior to the donations fund being established in 2014 by the City of Gary.

As a result, the Donations reported on the financial reports were understated, and the grant revenues were overstated.

In addition, even though the grant number was the same in the City of East Chicago, and the City of Gary, the Local Fund names were different and consequently separated incorrectly on the SEFA according to the Local Fund name.

We believe that the circumstances regarding these audit findings are extenuating considering the transition of transferring the grant not only from one City to another, but from different financial systems and processes to another, and we do not foresee these issues occurring in the future.

2014-002- ALLOWABLE COSTS/COST PRINCIPLES

The OMB Circular A-87, Attachment B, Section 8-H indicates that: *"Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection-5, unless other substitute system has been approved by the cognizant Federal agency".*

Health and Human Services has approved a method of payment of salaries based on a percentage of total administration budget and reasonable expectations of a fiscal agent, which has been used for at least the past 20 years. We have contacted the Health and Human Services Grant Administrator (HHS) Specialist for the Healthy Start program, who confirmed that the current method used is appropriate and reasonable. She also indicated that HHS performs their own audit, and that a time and effort reporting requirement has never resulted in a finding for the fiscal agent.

2014-003 – PERIOD OF AVAILABILITY

We currently have in place a grant eligibility approval form which requires the review of a person who is knowledgeable of the period of availability requirement. The form requires the review and approval by the Project Fiscal Clerk, the Grant Administrator, as well as the Controller. This form was created as a result of the 2012 previous audit and designed to address the risk both unallowable costs and expenditures paid within the period of availability.

Additionally, we are considering updating our current software system to be able to account for expenditures within each separate grant period.

2014-004 – REPORTING

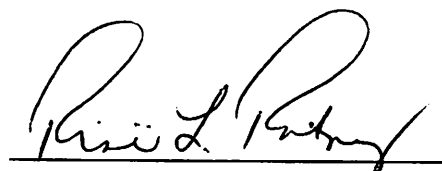
The Quarterly Reports in the Payment Management System are based on the drawdowns requested in the system. The drawdowns are prepared by the Grant Administrator, approved by the Controller, reviewed and drawn down by the Fiscal Clerk.

When submitting the Quarterly Report, all drawdowns requested for the quarter are reconciled to the RDS system for by the Fiscal Officer.

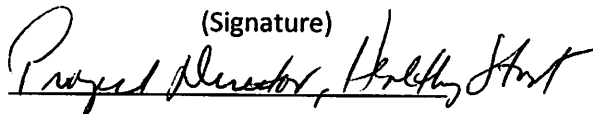
When filing the Annual Report both the Grant Administrator and Fiscal Officer review the Quarterly reports with supporting documentation to assure that it reconciles to the RDS system for the Annual Reporting Period.

The internal controls that are used to process Draw Downs, Quarterly Reporting, and Annual Reporting, are currently verbally documented. However, we are currently reviewing our Internal Controls to ensure that all procedures are documented in writing.

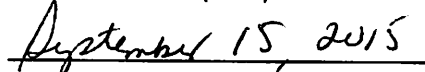
Anticipated Completion Date: December, 2015



(Signature)



(Title)



(Date)

NORTHWEST INDIANA HEALTH DEPARTMENT COOPERATIVE AUDIT RESULTS AND COMMENTS

COMPENSATION ORDINANCES

The City of Gary became the fiscal agent for the Northwest Indiana Health Department Cooperative (Cooperative) in 2013. The Common Council of the City adopted several ordinances establishing Cooperative employees' compensation for 2013 and 2014. The Cooperative did not comply with the ordinances for individuals paid from the various grants, which resulted in several individuals being paid less than the amounts authorized in the salary ordinances.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PUBLIC RECORDS RETENTION

Several time cards requested for the Tobacco grant were not presented for audit. Follow-up requests for the time cards did not obtain the requested records.

Indiana Code 5-15-6-3(f), concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

ANNUAL FINANCIAL REPORT

We noted the following issues with the preparation and submission of the Annual Financial Report (AFR):

1. The AFR for 2014 was not properly filed with the State Examiner. It was electronically entered but not submitted. Officials submitted the AFR on September 3, 2015.
2. The AFR for 2013 and 2014 did not contain an amount for capital assets. Machinery, equipment, and vehicles of \$67,291 had been reported in the AFR for 2012. However, the information was not conveyed to the City of Gary from the City of East Chicago during the change in fiscal agent in 2013. The project director should obtain this information from City of East Chicago and provide it to the Gary Controller's Office so it can be determined if the assets meet the capitalization thresholds of the City of Gary for future reporting.
3. The AFR for 2014 did not contain an accounts receivable incurred on December 31, 2014, and subsequently received on January 2, 2015, for a grant drawdown.

NORTHWEST INDIANA HEALTH DEPARTMENT COOPERATIVE
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

***CERTIFIED REPORT OF NAMES, ADDRESSES, DUTIES AND
COMPENSATION OF PUBLIC EMPLOYEES (FORM-100R)***

1. The Cooperative's 2013 Certified Report of Name, Addresses, Duties and Compensation of Public Employees (Form 100-R) was incomplete. The report included only employee's compensation accounted for by the City of Gary, after the City of Gary became the fiscal agent. It did not include compensation that had been accounted for by the City of East Chicago, the prior fiscal agent.
2. The Cooperative's Form 100-R for 2013 and 2014 were not submitted timely. The Forms 100-R, due by January 31 of the following year, were filed on February 3, 2014, and February 6, 2015, respectively.

Indiana Code 5-11-13-1(a) states:

"Every state, county, city, town, township, or school official, elective or appointive, who is the head of or in charge of any office, department, board, or commission of the state or of any county, city, town, or township, and every state, county, city, town, or township employee or agent who is the head of, or in charge of, or the executive officer of any department, bureau, board, or commission of the state, county, city, town, or township, and every executive officer by whatever title designated, who is in charge of any state educational institution or of any other state, county, or city institution, shall during the month of January of each year prepare, make, and sign a certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents in their respective offices, departments, boards, commissions, and institutions, and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts. The report must also indicate whether the political subdivision offers a health plan, a pension, and other benefits to full-time and part-time employees. However, no more than one (1) report covering the same officers, employees, and agents need be made from the state or any county, city, town, township, or school unit in any one year. The certification must be filed electronically in the manner prescribed under IC 5-14-3.8-7."

NORTHWEST INDIANA HEALTH DEPARTMENT COOPERATIVE
EXIT CONFERENCE

The contents of this report were discussed on September 15, 2015, with Rise Ratney, Project Director; M. Celita Green, Fiscal Officer; Roosevelt Allen, Jr., President of the Board; and Lisa Jackson, Grants Administrator. The last comment also pertained to the former fiscal agent and was discussed on September 21, 2015, with Kimberly Anderson, former Fiscal Officer.