

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

WASHINGTON COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
10/30/2014

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|---------------------------------------------------|-----------------------------------|----------------------------------------------|
| Auditor | Sarah Bachman | 01-01-11 to 12-31-14 |
| Treasurer | Robert Woodward | 01-01-13 to 12-31-16 |
| Clerk | Shirley Batt | 01-01-13 to 12-31-16 |
| Sheriff | Claude C. Combs | 01-01-11 to 12-31-14 |
| Recorder | Kyra Stephenson | 01-01-11 to 12-31-14 |
| President of the Board of County Commissioners | John D. Fultz Phillip Marshall | 01-01-13 to 12-31-13 01-01-14 to 12-31-14 |
| President of the County Council | David Hoar | 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
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TO: THE OFFICIALS OF WASHINGTON COUNTY, INDIANA

This report is supplemental to our audit report of Washington 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 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

July 24, 2014

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COUNTY AUDITOR
WASHINGTON COUNTY

COUNTY AUDITOR
WASHINGTON COUNTY
FEDERAL FINDINGS

**FINDING 2013-001 - INTERNAL CONTROLS OVER 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). The County should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: reporting errors occurred for all federal programs; the SEFA did not include three federal programs; and total federal expenditures were overstated in the amount of \$54,107.

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:

"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 indentifying number assigned by the pass-through entity shall be included.

COUNTY AUDITOR
WASHINGTON COUNTY
FEDERAL FINDINGS
(Continued)

- (3) Provide the 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."

***FINDING 2013-002 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING***

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:

The financial information inputted into the County's Annual Report was not properly reviewed and verified to the County's financial records and the records of the County's outside offices to determine that no material errors occurred. Receipts, disbursements, and cash and investment balances in the amounts of \$1,738,513, \$1,820,180, and \$81,667, respectively, were improperly reported in the Annual Report for the following outside offices: Treasurer's After Settlement Collections, County Sheriff, and Sheriff Drug Investigation. Financial information from the County's Annual Report is used to compile the County's financial statement. As a result, the beginning balances and receipt and disbursement transactions reported on the County's financial statement were overstated. Audit adjustments were proposed, approved by the County, and made to the County's financial statement.

The Payroll Clerk in the County Auditor's Office processes the County's payroll. This employee is also responsible for calculating and making all employee and employer benefit payments. Supporting documentation for these payments was retained in the payroll files; however, no review of the documentation was completed by another employee, nor were the checks and/or electronic payments compared to the supporting documentation by another County employee. The County Auditor did not properly certify these disbursements, nor did the Board of County Commissioners properly authorize the disbursements for payroll.

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)

COUNTY AUDITOR
WASHINGTON 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."

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."

FINDING 2013-003 - SUBRECIPIENT MONITORING

Federal Agency: Department of Housing and Urban Development

Federal Program: Community Development Block Grants/State's
Program and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Number and Year (or Other Identifying Number): HD-011-013

Pass-Through Entity: Indiana Housing and Community Development Authority

Management of the County has not established an effective internal control system related to Subrecipient Monitoring. The failure to establish an effective internal control system places the County at risk of noncompliance with the grant agreement, subrecipient agreement, and the compliance requirements.

The grant was awarded to the subrecipient, Hoosier Uplands, and the grant funds passed through the County, but the County did not have any control in place for subrecipient monitoring. Hoosier Uplands would notify the County by phone to inform them that they should have received funds from the state pass-through agency, Indiana Housing and Community Development Authority. County officials would verify the deposit of these funds. The amount deposited was disbursed to Hoosier Uplands without any supporting documentation provided to indicate the funds had actually been earned. The County did not determine if Hoosier Uplands used the federal funds for authorized purposes, complied with laws, regulations, and the provisions of contracts and grant agreements, and achieved performance goals.

COUNTY AUDITOR
WASHINGTON COUNTY
FEDERAL FINDINGS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides 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."

OMB Circular A-133, Subpart D, section .400(d) states in part:

"Pass-through entity responsibilities. A pass-through entity shall perform the following for the federal awards it makes: . . .

- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with law, regulations, and provisions of contracts or grant agreements and that performance goals are achieved."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the County.

We recommended that the County's management establish and implement controls over Subrecipient Monitoring to ensure compliance with requirements that have a direct and material effect to the program.

FINDING 2013-004 - DAVIS-BACON ACT

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/
State's Program and Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number and Year (or Other Identifying Number): CF-12-121
Pass-Through Entity: Indiana Office of Community and Rural Affairs

Management of the County has not established an effective internal control system related to Davis-Bacon Act requirements. The failure to establish an effective internal control system places the County at risk of noncompliance with the grant agreement, subrecipient agreement, and the compliance requirements.

The County hired a Grant Administrator to handle the requirements for Davis-Bacon Act, but there was no documentation that the County provided any oversight, review, or approval of any of the work performed by the Grant Administrator. The lack of oversight by the County could result in noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides 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."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the County.

COUNTY AUDITOR
WASHINGTON COUNTY
FEDERAL FINDINGS
(Continued)

We recommended that the County's management establish and implement controls related to Davis-Bacon Act to ensure compliance with requirements that have a direct and material effect to the program.

FINDING 2013-005 - REPORTING

Federal Agency: Department of Health and Human Services
Federal Program: Child Support Enforcement
CFDA Number: 93.563
Federal Award Number and Year (or other Identifying Number): 2013
Pass-Through Agency: Indiana Department of Child Services

Management of the County has not established an effective internal control system related to Reporting. The failure to establish an effective internal control system places the County at risk of noncompliance with the grant agreement and the compliance requirements.

The County was required to submit a reimbursement request each month using a Monthly Expense Claim For Title IV-D, State Form 54529. The County was also required to submit quarterly expenditure reports for incentive funds using the Quarterly Incentive Expenditure Report For Title IV-D, State Form 54528. The amounts reported on these forms did not agree with the amounts posted to the ledger.

In January 2013, the County disbursed \$40,000 from the Prosecutor's IV-D budget to cover the County's share of medical insurance costs, but this disbursement was not included in the Prosecutor's IV-D monthly report for January. The personal service expenses reported for January through June did not agree with the amounts posted to the ledger. In addition, there were three other errors found in the reports. As a result, the Prosecutor's IV-D reimbursement requests were underreported by \$32,396.99 for the audit period.

Two of the Quarterly Incentive Reports submitted by the Circuit Court did not agree with the amounts posted to the ledger. The ledger had expenditure postings of \$5,200, but only \$1,950 was reported on the Quarterly Reports.

The Prosecutor PCA fund had expenditure postings of \$1,621.21 to the ledger that were not reported on any Monthly Expense Report.

Management's failure to establish and implement controls requiring someone other than the individual preparing the reports to review and verify amounts reported allowed errors to go undetected.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides 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."

45 CFR 92.20, Standards for financial management systems states in part:

"(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

COUNTY AUDITOR
WASHINGTON COUNTY
FEDERAL FINDINGS
(Continued)

- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

Noncompliance with the grant agreement or the reporting requirements that have a direct and material effect to the program could result in the loss of federal funds to the County.

We recommended that the County's management establish and implement controls over Reporting to ensure compliance with requirements that have a direct and material effect to the program.

FINDING 2013-006 - INTERNAL CONTROLS OVER ACTIVITIES ALLOWED OR UNALLOWED AND ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: Department of Health and Human Services

Federal Program: Child Support Enforcement

CFDA Number: 93.563

Federal Award Number and Year (or other Identifying Number): 2013

Pass-Through Agency: Indiana Department of Child Services

Management of the County has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and some of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Activities Allowed or Unallowed and Allowable Costs/Cost Principles.

The Payroll Clerk in the County Auditor's Office processes the County's payroll. This employee is also responsible for calculating and making all employee and employer benefit payments. Supporting documentation for these payments was retained in the payroll files; however, no review of the documentation was completed by another employee, nor were the checks and/or electronic payments compared to the supporting documentation by another County employee. The County Auditor did not properly certify these disbursements, nor did the Board of County Commissioners properly authorize the disbursements for payroll.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides 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."

COUNTY AUDITOR
WASHINGTON COUNTY
FEDERAL FINDINGS
(Continued)

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the County.

We recommended that the County's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

CORRECTIVE ACTION PLAN

FINDING 2013-001 - INTERNAL CONTROLS OVER SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

(Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Sarah Bachman
Contact Phone Number: 812 883-4805

Description of Corrective Action Plan:

We have a better understanding on the Federal grants and the Auditor's Office is working diligently to correct the errors on the SEFA and to put in the proper controls.

Anticipated Completion Date: It will corrected for next year

Sarah Bachman
(Signature)

Co. Auditor
(Title)

7/16/14
(Date)

WASHINGTON COUNTY COMMISSIONERS

99 Public Square
Suite 103
Salem, Indiana 47167

Phone: 812-883-4805
Fax: 812-883-7320

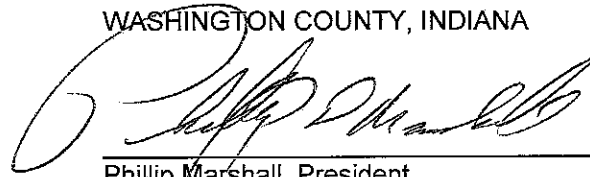
September 25, 2014

FINDING 2013-002-INTERNAL CONTROLS AND COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING

In future periods, the Washington County Auditor's Office will supplement its current payroll claims approval request with an itemization of all withholdings to every entity to which such withholdings are paid for each pay period being approved. The County Commissioners will review not only the gross payroll, but all reductions for each withholding entity in the aggregate, and the net payroll amount.

Washington County expects to have this implemented no later than January 2015. The contact person for Washington County, Indiana is Sarah Bachman, Auditor, (812)883-4805.

WASHINGTON COUNTY, INDIANA



Phillip Marshall, President
Washington County Commissioners



Sarah Bachman, Auditor
Washington County, Indiana



WASHINGTON COUNTY AUDITORS OFFICE

CORRECTIVE ACTION PLAN

FINDING 2013-003 – SUBRECIPIENT MONITORING

Contact Person Responsible for Corrective Action: Sarah Bachman
Contact Phone Number: 812 883-4805

Description of Corrective Action Plan: Hoosier Uplands will start submitting the proper paperwork before the Auditor's Office will release any money to them.

Anticipated Completion Date: Will start now and will be completed when grant is completed.

Sarah Bachman
(Signature)

Auditor
(Title)

7/16/14
(Date)

CORRECTIVE ACTION PLAN

FINDING 2013-004 – DAVIS BACON

Contact Person Responsible for Corrective Action: Sarah Bachman
Contact Phone Number: 812 883-4805

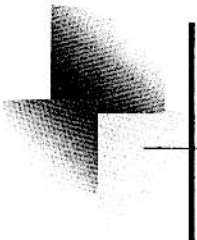
Description of Corrective Action Plan: The County will review any work by the grant administrator related to Davis Bacon.

Anticipated Completion Date: As soon as possible

Sarah Bachman
(Signature)

Auditor
(Title)

7/16/14
(Date)



WASHINGTON COUNTY AUDITORS OFFICE

CORRECTIVE ACTION PLAN

FINDING 2013-005 – REPORTING

Contact Person Responsible for Corrective Action: Sarah Bachman
Contact Phone Number: 812 883-4805

Description of Corrective Action Plan: The Auditor's Office and individual departments are meeting and cooperating to ensure more accurate costs are estimated for monthly budget projections for each departments as well as each department cooperating with the Auditor's Office to ensure monthly expenditures are reported accurately for monthly reimbursement reports.

Anticipated Completion Date: This being done now

Sarah Bachman
(Signature)

Auditor
(Title)

7/16/14
(Date)

WASHINGTON COUNTY COMMISSIONERS

99 Public Square
Suite 103
Salem, Indiana 47167

Phone: 812-883-4805
Fax: 812-883-7320

September 25, 2014

FINDING 2013-006-INTERNAL CONTROLS OVER ACTIVITIES ALLOWED OR UNALLOWED AND ALLOWABLE COST PRINCIPLES

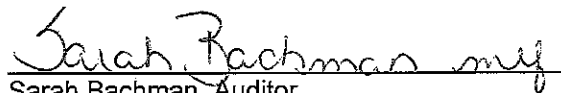
In future periods, the Washington County Auditor's Office will supplement its current payroll claims approval request with an itemization of all withholdings to every entity to which such withholdings are paid for each pay period being approved. The County Commissioners will review not only the gross payroll, but all reductions for each withholding entity in the aggregate, and the net payroll amount.

Washington County expects to have this implemented no later than January 2015. The contact person for Washington County, Indiana is Sarah Bachman, Auditor, (812)883-4805.

WASHINGTON COUNTY, INDIANA



Phillip Marshall, President
Washington County Commissioners



Sarah Bachman, Auditor
Washington County, Indiana

COUNTY AUDITOR
WASHINGTON COUNTY
AUDIT RESULTS AND COMMENTS

LOCAL INCOME TAX SETTLEMENT FUNDS

The CAGIT Distribution fund (Fund 7311) should have a zero balance at year end, but had a balance of \$51.01 on December 31, 2012 and 2013.

The CEDIT Distribution fund (Fund 7312) should have a zero balance at year end, but had a balance of \$24,364.08 on December 31, 2012, and \$25,191.66 on December 31, 2013. This was an accumulation of funds from governmental units that failed to adopt a capital improvement plan. These funds should have been transferred to a separate account.

Uniform Chart of Accounts Instructions required by County Bulletin 376 page 3, as amended by County Bulletin 381 page 11, Q&A 5.

OVERDRAWN CASH BALANCES

The financial statement included the following funds with overdrawn cash balances at December 31, 2013:

| <u>Fund</u> | <u>Amount Overdrawn</u> |
|-----------------------------|-----------------------------|
| Emergency Telephone System | \$ 7,220 |
| Park Nonreverting Operating | 45,317 |
| Park And Recreation | 55,727 |
| Adult Protective Services | 15,618 |

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 14)

COUNTY AUDITOR
WASHINGTON COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

ERRORS ON CLAIMS

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

1. Claims were not prepared for 11 percent of disbursements tested. This error resulted in \$2,249.99 of expenditures which were not supported by a proper claim.
2. Of the claims tested, 11 percent did not have Board approval. This error resulted in \$2,249.99 expenditures which did not have proper Board approval.
3. Of the claims tested, 11 percent did not have proper approval by the fiscal officer. This error resulted in \$2,412.79 of expenditures which did not have proper approval by the fiscal officer.

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."

SARAH BACHMAN
AUDITOR WASHINGTON COUNTY
SALEM, INDIANA 47167

July 28, 2014

State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, IN 46204-2765

RE: "OFFICIAL RESPONSE"

Ms. Davis,

The Washington County Auditor, Washington County Council and Washington County Board of Commissioners, wish to file an official response to the results and comments in the Audit Report.

LOCAL INCOME TAX SETTLEMENT FUNDS

The CAGIT Distribution Fund (Fund 7311) has been corrected and has a zero balance.

The COIT Distribution Fund (Fund 7312) has been corrected and has a zero balance. These funds have been moved into a separate account.

OVERDRAWN CASH BALANCES

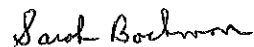
The Overdrawn Fund on Park Nonreverting Operating is in the black and has a balance over \$7,000.00

Park and Recreation will be taken care before the end of the year. The County Council will transfer money from a fund to get Park and Recreation out of red and a zero balance.

ERRORS ON CLAIMS

The claims will be given to the Commissioners for approval and signed by Commissioners.

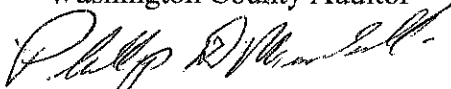
Sincerely,



Sarah Bachman
Washington County Auditor



David Hoar
President, County Council



Phillip Marshall
President, Commissioners

Sarah Bachman, Auditor
99 Public Square
Suite 103
Salem, Indiana 47167

Phone: 812-883-4805
Fax: 812-883-7320

E-mail: sbachman@washingtoncounty.in.gov

COUNTY AUDITOR
WASHINGTON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on July 24, 2014, with Sarah Bachman, Auditor; Michele Fleenor, First Deputy Auditor; Phillip Marshall, President of the Board of County Commissioners; and David Hoar, President of the County Council.

CLERK OF THE CIRCUIT COURT
WASHINGTON COUNTY

CLERK OF THE CIRCUIT COURT
WASHINGTON COUNTY
FEDERAL FINDING

FINDING 2013-005 - REPORTING

Federal Agency: Department of Health and Human Services
Federal Program: Child Support Enforcement
CFDA Number: 93.563
Federal Award Number and Year (or other Identifying Number): 2013
Pass-Through Agency: Indiana Department of Child Services

Management of the County has not established an effective internal control system related to Reporting. The failure to establish an effective internal control system places the County at risk of noncompliance with the grant agreement and the compliance requirements.

The County was required to submit a reimbursement request each month using a Monthly Expense Claim For Title IV-D, State Form 54529. The County was also required to submit quarterly expenditure reports for incentive funds using the Quarterly Incentive Expenditure Report For Title IV-D, State Form 54528. The amounts reported on these forms did not agree with the amounts posted to the ledger.

In January 2013, the County disbursed \$40,000 from the Prosecutor's IV-D budget to cover the County's share of medical insurance costs, but this disbursement was not included in the Prosecutor's IV-D monthly report for January. The personal service expenses reported for January through June did not agree with the amounts posted to the ledger. In addition, there were three other errors found in the reports. As a result, the Prosecutor's IV-D reimbursement requests were underreported by \$32,396.99 for the audit period.

Two of the Quarterly Incentive Reports submitted by the Circuit Court did not agree with the amounts posted to the ledger. The ledger had expenditure postings of \$5,200, but only \$1,950 was reported on the Quarterly Reports.

The Prosecutor PCA fund had expenditure postings of \$1,621.21 to the ledger that were not reported on any Monthly Expense Report.

Management's failure to establish and implement controls requiring someone other than the individual preparing the reports to review and verify amounts reported allowed errors to go undetected.

CLERK OF THE CIRCUIT COURT
WASHINGTON COUNTY
FEDERAL FINDING
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides 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."

45 CFR 92.20, Standards for financial management systems states in part:

"(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

Noncompliance with the grant agreement or the reporting requirements that have a direct and material effect to the program could result in the loss of federal funds to the County.

We recommended that the County's management establish and implement controls over Reporting to ensure compliance with requirements that have a direct and material effect to the program.

Shirley Batt

Clerk, Circuit / Superior Court

99 Public Square, Suite 102 • Salem, Indiana 47167

Phone 812-883-5748 • Fax 812-883-8108

clerk@washingtoncounty.in.gov



CORRECTIVE ACTION PLAN

FINDIND 2013-005 – REPORTING

Federal Agency: U.S. Department of Health and Human Services

Federal Program: Child Support Enforcement

CFDA Number 93.563

Federal Award Number and Year (or other identifying Number): 2013

Pass-Through Agency: Indiana Department of Child Services

Contact Person Responsible for Corrective Action: Shirley Batt, Clerk Washington Circuit Court

Contact Phone Number: 812-883-5748 ext. 1120

Description of Corrective Action Plan:

As being a part of the Title IV-D program along with the Prosecutor and Circuit Court, the Clerk's Office will continue to strive to complete the required program tasks.

- We will continue to meet regularly with our child support field consultant to discuss or update any issues before us.
- We will continue to attend regional child support meetings offered by the Indiana Department of Child Services.
- Complete all documentation submitted for reimbursement.
- Continue relationship with vendor to submit correct Monthly and Quarterly Claims.
- Continue tracking of invoices, claims, reimbursements, etc. for auditing purposes.

Anticipated Completion Date: December 31, 2014

Shirley Batt
Signature

Clerk, Washington Circuit Court
Title

July 23, 2014
Date

CLERK OF THE CIRCUIT COURT
WASHINGTON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on July 24, 2014, with Shirley Batt, Clerk.

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COUNTY PROSECUTING ATTORNEY
WASHINGTON COUNTY

COUNTY PROSECUTING ATTORNEY
WASHINGTON COUNTY
FEDERAL FINDING

FINDING 2013-005 - REPORTING

Federal Agency: Department of Health and Human Services
Federal Program: Child Support Enforcement
CFDA Number: 93.563
Federal Award Number and Year (or other Identifying Number): 2013
Pass-Through Agency: Indiana Department of Child Services

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COUNTY PROSECUTING ATTORNEY
WASHINGTON COUNTY
FEDERAL FINDING
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

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Noncompliance with the grant agreement or the reporting requirements that have a direct and material effect to the program could result in the loss of federal funds to the County.

We recommended that the County's management establish and implement controls over Reporting to ensure compliance with requirements that have a direct and material effect to the program.

OFFICE OF THE PROSECUTING ATTORNEY

DUSTIN L. HOUCHIN
Prosecuting Attorney

BLAINE S. GOODE
Chief Deputy Prosecuting Attorney

MELISSA CAMPBELL
Deputy Prosecuting Attorney



42nd JUDICIAL CIRCUIT
WASHINGTON COUNTY, INDIANA
812-883-6560
FAX: 812-883-4333

Mailing Address:

806 Martinsburg Rd., Suite 202
Salem, Indiana 47167

July 21, 2014

FINDIND 2013-005 – REPORTING

Federal Agency: U. S. Department of Health and Human Services
Federal Program: Child Support Enforcement
CFDA Number: 93.563
Federal Award Number and Year (or other Identifying Number): 2013
Pass-Through Agency: Indiana Department of Child Services

CORRECTIVE ACTION PLAN

Washington County Prosecuting Attorney Office – IV-D
Dustin Houchin, Prosecuting Attorney
Janet Moore, IV-D Administrator
812-883-6569

On June 25, 2014; the IV-D Administrator met with Sara Bachman, County Auditor and Staff to complete a communication plan to ensure all information is reported correctly. First communication by e-mailing monthly expense reports from Auditor to IV-D Administrator each month and second by telephone communications to ensure all information is understood.

Washington County did provide health coverage for the employees in calendar year 2013 but was considered a self funded plan therefore each department's budgeted expenses were transferred into the County Self Insurance Fund in January, 2013 as well as the cost for each employee's life insurance policy also covered by the County Self Insurance Fund. Therefore causing the IV-D Administrator's failure to report monthly reimbursement expenses.

2014 the County does not provide health coverage but continues to provide life insurance policies and a health care clinic for all employees. Department insurance expense budget funds were again transferred from the department budgets to the County Self Insurance Fund in January to ensure these expenses are paid. Again the IV-D Administrator failed to report monthly reimbursement expenses for these benefits.

During the June 25, 2014 meeting the Auditor and IV-D Administrator completed a report to reflect estimated employee cost and estimated monthly cost specifically for the IV-D Office for the life insurance policies and health care clinic cost. Also, during this meeting it was determined the majority of the other errors or discrepancies were found to be clerical errors.

A meeting was conducted between the IV-D Administrator and the Regional Field Consultant on July 18, 2014 to address the reporting of the PCA fund expenses.

DESCRIPTION OF CORRECTIVE ACTION PLAN

The IV-D Administrator has submitted prior period adjustments in May, 2014 to include a correction for health expenses, life insurance expenses for January 2013 through May 2014 as well as made adjustments to correct the clerical errors in previous reports.

The IV-D Administrator will submit the monthly estimated cost for the life insurance policies and health care clinic costs each month according to the documents from June 25, 2014 meeting. Also, meetings will be conducted with Auditor and IV-D Staff to ensure any changes in these figures are reported.


The IV-D Administrator will review the procedures in reporting PCA funds to ensure these are included on future reports and adjustment for previous period is anticipated to be reported on the July, 2014 report that is due by August 10, 2014.

The IV-D Administrator will more thoroughly review all amounts for submission of the reports.

ANTICIPATED COMPLETION DATE

Washington County anticipates this corrective action plan to be completed by the reporting of August, 2014 reports however the reimbursement reports are submitted monthly therefore the reporting of all expenses and the corrective action plan will continue to be ongoing.

REVIEWED BY:



Dustin Houchin, Prosecutor
Washington County
DATED: 7-24-14

COUNTY PROSECUTING ATTORNEY
WASHINGTON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on July 24, 2014, with Dustin Houchin, Prosecuting Attorney.

CIRCUIT COURT JUDGE
WASHINGTON COUNTY

CIRCUIT COURT JUDGE
WASHINGTON COUNTY
FEDERAL FINDINGS

FINDING 2013-005 - REPORTING

Federal Agency: Department of Health and Human Services
Federal Program: Child Support Enforcement
CFDA Number: 93.563
Federal Award Number and Year (or other Identifying Number): 2013
Pass-Through Agency: Indiana Department of Child Services

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Two of the Quarterly Incentive Reports submitted by the Circuit Court did not agree with the amounts posted to the ledger. The ledger had expenditure postings of \$5,200, but only \$1,950 was reported on the Quarterly Reports.

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Management's failure to establish and implement controls requiring someone other than the individual preparing the reports to review and verify amounts reported allowed errors to go undetected.

CIRCUIT COURT JUDGE
WASHINGTON COUNTY
FEDERAL FINDINGS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides 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."

45 CFR 92.20, Standards for financial management systems states in part:

"(b) The financial management systems of other grantees and subgrantees must meet the following standards:

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Noncompliance with the grant agreement or the reporting requirements that have a direct and material effect to the program could result in the loss of federal funds to the County.

We recommended that the County's management establish and implement controls over Reporting to ensure compliance with requirements that have a direct and material effect to the program.

Washington Circuit Court
Hon. Larry W. Medlock
#99 Public Square, Suite 200
Salem, Indiana 47167
Phone: 812-883-5302 * Facsimile: 812-883-1933

CORRECTIVE ACTION PLAN

FINDING 2013-005-REPORTING


Federal Agency: U.S. Department of Health and Human Services
Federal Program: Child Support Enforcement
CFDA Number: 93.563
Federal Award Number and Year (or other Identifying Number): 2013
Pass-Through Agency: Indiana Department of Child Services

Contact Person Responsible for Corrective Action: Hon. Larry W. Medlock
Contact Phone Number: 812-883-5302

Description of Corrective Action Plan:

The circumstance occurred when the County Auditor failed to get the amount posted on time and it was posted on the next quarter. To correct this problem from happening again in the future the Court will try to submit claims in a timely manner in hopes that the County Auditor will be able to post the claims and the incentives in the correct quarter.

Dated: July 23, 2014



LARRY W. MEDLOCK, JUDGE
WASHINGTON CIRCUIT COURT

CIRCUIT COURT JUDGE
WASHINGTON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on July 24, 2014, with the Honorable Larry W. Medlock, Circuit Court Judge.

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COUNTY SHERIFF
WASHINGTON COUNTY

COUNTY SHERIFF
WASHINGTON COUNTY
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

The depository reconciliation of the Cash Book provided by the County Sheriff noted that the record balance exceeded the reconciled bank balance by \$116.23. In addition, the officials could not identify \$10,958.49 of their record balance.

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."

At all times, the manual and/or 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 Counties of Indiana, Chapter 1)

CONDITION OF RECORDS

The Jail Commissary fund should be used to account for money generated from commissary sales. However, as stated in prior reports, the Washington County Jail Commissary fund includes Inmate Trust funds. To make purchases from the Jail Commissary fund, inmates are required to purchase a commissary card. At the time the card is purchased, the money is disbursed from the Inmate Trust fund and deposited into the Jail Commissary fund even though no merchandise has been sold. Therefore, the Jail Commissary balance includes inmate trust funds. At the current time, no procedures are in place to determine the amount of the Jail Commissary fund balance that belongs to the inmates.

Individual inmate records are kept as a subsidiary record to the Inmate Trust Ledger. The ledger and subsidiary records do not agree. The unidentified excess in the bank account at December 31, 2013, was \$1,359.19.

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)

At all times, the manual and/or 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 Counties of Indiana, Chapter 1)

COUNTY SHERIFF
WASHINGTON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on July 24, 2014, with Claude C. Combs, Sheriff, and Jeannie Combs, Bookkeeper.

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COUNTY COMMISSIONERS
WASHINGTON COUNTY

COUNTY COMMISSIONERS
WASHINGTON COUNTY
FEDERAL FINDINGS

**FINDING 2013-002 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING**

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:

The financial information inputted into the County's Annual Report was not properly reviewed and verified to the County's financial records and the records of the County's outside offices to determine that no material errors occurred. Receipts, disbursements, and cash and investment balances in the amounts of \$1,738,513, \$1,820,180, and \$81,667, respectively, were improperly reported in the Annual Report for the following outside offices: Treasurer's After Settlement Collections, County Sheriff, and Sheriff Drug Investigation. Financial information from the County's Annual Report is used to compile the County's financial statement. As a result, the beginning balances and receipt and disbursement transactions reported on the County's financial statement were overstated. Audit adjustments were proposed, approved by the County, and made to the County's financial statement.

The Payroll Clerk in the County Auditor's Office processes the County's payroll. This employee is also responsible for calculating and making all employee and employer benefit payments. Supporting documentation for these payments was retained in the payroll files; however, no review of the documentation was completed by another employee, nor were the checks and/or electronic payments compared to the supporting documentation by another County employee. The County Auditor did not properly certify these disbursements, nor did the Board of County Commissioners properly authorize the disbursements for payroll.

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)

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."

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:

COUNTY COMMISSIONERS
WASHINGTON COUNTY
FEDERAL FINDINGS
(Continued)

- (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."

FINDING 2013-006 - INTERNAL CONTROLS OVER ACTIVITIES ALLOWED OR UNALLOWED AND ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: Department of Health and Human Services
Federal Program: Child Support Enforcement
CFDA Number: 93.563
Federal Award Number and Year (or other Identifying Number): 2013
Pass-Through Agency: Indiana Department of Child Services

Management of the County has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and some of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Activities Allowed or Unallowed and Allowable Costs/Cost Principles.

The Payroll Clerk in the County Auditor's Office processes the County's payroll. This employee is also responsible for calculating and making all employee and employer benefit payments. Supporting documentation for these payments was retained in the payroll files; however, no review of the documentation was completed by another employee, nor were the checks and/or electronic payments compared to the supporting documentation by another County employee. The County Auditor did not properly certify these disbursements, nor did the Board of County Commissioners properly authorize the disbursements for payroll.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides 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."

COUNTY COMMISSIONERS
WASHINGTON COUNTY
FEDERAL FINDINGS
(Continued)

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the County.

We recommended that the County's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

WASHINGTON COUNTY COMMISSIONERS

99 Public Square
Suite 103
Salem, Indiana 47167

Phone: 812-883-4805
Fax: 812-883-7320

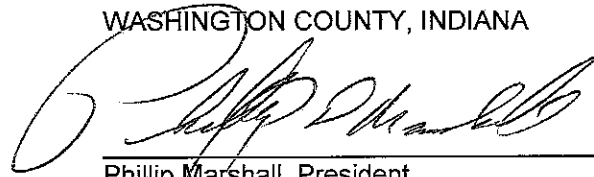
September 25, 2014

FINDING 2013-002-INTERNAL CONTROLS AND COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING

In future periods, the Washington County Auditor's Office will supplement its current payroll claims approval request with an itemization of all withholdings to every entity to which such withholdings are paid for each pay period being approved. The County Commissioners will review not only the gross payroll, but all reductions for each withholding entity in the aggregate, and the net payroll amount.

Washington County expects to have this implemented no later than January 2015. The contact person for Washington County, Indiana is Sarah Bachman, Auditor, (812)883-4805.

WASHINGTON COUNTY, INDIANA



Phillip Marshall, President
Washington County Commissioners



Sarah Bachman, Auditor
Washington County, Indiana

WASHINGTON COUNTY COMMISSIONERS

99 Public Square
Suite 103
Salem, Indiana 47167

Phone: 812-883-4805
Fax: 812-883-7320

September 25, 2014

FINDING 2013-006-INTERNAL CONTROLS OVER ACTIVITIES ALLOWED OR UNALLOWED AND ALLOWABLE COST PRINCIPLES

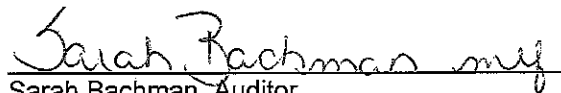
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WASHINGTON COUNTY, INDIANA



Phillip Marshall, President
Washington County Commissioners



Sarah Bachman, Auditor
Washington County, Indiana

COUNTY COMMISSIONERS
WASHINGTON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on July 24, 2014, with Phillip Marshall, President of the Board of County Commissioners.