

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

ST. JOSEPH COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED

09/12/2014

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
County Auditor:	
Federal Findings:	
Finding 2013-001 - Internal Controls and Compliance Over Disbursements	6
Finding 2013-002 - Internal Controls and Compliance Over the Schedule of Expenditures of Federal Awards	6-7
Corrective Action Plan	8-9
Exit Conference	10
County Clerk of the Circuit Court:	
Federal Finding:	
Finding 2013-003 - Internal Controls and Compliance Over Financial Transactions and Reporting - Clerk of the Circuit Court	12-13
Corrective Action Plan	14-15
Exit Conference	16
Portage Manor County Home:	
Audit Result and Comment:	
Bank Account Reconciliations	18
Exit Conference	19

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Peter H. Mullen	01-01-12 to 12-31-15
Treasurer	Michael J. Kruk	01-01-13 to 12-31-16
Clerk	Terri J. Rethlake	01-01-11 to 12-31-14
Sheriff	Michael D. Grzegorek	01-01-11 to 12-31-14
Recorder	Phillip G. Dotson	01-01-13 to 12-31-16
President of the Board of County Commissioners	Andrew Kostielney	01-01-13 to 12-31-14
President of the County Council	Rafael Morton	01-01-13 to 12-31-14



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 ST. JOSEPH COUNTY, INDIANA

This report is supplemental to our audit report of St. Joseph County (County), for the period from January 1, 2013 to December 31, 2013. 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 Result and Comment 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 Result and Comment contained herein describes 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, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

July 28, 2014

(This page intentionally left blank.)

COUNTY AUDITOR
ST. JOSEPH COUNTY

COUNTY AUDITOR
ST. JOSEPH COUNTY
FEDERAL FINDINGS

FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE OVER DISBURSEMENTS

We noted a major deficiency in the internal control system of the County related to approval of disbursements that we believe constitutes a material weakness. The County's internal control procedures over disbursements included the County Auditor's review, approval, and signature on the accounts payable vouchers after the County Commissioner's approval. A change in personnel resulted in the vouchers being filed without the County Auditor's approval. This failure to follow the established procedures was not discovered by County personnel.

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."

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

***FINDING 2013-002 - INTERNAL CONTROLS AND COMPLIANCE OVER
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The County did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). Various County departments provided grant information to the County Auditor; however, the information was not reviewed or verified before it was recorded on the SEFA.

COUNTY AUDITOR
ST. JOSEPH COUNTY
FEDERAL FINDINGS
(Continued)

The Child Support Enforcement program expenditures included only the Prosecutor's Department; not the Clerk of the Circuit Court, Probate Court, indirect costs, or incentive fund disbursements. The SEFA reported \$1,937,081 in Prosecutor's child support expenditures; however, the amount reported was incorrect and should have been \$1,093,089. Based on our audit procedures, the correct total child support program expenditures, including all departments, was \$2,132,796. Audit adjustments were proposed, accepted by the County, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

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 in part:

"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."

ST. JOSEPH COUNTY AUDITOR

2nd Floor - County-City Building
227 West Jefferson Boulevard
South Bend, Indiana 46601
Telephone (574) 235-9668
Fax (574) 235-5024
pmullen@co.st-joseph.in.us

Peter H. Mullen
Auditor

Teresa Shuter
Chief Deputy

July 28, 2014

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

To: State Board of Accounts

Subject: Finding 2013-1

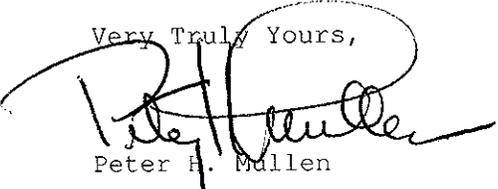
The County Auditor accepts responsibility for not approving accounts payable vouchers since August 2013.

In accepting responsibility, an explanation is in order.

A complete change in personnel in the Commissioner's office caused a breakdown in our established and efficient system. After approval by the Commissioners the vouchers were placed in boxes for storage. That is, storage without signature of the Auditor nor approval of the Auditor. They were, however, signed by the Commissioners. Upon the discovery, by the new personnel, the boxes of misplaced vouchers were delivered to the Auditor's office and signed. For information, the Auditor was present at the Commissioners meeting when approved. And, as always, the Auditor personally signed the Commissioner's Report of vouchers and did not use the facsimile stamp.

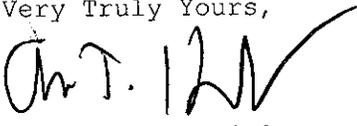
The new personnel in the Commissioner's office have been made aware of the system that has been in place for many years. It is not expected that this will happen again.

Very Truly Yours,



Peter H. Mullen

Very Truly Yours,



Andrew T. Kostielney

ST. JOSEPH COUNTY AUDITOR

2nd Floor - County-City Building
227 West Jefferson Boulevard
South Bend, Indiana 46601
Telephone (574) 235-9668
Fax (574) 235-5024
pmullen@co.st-joseph.in.us

Peter H. Mullen
Auditor

Teresa Shuter
Chief Deputy

July 28, 2014

To: State Board of Accounts

Subject: Action Plan-To Correct Financial Transactions & Reporting-SEFA finding 2013-002, Internal Controls and Compliance over the Schedule of Expenditures of Federal Awards.

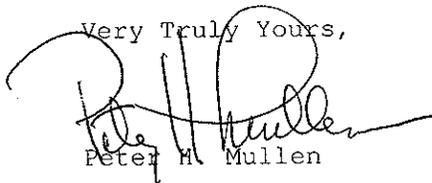
The St. Joseph County Auditor's Office has initiated and started a system of internal controls to prevent or detect errors on the schedule of expenditures of Federal Awards (SEFA).

Effective May 28, 2014 we have hired a Grant Administrator on a part time basis to control and adhere to the Federal guidelines. It is expected that the position will be full time in 2015. (See attached job description) This individual will be responsible for providing reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of our objectives, and compliance with laws and regulations.

With the reduction of local and state revenues, grant applications and administration becomes paramount not only now but certainly in the future. And, because we presently have more than 50 grants our Council and Commissioners recognize the importance of proper administration and management.

We expect this finding to be completely mitigated within 6 months.

Very Truly Yours,



Peter H. Mullen

COUNTY AUDITOR
ST. JOSEPH COUNTY
EXIT CONFERENCE

The contents of this report were discussed on July 16, 2014, with Peter H. Mullen, Auditor; Rafael Morton, President of the County Council; and Andrew Kostielney, President of the Board of County Commissioners.

COUNTY CLERK OF THE CIRCUIT COURT
ST. JOSEPH COUNTY

COUNTY CLERK OF THE CIRCUIT COURT
ST. JOSEPH COUNTY
FEDERAL FINDING

***FINDING 2013-003 - INTERNAL CONTROLS AND COMPLIANCE OVER FINANCIAL
TRANSACTIONS AND REPORTING - CLERK OF THE CIRCUIT COURT***

The Clerk of the Circuit Court (Clerk) did not have a proper system of internal control in place over financial transactions, reconciling, and reporting. The Clerk should have proper controls in place to ensure that the Cash Book balance is accurate at the end of each month, that the Cash Book balance reconciles with the detailed subaccount balances, that all open items held in the Trust Register and cash Bond Register are properly identified and that the receipts, disbursements, and cash and investment balances reported on the County's financial statement are correct. The lack of proper internal controls allowed the following to occur:

1. The cash reconciliation of the main bank account was incorrect. The December 31, 2013 bank reconciliation showed a \$26,301 cash necessary balance, which included many unidentified reconciling items, some dated as far back as 2005.
2. The Cash Book control account balance did not agree with the total of the subaccount balances. An undocumented adjustment of \$3,642,046 was recorded on January 2, 2013, to resolve the difference between the Cash Book control account balance and the subaccount balances.
3. The trust balance did not reconcile with the Trust Register. The Clerk did not present a summary schedule of outstanding cash bonds and trust funds as of December 31, 2013. The Cash Book subaccount balances for the cash bonds and trust funds totaled \$3,782,474 at the main office. An additional \$3,642,046 unidentified balance in the Cash Book is believed to also be trust funds. The Mishawaka Clerk's Office and Small Claims Clerk's Office also had trust balances of \$222,869 and \$179,616, respectively, which were not reconciled to a Trust Register.
4. The Clerk did not file monthly financial reports detailing the total of the balances of all fees and funds and the total amount of cash in each depository with the County Auditor.

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

COUNTY CLERK OF THE CIRCUIT COURT
ST. JOSEPH COUNTY
FEDERAL FINDING
(Continued)

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

Indiana Code 33-32-3-6 states in part:

"(a) Before the twenty-fifth day of each month, the clerk shall prepare a report showing as of the close of business on the last day of the preceding month the following information: . . .

(4) The total of the balances of all fees and funds. . . .

(8) The total amount of cash in each depository at the close of the business on the last day of the month. . . .

(b) The clerk shall: . . .

(2) file three (3) copies with the county auditor, . . ."

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 Clerks of the Circuit Courts of Indiana, Chapter 13)

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

August 5, 2014

**2014 Action Plan to Correct Financial Statement Findings
St. Joseph County Clerk's Office**

I would like to take this opportunity to thank the State Board of Accounts for their guidance to this office to correct bookkeeping errors in our cashbook and reconciliations of our bank accounts. I would also like to thank the bookkeepers of the County Clerk's Office for the countless hours they put in (during and after office hours) since the last audit to find and correct past errors which helped bring our outstanding balance down from the previous year's audit.

A new outstanding check list from 2011 - 2013 was prepared, correcting many items. We performed corrections to the cashbook bringing the sub accounts into balance. Mistakes the bank made in deposits were also discovered and were credited back to our accounts.

That said here is the Action Plan for SBOA Finding 2013-003:

1. Cash reconciliation of the main bank account is continuing. We continue to research past reconcilements to find and correct errors in the Cash Book. When we find errors, we will continue to consult with the State Board of Accounts before we make the adjustment in the Cash Book. We will continue to reconcile each account by the 10th of the next month. Variances will be identified on the reconciliation and corrected in the Odyssey system in the same month. We discussed with the examiner the steps to take for correcting all items dating back to 2005.
2. The undocumented adjustment of \$3,642,046 in the Cash Book from January 2, 2013 was made by agreement of last year's examiner & me. The control account balance and the sub account balances now agree.
3. This is an ongoing problem with the old Low computer system stemming back almost twenty years. We continue to work with Low & Associates to find a way of getting the outstanding trust fund information so we can balance the trust account to the Cash Book.

4. Since discovered by the examiner during this audit and subsequently brought to my attention, we filed the 2013 reports with the Auditor's Office. Now that we are aware of the requirement, the reports are filed monthly per IC 5-13-6-1(e).

A handwritten signature in black ink, appearing to read "Vern L. Lott". The signature is written in a cursive style with a large initial "V" and "L".

COUNTY CLERK OF THE CIRCUIT COURT
ST. JOSEPH COUNTY
EXIT CONFERENCE

The contents of this report were discussed on July 16, 2014, with Rafael Morton, President of the County Council, and Andrew Kostielney, President of the Board of County Commissioners. The report was also discussed on July 28, 2014, with Terri J. Rethlake, Clerk.

PORTAGE MANOR COUNTY HOME
ST. JOSEPH COUNTY

PORTAGE MANOR COUNTY HOME
ST. JOSEPH COUNTY
AUDIT RESULT AND COMMENT

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the 2013 monthly reconciliations did not balance. Monthly reconciliation summaries presented for audit included variances during 2013 from \$5,343 in excess of the bank balance to \$1,298 cash necessary to balance. The December 31, 2013 reconciliation summary included \$1,298 cash necessary to balance. The first four reconciliations of 2014 included variances from \$1,370 to \$1,020 cash necessary to balance. A similar comment was included in the prior Report B42550.

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

PORTAGE MANOR COUNTY HOME
ST. JOSEPH COUNTY
EXIT CONFERENCE

The contents of this report were discussed on July 16, 2014, with Rafael Morton, President of the County Council, and Andrew Kostielney, President of the Board of County Commissioners. The report was also discussed on July 23, 2014, with Louann Becker-Pruett, Portage Manor Administrator.