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

AUDIT REPORT

OF

COUNTY AUDITOR

NOBLE COUNTY, INDIANA

January 1, 2012 to December 31, 2012

FILED

08/29/2013

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COUNTY OFFICIALS

Office	Official	Term
Auditor	Jacqueline Knafel	01-01-11 to 12-31-14
President of the County Council	Donald Moore	01-01-12 to 01-13-13
	Wayne Clouse	01-14-13 to 12-31-13
President of the Board of County Commissioners	Joy LeCount	01-01-12 to 12-31-12
	Gary Leatherman	01-01-13 to 12-31-13

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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

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

TO: THE OFFICIALS OF NOBLE COUNTY

We have audited the records of the County Auditor for the period from January 1, 2012 to December 31, 2012, 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 Financial Statement and Single Audit Report of Noble County for the year 2012.

STATE BOARD OF ACCOUNTS

July 15, 2013

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING - PAYROLL PROCESSING

We noted several deficiencies in the internal control system of the County related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

> Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the County to reduce risks to the achievement of financial reporting objectives. The County has not separated incompatible activities related to payroll and related liabilities. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. The County's payroll processing is handled primarily by one staff person in the County Auditor's office. The payroll staff person inputs the information from the departments' payroll vouchers into the computerized payroll system, issues the payments for employee benefits and related payroll expenses, and reconciles the direct deposit listing to a detailed employee list.

> Monitoring of Controls: Effective internal control over financial reporting requires the Board of County Commissioners and County Auditor to monitor and assess the quality of the County's system of internal control. The Board of County Commissioners and the County Auditor have not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility place the County at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the County has no process to identify or communicate corrective actions to improve controls.

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 Counties of Indiana, Chapter 1)

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING - DISBURSEMENTS

We noted several deficiencies in the internal control system of the County related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

> Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the County to reduce risks to the achievement of financial reporting objectives. The County has not separated incompatible activities related to disbursements. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. The County's claim processing is handled primarily by one staff person within the County Auditor's office. The claims processing staff person audits the claims, issues the payments for claims, and posts the payments to the various funds. We found numerous claims paid without proper supporting documentation and claims paid from the wrong funds.

Monitoring of Controls: Effective internal control over financial reporting requires the Board of County Commissioners and County Auditor to monitor and assess the quality of the County's system of internal control. The Board of County Commissioners and the County Auditor have not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility place the County at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the County has no process to identify or communicate corrective actions to improve controls.

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 Counties of Indiana, Chapter 1)

ERRORS ON CLAIMS

A test of claims identified the following deficiencies with an error rate greater than 10 percent:

Of the claims tested 16.4 percent did not have adequate supporting documentation. This error resulted in $6,688.25 of expenditures which did not have adequate supporting documentation.

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; . . ."

INTERNAL CONTROLS - EXCESS (SURPLUS) TAX

Internal controls over the recording and accounting for the financial activities of the Excess (Surplus) Tax Fund were insufficient due to a lack of oversight by County officials for the current year and prior years: the individual excess (surplus) tax records do not reconcile to the County Auditor's Funds Ledger Excess (Surplus) Tax Fund. The County Auditor's Funds Ledger Excess (Surplus) Tax Fund has a balance at December 31, 2012, of $33,035.10 and the individual excess (surplus) tax records have a cumulative balance of $34,022.57. The difference of $987.47 indicates that if every individual with excess (surplus) tax would present a claim for payment, there would be insufficient funds to honor the claims.

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)

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 of Indiana, Chapter 14)

INTERNAL CONTROLS – RECORDER'S RECORDS PERPETUATION FUND

Internal controls over the recording and accounting for the financial activities of the Recorder's Records Perpetuation Fund were insufficient due to a lack of oversight by County officials for the current year: the County disbursed $16,709.73 from the Recorder's Records Perpetuation Fund for various county departments' supplies, furniture, membership dues, and conference expenses. These disbursements should have been made from the applicable county departments' budget within the General Fund or the respective department fund if the department is not funded through the General Fund.

We instructed the following county departments to reimburse the Recorder's Records Perpetuation Fund as follows:

County Department	Fund/Department Reimbursement Paid From	Amount
Clerk's Office	General Fund/Clerk's Budget	$ 4,118.33
Sheriff's Department	General Fund/Sheriff's Budget	821.48
Recorder's Office	General Fund/Recorder's Budget	5,931.51
County Council	General Fund/County Council Budget	989.81
County Commissioners	General Fund/County Commissioner's Budget	2,114.20
Plan Commission	General Fund/Plan Commission Budget	166.51
Treasurer's Office	General Fund/Treasurer's Budget	313.26
Auditor's Office	General Fund/Auditor's Budget	528.94
Building Department	General Fund/Building Department Budget	42.00
General Fund Unappropriated	General Fund/Unappropriated	360.60
	Total General Fund	15,386.64
County Highway Department	County Highway Fund	937.62
County Health Department	County Health Fund	385.47
	Total All Funds	$ 16,709.73

Indiana Code 36-2-7-10(d) states: "The county recorder may use any money in this fund without appropriation for the preservation of records and the improvement of record keeping systems and equipment."

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)

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

SUPPORTING DOCUMENTATION - CREDIT CARDS

The County was using credit cards to purchase items without an approved credit card policy. We noted that the credit cards were in the individual names of County employees instead of in the name of the County Commissioners. We also noted that eleven out of the sixteen payments made to the credit card companies tested, were made from the credit card statements without supporting documentation attached. We also noted that three out of the sixteen payments tested included late fees or finance charges.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.

2. Issuance and use should be handled by an official or employee designated by the board.

3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.

4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.

5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.

6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.

7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.

8. If properly authorized, an annual fee may be paid.

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

APPROPRIATIONS

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

Fund	Excess Amount Expended
Clerk's Record Perpetuation	$ 132
Health Maintenance	28,410
Local Road and Street	81,523
Victim Witness	898

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 AUDITOR
NOBLE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on July 15, 2013, with Jacqueline Knafel, Auditor; Gary Leatherman, President of the Board of the County Commissioners; and David Dolezal, County Commissioner.