

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

KNOX COUNTY, INDIANA

January 1, 2022 to December 31, 2022



FILED

08/18/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Micheal P. Morris Lisa Clark-Benock	01-01-22 to 12-31-22 01-01-23 to 12-31-23
County Treasurer	Cendy Joslin	01-01-22 to 12-31-23
Clerk of the Circuit Court	David Shelton	01-01-22 to 12-31-23
County Sheriff	Doug Vantlin	01-01-22 to 12-31-23
County Recorder	Lisa Clark-Benock Kelley Hopwood	01-01-22 to 12-31-22 01-01-23 to 12-31-23
President of the Board of County Commissioners	Kellie E. Streeter	01-01-22 to 12-31-23
President of the County Council	Harry Nolting	01-01-22 to 12-31-23



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF KNOX COUNTY, INDIANA

This report is supplemental to the audit report of Knox County (County), for the period from January 1, 2022 to December 31, 2022. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the County. It should be read in conjunction with the Financial Statement Audit Report of the County, which provides our opinions on the County's financial statement. This report may be found at www.in.gov/sboa/.

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 Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Beth Kelley, CPA, CFE
Deputy State Examiner

August 1, 2023

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COUNTY AUDITOR
KNOX COUNTY

COUNTY AUDITOR
KNOX COUNTY
AUDIT RESULTS AND COMMENTS

CAPITAL ASSETS

The same comment also appeared in prior Reports B53174, B55339, B58396, and B59630.

Condition and Context

The County had a capital assets policy that detailed the threshold at which an item is considered a capital asset. The County had not properly maintained a complete listing of all capital assets owned. Adjustments for additions and deletions had not been made to the capital assets record since 2013, nor was a physical inventory of capital assets performed.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

ANNUAL FINANCIAL REPORT

Condition and Context

The County had not established effective internal controls over the financial information entered in the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the County's financial statement.

The County failed to properly review the financial information prepared and submitted in Gateway. Although the Bookkeeper compiled, reviewed, and entered the County's financial information in Gateway, and the County Auditor reviewed and certified the information entered was accurate, the internal control was not effective and did not detect and allow correction of all errors prior to submission.

Annual Financial Report

1. The Settlement fund reported transfers within the fund, which overstated receipts and disbursements by \$11,725,937.
2. The activity of the KC ICJ Facilities 2022 Bond Construction Fund was erroneously reported on the financial statement for 2022. This fund is the fiscal responsibility of the Knox County, Indiana Building Corporation and the transactions are not obligations of the County. Therefore, the activity should not have been reported on the County's financial statement. As a result, the receipts, disbursements, and the ending cash and investments balance were overstated by \$29,686,344, \$5,953,759, and \$23,732,585, respectively. An adjustment was proposed to remove the KC ICJ Facilities 2022 Bond Construction Fund from the financial statement.

COUNTY AUDITOR
KNOX COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

3. The Knox County Board of County Commissioners (County) entered into a Lease Rental Agreement on June 7, 2022, with the Knox County, Indiana Building Corporation (Corporation) for renovation and expansion of the existing jail facility and construction of a new community corrections facility. The Arbitrage and Tax Representation Certificate (certificate) stated, in part, that after the sale of the Lease Rental Revenue Bonds, Series 2022 took place, the Corporation was to immediately transfer \$14,435,000 from the 2022 Construction Account of the Corporation to the County as the purchase price for the Jail real estate being transferred to the Corporation for the construction of the facilities. The transfer of these funds did not occur.

The certificate also stated that the County was to use these funds to pay for a portion of the costs of the project, which was the intent of the County. Instead, the Corporation paid \$5,374,955 for project expenditures in 2022 out of these funds that were retained by the Corporation. As these funds were considered the responsibility of the County, they should have been reported as non-cash transactions on the County's financial statement. Failure to report these transactions caused the receipts, disbursements, and ending cash and investments balance to be understated by \$14,435,000, \$5,374,955, and \$9,060,045, respectively. An adjustment was proposed to add the financial activity of the Knox County, IN Criminal Justice Facilities 2022 Bond Construction Fund to the financial statement.

Adjustments were proposed, accepted by the County, and made to the financial statement and to the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Required Supplementary Information in the Financial Statement Audit Report for the County.

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 manual, *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 5-11-1-4(a) states:

"The state examiner shall require from every audited entity 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](#)."

COUNTY AUDITOR
KNOX COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

ANNUAL FINANCIAL REPORT - OTHER INFORMATION

Condition and Context

Financial and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. The County had not established effective internal controls over the AFR information entered into Gateway which resulted in the following errors:

Capital Assets

The County did not maintain documentation to support capital assets. As a result, capital asset information was not entered into Gateway by the County Auditor, and a Schedule of Capital Assets was not presented in the Financial Statement Audit Report.

Payables and Receivables

The County did not maintain documentation to support account payables and account receivables. As a result, payables and receivables were not entered into Gateway by the County Auditor, and a Schedule of Payables and Receivables was not presented in the Financial Statement Audit Report.

Leases and Debt

The 2022 Knox County Jail and Community Corrections Lease Rental Bonds were omitted. This caused an understatement of Annual Lease Payments of \$887,500 as of December 31, 2022.

Adjustments were proposed, accepted by the County, and made to the Schedule of Leases and Debt presented as Other Information in the Financial Statement Audit Report for the County.

Federal Grants

1. The Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response expenditures were overstated by \$320,922.
2. Three grants had individually immaterial errors that resulted in misstatements of expenditures of \$7,209, in total.
3. Other errors included incorrect pass-through identification numbers.

Adjustments were proposed, accepted by the County, and made to the Schedule of Expenditures of Federal Awards presented in the Federal Compliance Audit Report for the County.

COUNTY AUDITOR
KNOX COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

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CONTRACTS

Condition and Context

The Board of County Commissioners (County) entered into a Lease Rental Agreement (Agreement) on June 7, 2022, with the Knox County, Indiana Building Corporation (Corporation) for the renovation and expansion of the existing jail facility and construction of a new community corrections facility. As part of the Agreement, the sales proceeds from the bonds issued by the Corporation were to be administered as follows:

". . . (d) The Trustee will immediately transfer \$14,435,000.00 from the 2022 Construction Account to the County as the purchase price for certain real estate being transferred to the Issuer by the County. The County will use the funds it receives from the Issuer to pay for a portion of the costs of the Project."

In addition, the County Council adopted Resolution 2022-17 "*Resolution of the County Council of Knox County establishing a fund for proceeds received from the sale of real estate to the Knox County, Indiana Building Corporation and making an appropriation from such fund*" (Resolution). The Resolution stated in part:

COUNTY AUDITOR
KNOX COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

- "1. The Council hereby approves the sale of the Real Estate to the Corporation. There is hereby established a fund of the County designated as the "Knox County, Indiana Criminal Justice facilities 2022 Bond Construction Fund" (the Fund). Upon receipt from the Corporation, the Sale Proceeds shall be deposited into the Fund and used for the payment of costs of all or any portion of the Project not paid for by the Corporation. . . .
2. The Sale Proceeds, in an amount not to exceed \$14,435,000, together with all investment earning thereon, deposited in the Fund are hereby appropriated for the purpose of paying the costs of the Project. . . ."

The County did not collect the funds from the sale of the real estate to the Corporation, and, therefore, did not pay for the costs of the project. In addition, the County did not report the transactions on the County's financial statement.

Criteria

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

COUNTY AUDITOR
KNOX COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 1, 2023, with Lisa Clark-Benock, County Auditor; Micheal P. Morris, County Council member and former County Auditor; Julie Lancaster, Bookkeeper; Kellie E. Streeter, President of the Board of County Commissioners; Trent Hinkle, County Commissioner; Harry Nolting, President of the County Council; Mary Crismore, County Council member; Dan Reitmeyer, County Council member; Jay Yochum, County Council member; and Andrew Porter, County Attorney.