B38283

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

AUDIT REPORT

OF

COUNTY AUDITOR

CLARK COUNTY, INDIANA

January 1, 2009 to December 31, 2009

FILED

01/07/2011

TABLE OF CONTENTS

COUNTY OFFICIALS

Office	Official	Term
Auditor	Keith Groth	01-01-08 to 12-31-10
President of the County Council	David Abbott	01-01-09 to 12-31-09
	Jack Coffman	01-01-10 to 12-31-10
President of the Board of County Commissioners	M. Edward Meyer	01-01-09 to 12-31-10

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF CLARK COUNTY

We have audited the records of the County Auditor for the period from January 1, 2009 to December 31, 2009, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments. The financial transactions of this office are reflected in the Annual Report of Clark County for the year 2009.

STATE BOARD OF ACCOUNTS

August 27, 2010

FINANCIAL OPINION MODIFICATION

Deficiencies were noted in the County's controls over reporting of financial activity that resulted in the State Board of Accounts being unable to provide an unqualified opinion on the Independent Auditors' Report for the financial statements and Schedule of Expenditures of Federal Awards.

The following deficiencies were identified:

Annual Report Discrepancies

The County Annual Report (Annual Report) is a required financial report to summarize the financial activity of the County for the year. The financial activity reported in the Annual Report was not always supported by the financial activity recorded in the County's financial ledgers. In addition, the County's financial activity was not always properly categorized in its financial records.

The following are discrepancies found between the amounts reported in the Annual Report and those shown in the County's financial ledgers that lead to a modification of the opinion to the Independent Auditor's Report:

1. The beginning cash balance at January 1, 2009, did not agree with the cash balance reported at December 31, 2008. The Annual Report showed a beginning cash balance of all funds of $22,861,333 and the ending cash balance reported at December 31, 2008, per the County's financial records was $22,275,452 for a difference of $585,881.

2. The financial activity reported as "Transfers In" and "Transfers Out" in the Annual Report was not supported by the activity recorded in the financial ledgers. Transfers In of $311,891 was shown in the Annual Report, whereas, $1,020,579 was recorded as Transfers In per the County's financial ledger. The Annual Report showed $179,856 as "Transfers Out", whereas, the financial ledgers showed $409,554.

3. Receipt transactions were not properly classified in the Annual Report. The majority of State Shared Revenues, and State and Federal Grants were classified as Other Charges for Services instead of Operating and Capital Contributions. The problems associated with improper receipt classification in the Annual Report was due in part to not properly recording the financial activity in the financial ledgers, as stated below under the section titled "Financial Accounting System Deficiencies."

4. Disbursement transactions in the Annual Report were not always classified as to the proper function. A test of the classification of nine funds showed that disbursements totaling $2,014,183 where classified incorrectly.

5. Investment activity reported in the Annual Report was not supported by financial transactions recorded in the financial ledgers. The Annual Report showed investment sales of $9,367,153, whereas, the financial ledgers reported investment sales of $12,249,253. Investment purchased reported in the Annual report were $13,629,281 and the investment purchases shown in the financial ledgers was $12,910,750. Part of the differences between the investing activities is the result of how financial activity is recorded in the County's financial accounting system as stated in the section titled "Financial Accounting System Deficiencies."

6. As a result of problems identified with the computerized financial accounting system utilized by the County (see section titled "Financial Accounting System Deficiencies"), it could not be determined if the total receipts and expenditures shown in the Annual Report were in agreement with the amounts recorded in the financial ledger. Our calculation of total receipts (adjusted for beginning balances included as receipts, financial activity from previous years, and investing activity) was $282,814,256, whereas, the amount reported in the Annual Report was $286,538,322 for a difference of $3,724,066. The total disbursements reported in the Annual Report net of investing activity was $287,121,153, whereas, our calculation of total disbursements net of investing activity and previous years financial transactions was $287,072,943 for a difference of $48,210.

Financial Accounting System Deficiencies

The following are deficiencies identified with the recording of financial transactions in the County's financial ledgers that led to a modification of the opinion to the Independent Auditor's Report:

1. The amounts recorded in the financial ledgers as "Transfers In" should be offset with corresponding entries of "Transfers Out"; however, the amount reported as "Transfers In" per the County's financial ledger differed from the amount recorded as "Transfers Out". The County's financial ledgers showed "Transfers In" of $1,020,579 and "Transfers Out" of $409,554 for a difference of $611,025.

2. Receipt transactions were not properly categorized in the financial records. Monies received from the State of Indiana that should have been classified as "Charges for Services" and monies received from the State of Indiana for Shared Revenue were not always distinguished separately in the ledger. Monies related to federal grant awards were not always identified separately from monies received from state grants.

3. Approximately $6,500,000 in checks were issued and voided within the same year. When the checks were voided, entries were made to the financial records to record these checks as revenue, resulting in an overstatement of receipts and disbursements in the County's financial records.

4. Financial activity, related to the sale and purchase of investments, was not properly recorded in the financial records. There were several funds shown on the financial records in which the amount disbursed for the purchase of investments was in excess of the proceeds reported for the sale of investments; however, the County did not have any investments for the funds on hand at the end of the year. Instances were noted in which interest earned on the investments was incorrectly identified as a sale of investment. Aggregate investment activity of approximately $700,000 was incorrectly recorded in the financial ledgers.

5. Disbursement activity was not always properly classified in the financial records. Problems identified with the recording of disbursement transactions are as follows:

   a. Instances were noted in which expenditures were posted to the incorrect budget expenditure accounts. For instance, some of the expenditures related to meals for prisoners and jail utilities were posted to the budget expenditure category jail drug and medical and some contract services for public defenders were recorded as equipment repairs.

b. Expenditures for funds that were created locally were not always posted to budget expenditure categories to properly identify how the funds were used. The expenditures were posted as one category titled "Unappropriated."

6. The financial accounting application system utilized by the County does not properly reflect the accurate information regarding the beginning cash balance, receipts, and disbursements. The following deficiencies were noted:

   a. The beginning fund balances brought forward from the prior year are shown as receipt transactions instead of beginning balances. The beginning balances are included in the total amount of the receipts in the funds ledger thus misrepresenting the total receipts for the year. As a result of having the beginning balances included in the total receipts, the financial accounting system does not generate a report showing the beginning fund balance in order to ensure that balances are correctly brought forward from one accounting period to the next and readily identifying the actual receipts for the period for comparison with the final amounts reported in the Annual Report.

   b. There were instances in which the beginning balances brought forward from the prior year were shown as investment transactions resulting in the inaccurate reporting of investing activity for the year.

   c. The January 1, 2009, cash and investments balances brought forward from the December 31, 2008, balance from the previous year for certain funds were recorded in multiple transactions. This method of recording beginning January 1, 2009, cash and investment balances requires time consuming analysis to verify the accuracy of these cash and investment balances.

   d. As a result of certain fund accounts not being properly set up in the financial accounting system, the financial ledgers included activity for certain funds that were not related to the current accounting period. Financial activity for prior year's financial activity had to be identified and eliminated in order to properly reflect the financial activity for the current year.

<u>Other Annual Report Deficiencies</u>

The following are other problems noted with the Annual Report that did not lead to a modification of the opinion to the Independent Auditor’s Report due to audit adjustments being made or the discrepancy not being material to the financial statements:

1. The ending cash and investment balance at December 31, 2009, as reported in the Annual Report, did not agree with the balance recorded in the financial records. The ending cash balance shown in the Annual Report was $18,016,374 and the ending balance recorded in the financial ledgers was $18,016,765 for a difference of $391.

2. Funds were not properly classified in the Annual Report. There were approximately seventeen funds incorrectly classified as governmental fund types when the funds were actually agency funds. There were four governmental funds types classified as agency funds. One fund was reported as an internal service fund that was a governmental fund. Audit adjustments were made to reclassify the funds correctly for financial statement reporting.

3. Financial activity for County departments that receive and disburse funds is required to be reported on a Supplemental County Annual Report (Form CAR-1) and incorporated into the Annual Report. The Annual Report did not include the departments' financial activity as reported by the departments on Form CAR-1.

4. Monies were received and expended by the Juvenile Detention Center related to funds received under the National School Lunch Program. This financial activity was not included in the governmental funds in the County's financial records or the Annual Report.

Schedule of Federal Financial Awards Deficiencies

The Schedule of Expenditures of Federal Awards is required by the U.S. Office of Management and Budget Circular A-133, Audits of States, and Local Governments, and Non-Profit Organizations for entities receiving federal funds in excess of $500,000 in order to summarize the use of federal monies received. The County did not have procedures in place whereby grants applied for by the various County Departments and approved by the County Commissioners are summarized and the information coordinated with the County Auditor's office in order for financial activity associated with federal grant funds awarded to be properly identified and recorded in the financial records. Due to deficiencies in accounting for and summarizing federal grant funding, the State Board of Accounts was unable to provide an unqualified opinion on the Schedule of Expenditures of Federal Awards.

The following problems were identified with controls over financial activity for federal funds:

1. Monies received and disbursed associated with federal grants were not always accurately and separately identified in the County's financial records. In addition, a system was not in place to identify and summarize all Federal funds received by the County and to identify the related Federal Agency making the award, the Catalog of Federal Domestic Assistance (CFDA) title and number associated with the award amount, project award number, and if applicable, the name of the pass-through entity.

2. Information was also not provided by the County to properly segregate additional funds received under the American Recovery and Reinvestment Act (ARRA stimulus funds) from regular federal awards as required.

3. Separate recording and identification of federal grants in the financial ledgers is required to assist the County in its preparation of the "Schedule of Expenditures of Federal Awards." As a result of not having a system in place to properly identify financial activity associated with federal programs, the County did not prepare the required financial schedule. With the exception of the Airport Improvement Grant Program, information for the preparation of the County's Schedule of Expenditures of Federal Awards was prepared by the State Board of Accounts based upon information obtained from the Auditor of State regarding federal funds passed through to the County by the State. The Schedule was determined to be a reasonable representation of federal monies received by the County as the majority of the County's federal funds are received via State agencies; however, it could not be determined with certainty that the Schedule prepared included all federal monies, monies were reported under the correct CFDA number and award number, and the proper pass through entity was identified.

4. Information was not available to properly identify monies received by the County related to its child support enforcement program. The State sends the County funds that are comprised of reimbursements for various different programs. A notification is sent to the

County that identifies the various different revenue sources. The County receipted these monies to its records into one revenue category that did not break down the source of the revenue as it relates to various state and federal programs. The County did not retain the information provided by the state showing the breakdown of the monies received. As a result, we were not able to properly match the federal receipts with the federal expenditures claimed under the program which could result in the improper reporting of activity in the Schedule of Expenditures of Federal Awards.

Circular A133 Subpart C section .300(a) states the auditee shall:

"Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity."

Circular A133 Subpart C section .300(b) states the auditee shall:

"Maintain internal control over Federal programs that provide 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."

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

FINANCIAL CONDITION – GENERAL FUND

The County's General Fund experienced a deficit cash balance in the amount of $3,088,053 at December 31, 2009, (See Audit Result and Comment titled "Overdrawn Cash Balances.") The deficit cash balance occurred in part when general fund disbursements exceeded approved budgeted appropriations during the year 2009 in the amount of $2,642,666 (See Audit Result and Comment Titled "Expenditures in Excess of Approved Appropriations") as shown below:

Disbursements:		
Disbursements per ledger for 2009	$	24,617,882
Adjustments:		
Less unappropriated State called meetings (a)		25,748
Less tax refunds (b)		4,568,238
Less voided checks (c)		1,629,312
Total adjusted disbursements		18,394,584

Appropriations:		
State approved budget for 2009		14,715,024
Encumbrances carried forward from 2008		1,036,894
Total budget and encumbrances		15,751,918
Total disbursements in excess of appropriations	$	2,642,666

Notes to schedule:

(a) As provided by statute, State called meeting are paid without appropriation and would not be included in the total disbursements used for comparison with budgeted expenditures.

(b) Tax refunds are not included in the final adjusted disbursement amount since these disbursements are reimbursed to the general fund at the time of the December tax settlement.

(c) These are checks issued in error and subsequently receipted back to the record balance of cash.

Once the final budget approval was received from the Indiana Department of Local Government Finance (DLGF), the County Council met to modify their original budget amount. On August 19, 2009, the County Council formally made a reduction to the 2009 budget; however, the reduction was made in the amount of $910,000 not the total $7,367,076 required to comply with the DLGF budget order. The County Auditor's General Fund ledger shows appropriations totaling the amount of the original County Council budget less the reduction of $910,000 as ordered by the County Council.

IC 36-2-5-2(b) states:

"The county fiscal body shall appropriate money to be paid out of the county treasury, and money may be paid out of the treasury only under an appropriation made by the fiscal body, except as otherwise provided by law."

EXPENDITURES IN EXCESS OF APPROVED APPROPRIATIONS

The records presented for audit showed expenditures were made from the following funds created by statute that were in excess of the budgeted appropriations:

Year	Excess Amount Expended	Fund
2009	$ 2,642,665	General
2009	1,309	Wireless Telephone
2009	227,162	Cumulative Capital Development

In addition, the following local funds established through Home Rule Statute had expenditures made which were not appropriated:

Year	Expended Without Appropriation	Fund
2009	$ 567,486	Clark County Adult & Juvenile Facility Usage
2009	257,453	Landfill Improvements
2009	379,194	Landowner's Liablity and Contingency Fund
2009	78,771	Sheriff's Public Relations Nonreverting
2009	118,529	Drainage Board Nonreverting Fees

IC 36-2-5-2(b) states:

"The county fiscal body shall appropriate money to be paid out of the county treasury, and money may be paid out of the treasury only under an appropriation made by the fiscal body, except as otherwise provided by law."

IC 5-11-10-1(d) states:

"The disbursing officer shall issue checks or warrants for all claims which meet all of the requirements of this section. The disbursing officer does not incur personal liability for disbursements:

(1) processed in accordance with this section; and

(2) for which funds are appropriated and available

A similar comment was reported in prior Report B37132.

OVERDRAWN CASH BALANCES

The County Auditor's records show the cash balance of the County General Fund (See Audit Result and Comment titled "Financial Condition – General Fund"), Building Authority, and Jail Detention Bonds were overdrawn at December 31, 2009, in the amounts of $3,088,053; $287,735; and $24,756, respectively.

Deficit cash balances can occur only because several County funds share a common depository account. When a deficit cash balance occurs, the County Auditor is in effect borrowing funds from other County Funds without obtaining formal approval from the County Council.

IC 36-1-8-4 (a) states:

"The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

(1) It must be necessary to borrow money to enhance the fund that is in need of money for cash flow purposes.

(2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.

(3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.

(4) The amount transferred must be returned to the other fund at the end of the prescribed period.

(5) Only revenues derived from the levying and collection of property taxes or special taxes or from operation of the political subdivision may be included in the amount transferred."

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)

A similar comment was reported in prior Report B37132.

ANNUAL REPORT

The County's Annual Financial Report (CAR) was not completed and filed until March 24, 2010.

IC 5-11-1-4 concerning annual reports, states in part:

". . . These reports shall be prepared, verified, and filed with the state examiner no later than sixty (60) days after the close of each fiscal year . . ."

ACCOUNTING FOR CAPITAL ASSETS

During the course of the audit, disbursements for the purchase of assets made during the year were randomly selected to verify the existence of the asset and to determine if the asset was recorded on the County's capital asset record.

A sample of asset purchases showed that 6 of the 7 disbursements reviewed totaling $182,306 was not recorded in the capital asset records. These purchases included items such as desk top computers, a lap top computer, and vehicles.

Based upon our review and testing of accounting controls and our discussion with County personnel, the following deficiencies were noted regarding the County's controls over capital assets:

1. Formal procedures are not in place whereby the County departments notify the County Auditor's office of assets purchased and provide the necessary information to properly identify the asset for inclusion on the County's capital asset record. As a result, not all assets are being included on the County's capital asset records. Failure to properly identify assets owned by the County could result in assets not being properly insured in event of a loss.

2. Procedures do not exist whereby County departments notify the County Auditor's office of asset disposals. Failure to identify assets disposals results in the overstatement of assets per the County's asset records and the potential for additional cost of insurance for assets the County no longer owns.

3. No information was presented for audit to indicate that an inventory of assets was performed and compared to the asset record in recent years. Failure to perform an inventory of capital assets and compare it with its records weakens the County's ability to identify problems with assets losses due to theft and to ensure proper insurance coverage of its assets.

4. Asset tags are not used to identify property owned by the county and for identification in its asset records. Asset tags are used to readily identify property that is owned by the County and to provide an identification system for assets that do not have another unique identification number, such as, a serial number. Failure to utilize a tagging system jeopardizes the County's ability to properly identify assets on hand with the assets reported on its records and increases the risk of theft due to properly identifying the assets as belonging to the County.

5. Projects ledgers are not properly maintained for constructions projects in order to allow for the cost of the project assets to be incorporated in the County's capital asset records at the completion of the project.

6. The County does not have a system in place whereby assets that are highly susceptible to theft due to their size and nature and are not of a significant value to be included in its formal capital asset record are properly identified. Failure to have properly controls over assets could result in the loss of the items and the additional expenses to the County for replacement.

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 managements' 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. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

Every governmental unit should have a complete inventory of all fixed assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

Similar problems regarding controls over capital assets were noted in prior Report B37132.

TAX SALE SURPLUS - RECONCILIATION OF SUBSIDIARY LEDGERS

The County Auditor's office did not have procedures in place to properly account for tax sale surplus. Procedures were not in place whereby the tax sale surplus fund ledger control balance was reconciled with the detail subsidiary record. Information was not presented for audit detailing the individual property associated with the tax sale surplus funds on hand at December 31, 2009, in the amount of $93,382.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

TAX SALE REDEMPTION - RECONCILIATION OF SUBSIDIARY LEDGERS

The County Auditor's office did not have procedures in place to properly account for tax sale redemption. Procedures were not in place whereby the tax sale redemption fund ledger control balance was reconciled with the detail subsidiary record. Information was not presented for examination detailing the individual property associated with the tax sale redemption funds on hand at December 31, 2009, in the amount of $20,464.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

SURPLUS TAX FUND - RECONCILIATION OF SUBSIDIARY LEDGERS

The Auditor's office did not have procedures in place to properly account for surplus tax funds. Procedures were not in place whereby the surplus tax fund ledger control balance was reconciled with the detail subsidiary record. Information was not presented for audit detailing the individual property associated with the surplus tax funds on hand at December 31, 2009 in the amount of $1,021,482.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

DISBURSEMENT PROCEDURES

A review of the County's financial system identified the following problems with internal control procedures over disbursements:

1. Proper procedures were not in place to determine that correct amounts were paid on invoices. If a single invoice contained expenditures that would be charged to more than one budget appropriation expenditure account or to more than one fund, a separate accounts payable voucher was completed for the amount associated with each invoiced item to be charged to a different appropriation/fund number and a separate check issued. Procedures were not in place whereby the individual accounts payable vouchers submitted were totaled and compared to the invoice total in order to verify the proper amount owed was paid. Furthermore, if the invoice represented charges to various departments within the County, each department would be required to submit a separate accounts payable voucher for its share of the invoice. There were no procedures in place to ensure that all of the departments submitted the accounts payable voucher to the County Auditor for payment at the same time to ensure that the final amount paid was proper.

   Failure to compare actual amounts paid to amounts invoiced could result in the improper amount being paid.

2. There was no procedure in place whereby if an invoice was not paid in full, information was documented as to why the full amount was not paid and an evaluation of the reasonableness of the explanation.

   Failure to the properly document differences between the amounts being paid and the amounts owed could result in untimely payment of amounts owed, late fees being incurred, and the expenditures being reported in the incorrect accounting period. In addition, it could be an indicator of personal items being charged on the County's account.

3. Vendor statements are not submitted with the invoices and accounts payable voucher to the County Auditor for payment.

   Failure to compare the vendor statements with the invoices increases the risk of potential liability for unpaid invoices, expenditures not being recognized in the proper accounting period, fraudulent expenditures, and late fees assessed for untimely payment. Missing invoices, unfamiliar invoices, or past due amounts could indicate personal items are being purchased using the County's account.

   A comparison of the vendor statement with invoices should be made to ensure timely and proper payment of amounts owed and to reduce potential fraud risks.

4. The County did not have procedures in place whereby if a check was voided that the voided payment was adjusted in the vendor's history of total payments for proper federal tax reporting on the vendor's Internal Revenue Service Form1099.

5. Checks issued to vendors are returned to the County department which initiated the purchase for mailing to the vendor. Returning the checks to the person who initiated the transaction could result in the misappropriation of funds.

6. Check issued from one County fund to another for payment for reimbursement of services are distributed by the County Auditor to the receiving department which subsequently resubmits the collections to the County Auditor via a report of collections.

   Checks issued by the County Auditor to the County should be immediately receipted to the records and remitted to the County Treasurer for deposit. Access to funds collected should be limited to as few people as possible. Anytime funds exchange hands there is an increase in the risk of loss of collections and the possibility of substitution.-

7. Existing controls in place to verify that sufficient supporting documentation is provided for all payments made were not operating properly. Two percent of the disbursements tested did not have adequate documentation to identify what was purchased and to establish if the disbursements were for legitimate governmental business.

   Failure to provide itemized documentation of items purchased could result in expenditures being made for items not related to governmental business or for goods/services not actually received.

   IC 5-11-10-1.6(c) states in part:

   "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 . . ."

   Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

8. As a result of deficiencies in internal controls over disbursements, vendor checks were voided and receipted back to the records in the amount of approximately $6,500,000.

   The following are examples of disbursements made that were subsequently found to be erroneous and the checks were receipted back to the records:

a. Checks issued for the payment of pension contributions to the Sheriff's pension plan had to be issued three separate times before the payment was made to the proper vendor. The first claims submitted for payment to the County Auditor's Office by the Sheriff's Department indicated checks in the amount of $336,818 should be made payable to McCready and Keene, Inc., the pension actuarial, instead of the pension trust agent. The checks were returned to the County by McCready and Keene. Checks were then issued to JP Morgan, trust agent, in the amount of $336,818 and $476,272; however, the trust agent, JP Morgan, returned the checks to the County as the Sheriff Pension Board had changed the trust agent used to oversee the Sheriff Pension funds. Checks were issued for the third and final to Nationwide, the new trust agent.

b. A claim was submitted to by the Sheriff's Department for the purchase of a computer. The invoice submitted with the claim showed that the invoice had already been paid using a credit card. However, the claim submitted for payment indicated the check should be made payable to the store vendor, not a credit card company. Upon further review of the activity, it was determined that the computer purchased had been charged to the Sheriff's Department credit card and the credit card company had been paid by the Sheriff Department's using Sheriff Commissary funds. The check made payable to the store vendor was deposited into the Sheriff's Cash Book account and two months later a check was issued by the Sheriff's Department to return the amount to the County. The County Auditor receipted the funds to its records as unused warrants.

Comparison of vendor statements with invoices and previous amounts paid should be performed at the time of payment to help reduce the risk of duplicate payments and to determine the correct amount of payment. The County Auditor should determine if the accounting software has a feature whereby duplicate invoices number from the same vendor could be detected prior to the issuance of a check.

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

LATE PAYMENT FEES

AT & T invoices the County quarterly for emergency telephone network and equipment services. The County paid late payment fees in the amount of $6,660 during the year 2009.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

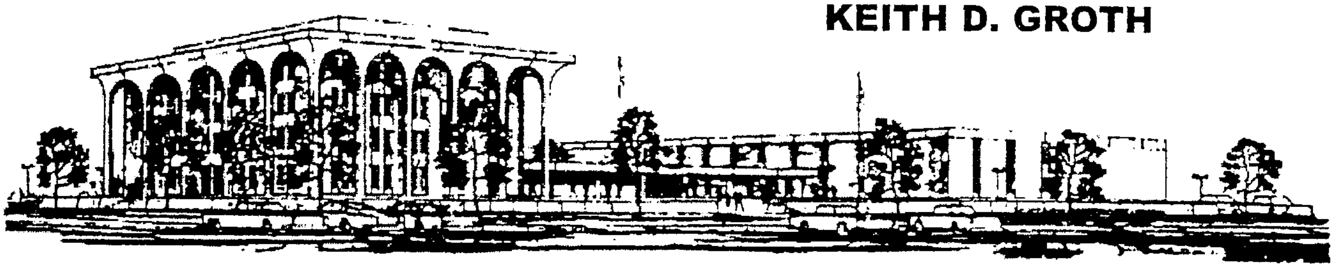
Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

(Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

COUNTY AUDITOR
CLARK COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 27, 2010, with Keith Groth, Auditor; Vicki Hinkle, Deputy Auditor; and Tracey Boettcher, Benefits Coordinator. The official response has been made a part of this report and may be found on pages 19 and 20.

The contents of this report were also discussed on September 30, 2010, with M. Edward Meyer, President of the Board of County Commissioners and Jack Coffman, President of the County Council.



KEITH D. GROTH

CLARK COUNTY AUDITOR
CLARK COUNTY GOVERNMENT BUILDING • 501 E. COURT AVENUE, ROOM 118
JEFFERSONVILLE, IN 47130-4090 • (812) 285-6211

September 3, 2010

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

Re: Corrective Action Plan

Please accept this letter as the corrective action plan for the audit findings noted in the 2009 audit report for Clark County. In an effort to comply with this plan, we have contracted with a Certified Public Accountant to assist County officials and employees with suggestions for improved procedures and accounting practices.

Financial Opinion Modification

The County Annual Report (Annual Report) will be checked for accuracy and completeness. Beginning and ending cash balances, "Transfers IN" and "Transfers Out", and Investments will be compared with the County's financial ledgers to ensure accuracy of reporting. In addition, disbursement transactions will be analyzed for proper function classification.

Correct financial procedures will be reviewed with employees responsible for these transactions. Transfers between funds will be reconciled on a regular basis and receipts, disbursements, and investment activity will be monitored for proper classification. Procedural changes have already been implemented regarding the proper recording of voided checks. In addition, the computer software vendor has been contacted to assist with deficiency issues regarding the proper carryover of beginning cash and investment balances.

Disbursement Procedures

Current disbursement procedures are being reviewed with County employees. Better controls and accounting procedures will be implemented and training will be provided to employees to help ensure accuracy and completeness of financial records.

Material Noncompliance

Procedures will be developed to monitor budget items with disbursements. Cash flow analyses will be performed on a regular basis to help identify potential budget shortfalls. This proactive measure will provide County officials with critical financial information to be used to identify cash flow needs. In addition, the County will pay money out of the treasury only under an appropriation made by the fiscal body, except as otherwise provided by state statute or ordinance.

Financial Management System

Procedures are being implemented to ensure the accuracy of Federal and State grant records. As recommended in the audit report, one individual will be responsible for coordinating grant activities. County employees will be trained to identify grant receipts and disbursements for proper recording in the ledgers and reconciliation with subsidiary grant records. Information relating to proper identification of Federal, State and ARRA stimulus funds will also be maintained.

Accounting for Capital Assets

Procedures are being developed and County employees are being trained to identify capital assets at the time of purchase for inclusion on the County's capital asset record. In addition, a record of the capital expenditures made with Federal monies will be maintained. A physical inventory will be performed and compared with the existing capital asset records and differences resolve.

Sincerely,

Keith D Groth
Clark County Auditor