

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

ST. JOSEPH COUNTY, INDIANA

January 1, 2015 to December 31, 2015



**FILED**  
09/29/2016



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## SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Michael J. Hamann	01-01-15 to 12-31-18
County Treasurer	Michael J. Kruk	01-01-13 to 12-31-16
Clerk of the Circuit Court	Terri J. Rethlake	01-01-15 to 12-31-18
County Sheriff	Michael D. Grzegorek	01-01-15 to 12-31-18
County Recorder	Phillip Dotson	01-01-13 to 12-31-16
President of the Board of County Commissioners	Andrew Kostielney	01-01-15 to 12-31-16
President of the County Council	Rafael Morton	01-01-15 to 12-31-16



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF ST. JOSEPH COUNTY, INDIANA

This report is supplemental to our audit report of St. Joseph County (County), for the period from January 1, 2015 to December 31, 2015. 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 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

August 24, 2016

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COUNTY AUDITOR  
ST. JOSEPH COUNTY

COUNTY AUDITOR  
ST. JOSEPH COUNTY  
FEDERAL FINDINGS

**FINDING 2015-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

*Condition*

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). Various County departments provided grant data to the Grant Director for compilation of the SEFA. There were no controls in place to verify the accuracy of the SEFA prior to submission.

The SEFA presented for audit contained the following errors:

1. A state grant of \$254,402 was included.
2. Disbursements for the Child Support Enforcement Program were understated by \$1,177,354.
3. Disbursements for the Child Nutrition Cluster were overstated by \$8,625.
4. Disbursements for CFDA #16.590 were understated by \$21,797.
5. Disbursements for CFDA #93.074 were understated by \$322.

Audit adjustments were proposed, accepted by the County, and made to the SEFA presented in this report.

*Criteria*

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)

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with section 200.502 Basis for determining Federal awards expended. 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 must:

COUNTY AUDITOR  
ST. JOSEPH COUNTY  
FEDERAL FINDINGS  
(Continued)

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within a cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal 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 must 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. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in section 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe the significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in section 200.414 Indirect (F&A) costs."

*Cause*

Management of the County had not established a proper system of internal control.

*Effect*

The failure to establish controls enabled material misstatements or irregularities to remain undetected. The SEFA contained the errors identified in the *Condition*.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2015-003 - REPORTING**

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): 2015

Pass-Through Entity: Indiana Department of Child Services

COUNTY AUDITOR  
ST. JOSEPH COUNTY  
FEDERAL FINDINGS  
(Continued)

*Condition*

Quarterly Incentive Balance reports prepared by the County Auditor's office were not presented for audit. Based on inquiry, the reports were prepared by one employee and signed by the County Auditor; however, there was documentation provided to verify the proper design and implementation or effectiveness of the control.

*Context*

There were 52 reports of various types required to be filed in 2015. Of this total, there were four Quarterly Incentive Balance reports submitted during 2015 and none were available for audit. Because the Quarterly Incentive Balance reports represent an immaterial portion of the Reporting compliance requirement, the lack of a properly documented control over these reports is considered a significant deficiency.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

*Cause*

Management had not developed a system of internal controls that segregated key functions.

*Effect*

The failure to establish an effective internal control system places the County at risk of noncompliance with the grant agreement and the compliance requirement.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the County's management establish controls related to the grant agreement and Reporting compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

# **ST. JOSEPH COUNTY AUDITOR**

227 W. Jefferson Blvd. Second Floor

County City Building

South Bend, IN 46601

Telephone 574-235-9668

Fax 574-235-5024

**Michael J. Hamann**  
Auditor

**Teresa M. Shuter**  
Chief Deputy Auditor

August 24, 2016

## **CORRECTIVE ACTION PLAN**

### **FINDING 2015-001**

Contact Person: Kathy Gregorich

574-235-9398

Responsible Official: Michael J. Hamann

We concur with the finding.

We are still working on putting proper procedures in place to insure information provided to our office is accurate.

Anticipated Completion date: December 31, 2017. New personnel will be assuming these duties.

### **FINDING 2015-003**

Contact Person: Michael Hamann

574-235-9400

Responsible Official: Michael J. Hamann

We concur with the finding.

We will retain signed copies for future audits.

Anticipated completion date: Effective immediately.

Doreen M. Stender

Signature

Chief Deputy Auditor

Title

8-24-16

Date

COUNTY AUDITOR  
ST. JOSEPH COUNTY  
AUDIT RESULTS AND COMMENTS

**APPROPRIATIONS**

The following funds had expenditures in excess of budgeted appropriations:

Fund	Excess Amount Expended
County C.O.I.T. Dist. Fund	\$ 346,466
Public Safety L.O.I.T.	12,657
C.E.D.I.T Fund	251,352

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."

**OVERDRAWN CASH BALANCES**

The Financial Statement and Federal Single Audit Report included the General Drain Impr and Redv Bnd 2001 Refin Bond 2010 funds with overdrawn cash balances of \$236,603 and \$1,076,083, respectively, at December 31, 2015.

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, Chapter 14 and Accounting and Uniform Compliance Guidelines Manual for Public Drainage Funds, Chapter 9)

COUNTY AUDITOR  
ST. JOSEPH COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on August 24, 2016, with Michael J. Hamann, County Auditor, and Teresa Shuter, Deputy County Auditor.

CLERK OF THE CIRCUIT COURT  
ST. JOSEPH COUNTY

CLERK OF THE CIRCUIT COURT  
ST. JOSEPH COUNTY  
FEDERAL FINDING

***FINDING 2015-002 - FINANCIAL TRANSACTIONS AND REPORTING - CLERK OF THE CIRCUIT COURT***

*Condition*

There were deficiencies in the internal control system of the Clerk of the Circuit Court's (Clerk) office for St. Joseph County related to financial transactions and reporting.

The Clerk had not separated incompatible activities related to cash and investment balances and disbursements. These deficiencies constitute material weaknesses.

The individuals responsible for reconciling the cash and investment balances were also responsible for issuing checks. Additionally, disbursements were prepared by one individual. There were no controls in place to ensure that disbursements were properly prepared.

The failure to design and implement proper internal controls enabled the following errors to occur:

1. The December 31, 2015 record balance exceeded the reconciled bank balance by \$85,425.
2. The December 31, 2015 reconciliation included many unidentified reconciling items; some dated as far back as 2005.
3. The trust balance did not reconcile with the Trust Register. The Clerk did not present a summary schedule of outstanding cash bonds and trust funds as of December 31, 2015. The Cash Book subaccount balances for the cash bonds and trust funds totaled \$5,631,242 at the Clerk's main office. The Clerk's Mishawaka office and the Clerk's Small Claims office also had trust balances of \$130,986 and \$79,931, respectively, which were not reconciled to a Trust Register.

*Criteria*

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  
ST. JOSEPH 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 Clerks of the Circuit Courts of Indiana, Chapter 13)

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balances should agree. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 13)

*Cause*

Management of the County had not established a proper system of internal control.

*Effect*

The failure to establish controls enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system places the County 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, material misstatements in a timely manner.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

Terri J. Rethlake  
St. Joseph County Clerk  
EX-OFFICIO CLERK ST JOSEPH SUPERIOR & PROBATE COURTS  
101 S. Main St  
South Bend, IN 46601  
Telephone: 574-235-9635 Fax: 574-235-9838

**CORRECTIVE ACTION PLAN**

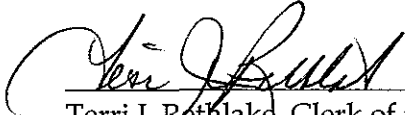
**FINDING 2015-002 - FINANCIAL TRANSACTIONS AND REPORTING - CLERK OF THE CIRCUIT COURT**

Terri J. Rethlake, Clerk, St. Joseph Co Circuit Court  
574-235-9635

**Description of Corrective Action Plan:**

1. Since there are only two (2) bookkeepers, duties of receipting and disbursing overlap. Employees are cross-trained for absence due to illness or vacation. We have initiated a compensating control to include a double checking and signing off of bond checks disbursed and Small Claims garnishment disbursements.
2. CAR-1 report was amended to include our investments. Four of the five special accounts for civil cases have been closed. We are working on unidentified reconciling items from 2005 forward to clear from reconciliation.
3. We now have all outstanding trust items retrieved from our legacy case management system. We are currently working on Upper Court trust items, verifying the amounts and then putting them in a Excel sheet to escheat to the Attorney General. Considering the thousands of trust items, this will take considerable time to process unless given some funds to hire part-time staff to help us get it done.

Anticipated Completion Date: #1 and #2 completed. #3 depends on staffing for the project as it is lengthy.

  
\_\_\_\_\_  
Terri J. Rethlake, Clerk of the St Joseph  
County Circuit Court

Dated: August 16, 2016

CLERK OF THE CIRCUIT COURT  
ST. JOSEPH COUNTY  
AUDIT RESULTS AND COMMENTS

***CLERK'S TRUST ITEMS OVER FIVE YEARS OLD***

Many outstanding checks in the Clerk of the Circuit Court's office have been on hand for a period of five years or longer. The Clerk has not implemented policies and procedures for reporting and remitting unclaimed property to the Attorney General after the five year holding period.

The Main Office Trust account reconciliation included \$85,245 in outstanding checks that were considered unclaimed property. The oldest outstanding check was dated February 3, 2003.

The Small Claims account reconciliation included \$9,633 in outstanding checks that were considered unclaimed property. The oldest outstanding check was dated April 1, 2003.

The Mishawaka office account reconciliation included \$1,843 in outstanding checks that were considered unclaimed property. The oldest outstanding check was dated May 16, 2007. The outstanding check list also included ten other checks that are not dated; however, based on the check number sequence, they were older than May 16, 2007.

Indiana Code 32-34-1-20(c) states in part:

"Property that is held, issued, or owed in the ordinary course of a holder's business is presumed abandoned if the owner or apparent owner has not communicated in writing with the holder concerning the property or has not otherwise given an indication of interest in the property during the following times: . . .

- (6) For property or proceeds held by a court or a court clerk, five (5) years after the property or proceeds become distributable. The property or proceeds must be treated as unclaimed property under IC 32-34-3."

Indiana Code 32-34-1-26(a) states: "A holder of property that is presumed abandoned and that is subject to custody as unclaimed property under this chapter shall report in writing to the attorney general concerning the property. Items of value of less than fifty dollars (\$50) may be reported by the holder in the aggregate."

Indiana Code 32-34-1-27(a) states: "Except as provided in subsections (b) and (c), on the date a report is filed under section 26 of this chapter, the holder shall pay or deliver to the attorney general the property that is described in the report as unclaimed."

CLERK OF THE CIRCUIT COURT  
ST. JOSEPH COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

Indiana Code 32-34-3-2 states:

"(a) Except for money related to child support, the attorney general may collect all money that remains in the office of a clerk for at least five (5) years after being distributable without being claimed by the person entitled to the money.

(b) The attorney general may collect all money related to child support that remains in the office of a clerk for at least ten (10) years after being distributable without being claimed by the person entitled to the money. . . ."

***FINANCIAL TRANSACTIONS AND REPORTING***

The Clerk of the Circuit Court's office had five bank accounts totaling \$13,683 for Trust Funds that were not reconciled on a monthly basis, not listed on their monthly reports, and not included in the Supplemental Annual Report (CAR-1) report submitted to the County Auditor. Additionally, a \$35,000 investment held by the County Treasurer in the name of the Clerk of the Circuit Court's office was not included in the bank reconciliation or on the CAR-1 submitted to the County Auditor. The County Auditor uses the information from the CAR-1 reports for reporting on the County's Annual Financial Report (AFR) submitted through Gateway. As a result, the information on the 2015 AFR was incorrect as well as the Financial Statement which was compiled from the AFR. Adjustments to correct these errors were made to the Financial Statement and approved by the County's management.

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts, Chapter 13)

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

Terri J. Rethlake  
St. Joseph County Clerk  
EX-OFFICIO CLERK ST JOSEPH SUPERIOR & PROBATE COURTS  
101 S. Main St  
South Bend, IN 46601  
Telephone: 574-235-9635 Fax: 574-235-9838


OFFICIAL RESPONSE 2015 AUDIT

CLERK OF THE CIRCUIT COURT

Condition- New Internal Controls are in effect. The bookkeepers are checking each other's work receipts and disbursements. (See Action Plan)

1. Record balance included five (5) special bank accounts for money ordered to be held by the Clerk by Court order for interest on the money. Those accounts have been closed since the cases are disposed of and the balance on deposit will be escheated to the Attorney General. The Mishawaka investment amount that was dropped off of its reconciliations has been re-entered. These items were included in an amended CAR-1 and filed with the County Auditor.
2. Outstanding trust items over five years old - checks will be voided and receipted back into the Clerk's trust account. They will then be escheated to the Attorney General.
3. Trust Register - Clerk is finally in receipt of all outstanding trust items in its legacy case management system. Clerk is working on verifying all amounts and will escheat monies to the Attorney General as amounts are verified and court orders checked. This process will take many years as there are thousands of trust amounts to verify between Upper Court, Small Claims, Felony and Misdemeanor Court entries.

Dated: September 25, 2016

  
Terri J. Rethlake, Clerk

CLERK OF THE CIRCUIT COURT  
ST. JOSEPH COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on August 24, 2016, with Terri J. Rethlake, Clerk of the Circuit Court, and Michael J. Hamann, County Auditor.

COUNTY COUNCIL  
ST. JOSEPH COUNTY

COUNTY COUNCIL  
ST. JOSEPH COUNTY  
AUDIT RESULT AND COMMENT

**APPROPRIATIONS**

The following funds had expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Excess Amount Expended</u>
County C.O.I.T. Dist. Fund	\$ 346,466
Public Safety L.O.I.T.	12,657
C.E.D.I.T Fund	251,352

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."

COUNTY COUNCIL  
ST. JOSEPH COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on August 24, 2016, with Rafael Morton, President of the County Council, and Michael J. Hamann, County Auditor.