

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

KNOX COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
04/13/2017

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
County Auditor:	
Federal Findings:	
Finding 2014-001 - Preparation of the Schedule of Expenditures of Federal Awards	6-7
Finding 2014-002 - Internal Controls and Compliance over Financial Transactions and Reporting.....	8-9
Finding 2014-003 - Internal Controls and Compliance over Cash Disbursements.....	9-11
Corrective Action Plan	12-14
Audit Results and Comments:	
Appropriations	15
Overdrawn Cash Balances	15
Exit Conference	16
Clerk of the Circuit Court:	
Federal Finding:	
Finding 2014-004 - Internal Controls over Financial Transactions and Reporting	18
Corrective Action Plan	19
Exit Conference	20

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Mindy S. Wessel	01-01-14 to 12-31-14
	Lisa G. Madden	01-01-15 to 12-31-18
County Treasurer	Sharon K. Duke	01-01-13 to 12-31-15
	Brenda Hall	01-01-16 to 12-31-20
Clerk of the Circuit Court	Lisa Clark-Benock	01-01-14 to 12-31-14
	Terri Allen	01-01-15 to 12-31-18
County Sheriff	Michael Morris	01-01-14 to 12-31-18
County Recorder	Brenda Hall	01-01-14 to 12-31-14
	Lisa Clark-Benock	01-01-15 to 12-31-18
President of the Board of County Commissioners	Larry Holscher	01-01-14 to 12-31-16
	Kellie Streeter	01-01-17 to 12-31-17
President of the County Council	Randy Crismore	01-01-14 to 12-31-14
	Robert Lechner	01-01-15 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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TO: THE OFFICIALS OF KNOX COUNTY, INDIANA

This report is supplemental to our audit report of Knox County (County), for the period from January 1, 2014 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 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

February 16, 2017

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COUNTY AUDITOR
KNOX COUNTY

COUNTY AUDITOR
KNOX COUNTY
FEDERAL FINDINGS

FINDING 2014-001 - 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). The County Auditor entered and submitted federal award information into the Indiana Gateway for Government Units financial system, which is the source for the County's SEFA. There was no evidence of a control, such as an oversight, review, or approval process by the County to ensure federal award information entered and submitted was correct.

The following material errors were noted on the SEFA:

- Three federal programs, with expenditures of \$342,807, were omitted.
- Four federal programs' expenditures were overstated in the amount of \$85,556, and two federal programs' expenditures were understated in the amount of \$83,757.
- One program in the amount of \$146,834 was state funded.
- There were numerous errors in program titles, project titles, and/or identifying numbers.
- Four federal programs had funding passed through to subrecipients. The amounts passed through were not indicated on the SEFA.
- Two federal programs were incorrectly listed on the SEFA as having amounts passed through to subrecipients when no funding was passed-through.

Audit adjustments were proposed, accepted by the County, and made to the SEFA.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the publication, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

COUNTY AUDITOR
KNOX COUNTY
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."

Cause

Management had not established a system of internal control that would have ensured proper reporting of federal award information on the SEFA.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained 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.

COUNTY AUDITOR
KNOX COUNTY
FEDERAL FINDINGS
(Continued)

**FINDING 2014-002 - INTERNAL CONTROLS AND COMPLIANCE OVER
FINANCIAL TRANSACTIONS AND REPORTING**

Condition

The County did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Annual Financial Report (AFR). The County Auditor entered and submitted the financial information for the County into the Indiana Gateway for Government Units financial system. This information is used to compile the County's AFR and financial statement. There was no evidence of a control, such as an oversight, review, or approval process, to ensure the accuracy of the information entered and submitted.

The County's AFR and financial statement contained the following errors:

- Eight outside departmental funds were included that should not have been.
- Three outside departmental funds were not included that should have been.
- Eight county funds' financial information was omitted entirely.
- The After Settlement Collections fund receipts and disbursements were incorrect.

The net difference of the errors resulted in an overstatement of reported receipts and disbursements of \$37,631,296 and \$37,446,485, respectively; and an understatement of the beginning and ending cash and investment balances of \$316,150 and \$131,339, respectively.

Audit adjustments were proposed, accepted by the County, and made to the County's AFR and financial statement.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the publication, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

COUNTY AUDITOR
KNOX COUNTY
FEDERAL FINDINGS
(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."

Cause

Management of the County had not established a proper system of internal control and ensured that the information reported in the AFR and financial statement was complete and accurate.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the AFR and financial statement remained undetected. The AFR and financial statement 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 2014-003 - INTERNAL CONTROLS AND COMPLIANCE OVER CASH DISBURSEMENTS

Condition

There were deficiencies in the internal control system of the County related to cash disbursements. The County had established the control procedure listed below.

The County Auditor, or County Auditor designee, were to review the claims for the following:

1. That it is properly verified and supported by an invoice and verification of receipt of goods and services;
2. That approval by the department head is verified; and
3. That allowance by the Board of County Commissioners is verified.

However, during the audit, these controls were deemed to not be properly implemented. Claims were observed with no indication of review by the County Auditor or County Auditor designee. Claims were also observed to have no indication of approval by the governing board, as the disbursements were unable to be found in the Commissioner signed claims docket. Of the claims tested, 20 percent did not have board approval.

In addition, the only copies of the claims were located in an unsecured location and were susceptible to unsupervised public inspection. Claims were stored beneath an open stairwell without sufficient security or supervision (locked doors, surveillance camera, etc.). Employees described instances where members of the public asking for information would be directed to the files of claims. The unsecured location and availability of the claims made them vulnerable to public alteration or removal.

COUNTY AUDITOR
KNOX COUNTY
FEDERAL FINDINGS
(Continued)

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the publication, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Cause

The County Auditor or the County Auditor designee did not properly implement the established controls to ensure that all claims were reviewed, were included on the claims docket, and were securely stored.

Effect

The failure to implement controls could have enabled material misstatements or irregularities to remain undetected.

COUNTY AUDITOR
KNOX COUNTY
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

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

KNOX COUNTY Auditor

Lisa G. Madden

COURTHOUSE

111 N. SEVENTH STREET, STE. 5

VINCENNES, IN 47591

(812) 885-2502



Corrective Action Plan

Finding 2014-001

Contact Person Responsible for Corrective Action: Lisa Madden Knox County Auditor

Contact Phone Number: 812-885-2502

Views of Responsible Official: This finding is something the Auditor and Bookkeeper will work diligently in getting SEFA reported accurately.

Description of Corrective Action Plan: Since this has been brought to our attention, the following steps have been taken to assure compliance:

2014-001 1) As Auditor, along with my Deputy Auditor will be working together to ensure accurate reporting on the SEFA.

Anticipated Completion Date: 02/16/2017

A handwritten signature in blue ink, appearing to read "Lisa G. Madden", written over a horizontal line.

Signature

A handwritten signature in blue ink, appearing to read "Auditor", written over a horizontal line.

Title

A handwritten date in blue ink, "2/16/17", written over a horizontal line.

Date

KNOX COUNTY Auditor

Lisa G. Madden

COURTHOUSE

111 N. SEVENTH STREET, STE. 5

VINCENNES, IN 47591

(812) 885-2502



Corrective Action Plan

Finding 2014-002

Contact Person Responsible for Corrective Action: Lisa Madden Knox County Auditor

Contact Phone Number: 812-885-2502

Views of Responsible Official: This finding is something the Auditor and Bookkeeper will work diligently in getting fund balances reported accurately on all funds.

Description of Corrective Action Plan: Since this has been brought to our attention, the following steps have been taken to assure compliance:

2014-002 1) As Auditor, along with my Deputy Auditor, will be working together to ensure accurate reporting on all funds after discussion with SBOA, we now have understanding on how to complete the correct reporting of all funds on Gateway.

Anticipated Completion Date: 02/16/2017

Signature

Title

Date

KNOX COUNTY Auditor

Lisa G. Madden

COURTHOUSE

111 N. SEVENTH STREET, STE. 5

VINCENNES, IN 47591

(812) 885-2502



Corrective Action Plan

Finding 2014-003

Contact Person Responsible for Corrective Action: Lisa Madden Knox County Auditor

Contact Phone Number: 812-885-2502

Views of Responsible Official: This finding is something the Auditor, Accounts Payable Clerk, and Bookkeeper will work in accurately verifying claim documentation, budgeted documentation and security of these documents.

Description of Corrective Action Plan: Since this has been brought to our attention, the following steps have been taken to assure compliance:

2014-003 1) As Auditor, along with my Accounts Payable Clerk and Deputy Auditor, will be working together to ensure accurate reporting on all claims meets budgeted accounts, billing receipts, and a secured room for storage of these items.

Anticipated Completion Date: 02/16/2017

Signature

Title

Date

COUNTY AUDITOR
KNOX COUNTY
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

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

<u>Fund</u>	<u>Years</u>	<u>Excess Amount Expended</u>
Reassessment - 2015	2014	\$ 263,350
CEDIT County Share	2014	177,533

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 statements presented in the Financial Statement and Federal Single Audit Report of Knox County for the period of January 1, 2014 to December 31, 2014, included the following non-reimbursement grant funds with overdrawn cash balances at December 31, 2014:

<u>Fund</u>	<u>Amount Overdrawn</u>
Solid Waste User Fees	\$ 6,954
Payroll Withholding - FICA & Medicare	104
Payroll Withholding - State	28

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 1)

COUNTY AUDITOR
KNOX COUNTY
EXIT CONFERENCE

The contents of this report were discussed on February 16, 2017, with Lisa G. Madden, County Auditor; Sheila Hobbs, Deputy County Auditor; Randy Crismore, County Council member; Robert Lechner, President of the County Council; and Kellie Streeter, President of the Board of County Commissioners.

CLERK OF THE CIRCUIT COURT
KNOX COUNTY

CLERK OF THE CIRCUIT COURT
KNOX COUNTY
FEDERAL FINDING

***FINDING 2014-004 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS
AND REPORTING - CLERK OF THE CIRCUIT COURT***

Condition

There was the following deficiency in the internal control system of the Clerk of the Circuit Court related to financial transactions and reporting.

Lack of Segregation of Duties: The Clerk of the Circuit Court had not separated incompatible activities related to disbursements. The First Deputy of the Clerk of the Circuit Court's office was responsible for writing checks, posting checks, making adjustments in the computer system, and maintaining the check stock. The First Deputy was also responsible for preparing the monthly bank reconciliation. The Clerk of the Circuit Court's signature was automatically printed onto the checks and disbursements were made with no evidence of oversight, review, or approval.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the publication, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

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An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Cause

Management of the County had not established a proper system of internal control over the Clerk of the Circuit Court's disbursements, including segregation of duties.

Effect

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

Views of Responsible Officials

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

KNOX COUNTY CLERK
111 N. 7TH ST. STE 28
VINCENNES, IN 47591
812-895-4926

February 16, 2017

CORRECTIVE ACTION PLAN

FINDING 2014-004

Contact Person Responsible for Corrective Action: Terri Allen, Knox County Clerk
Contact Phone Number: 812-895-4927

We concur with the findings.

Description of Corrective Action Plan:

Terri Allen, Knox County Clerk, will review and sign a check disbursement report that shows all checks disbursed out of the Trust account for each month, she will also review and sign the Reconciliation Report. The reports will be maintained in the month end Odyssey reports book.

Anticipated Completion Date: February 16, 2017

Terri Allen

Knox County Clerk

February 16, 2017

CLERK OF THE CIRCUIT COURT
KNOX COUNTY
EXIT CONFERENCE

The contents of this report were discussed on February 16, 2017, with Terri Allen, Clerk of the Circuit Court; Tracey Kaiser, Deputy County Clerk; Lisa G. Madden, County Auditor; Sheila Hobbs, Deputy County Auditor; Randy Crismore, County Council member; Robert Lechner, President of the County Council; and Kellie Streeter, President of the Board of County Commissioners.