

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

PUTNAM COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED
03/14/2017

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
County Auditor:	
Federal Findings:	
Finding 2015-001 - Internal Controls over Financial Transactions and Reporting	6
Finding 2015-002 - Preparation of the Schedule of Expenditures of Federal Awards	7-8
Corrective Action Plan	9
Audit Results and Comments:	
CEDIT Distributions.....	10
Overdrawn Cash Balances	10
Appropriations	11
Reconcilement Between County Treasurer and County Auditor	11
Exit Conference	12
County Treasurer:	
Audit Result and Comment:	
Reconcilement Between County Treasurer and County Auditor	14
Exit Conference	15
County Planning and Zoning:	
Audit Result and Comment:	
Bank Account Reconcilements	18
Exit Conference	19

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Lorie Hallett	01-01-13 to 12-31-20
County Treasurer	Sharon Owens Kathy Minnick	01-01-13 to 12-31-16 01-01-17 to 12-31-20
Clerk of the Circuit Court	Heather Gilbert	01-01-15 to 12-31-18
County Sheriff	Scott Stockton	01-01-15 to 12-31-18
County Recorder	Tracey Bridges	01-01-15 to 12-31-18
County Planning and Zoning Director	Douglas Ehmen Brett A. Wagner Jessica Jones (interim)	01-01-15 to 03-29-15 03-30-15 to 12-31-16 01-01-17 to 12-31-17
President of the Board of County Commissioners	David E. Berry	01-01-15 to 12-31-17
President of the County Council	Darrel L. Thomas	01-01-15 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF PUTNAM COUNTY, INDIANA

This report is supplemental to our audit report of Putnam County (County), for the period from January 1, 2015 to December 31, 2015. 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

January 24, 2017

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COUNTY AUDITOR
PUTNAM COUNTY

COUNTY AUDITOR
PUTNAM COUNTY
FEDERAL FINDINGS

FINDING 2015-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition

The County Auditor had not established proper procedures for a separate review or approval of the financial information reported in the Gateway Annual Financial Report prior to its submission. The financial activity for 13 County funds and 4 County department funds were omitted from the financial statement. In addition, there were several other reporting errors in various funds. The errors resulted in a net understatement of the beginning cash and investment balance, receipts, disbursements and the ending cash and investment balance in the amounts of \$3,770,311, \$5,660,865, \$6,297,789, and \$3,133,387, respectively.

Audit adjustments were proposed, accepted by the County, and made to the Financial Statement.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner, whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes. An integral part of the control activity component is segregation of duties. . . . There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every 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."

Cause

Management of the County had not established a proper system of internal control, including segregation of duties.

Effect

The failure to establish controls enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the County at risk that controls would not prevent or detect material misstatements in a timely manner.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

COUNTY AUDITOR
 PUTNAM COUNTY
 FEDERAL FINDINGS
 (Continued)

FINDING 2015-002 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Condition

There was a deficiency in the internal control system of the County related to the preparation of the Schedule of Expenditures of Federal Awards (SEFA). The County did not have a proper system of internal control in place to prevent, or detect and correct, errors on the SEFA. The County Auditor prepared the SEFA. There was no evidence of a control such as an oversight, review, or approval process to ensure that the SEFA was materially correct.

The SEFA contained the following errors: Federal expenditures for the reported federal programs were misstated. The total overstatement for the six reported programs was \$11,893,023. In addition, six federal programs were omitted from the SEFA as follows:

CFDA Number	Federal Program	Federal Expenditures
11.558	State Broadband Data and Development Grant Program	\$ 46,690
	Community Development Block Grants\State's program	
14.228	and Non-Entitlement Grants in Hawaii	392,135
20.600	State and Community Highway Safety	683
93.069	Public Health Emergency Preparedness	985
97.012	Boating Safety Financial Assistance	3,750

These errors resulted in a total net overstatement of Federal expenditures reported on the SEFA of \$11,409,401.

Audit adjustments were proposed, accepted by the County, and made to the SEFA.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner, whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes. An integral part of the control activity component is segregation of duties. . . . There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

2 CFR section 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 Financial statements."

COUNTY AUDITOR
PUTNAM COUNTY
FEDERAL FINDINGS
(Continued)

2 CFR 200.510(b) states:

"(b) *Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. 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 Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within a cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal 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 must 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. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe the significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

Cause

Management had not established a system of internal control that would have ensured proper reporting of the SEFA.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Condition*.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

PUTNAM COUNTY AUDITOR'S OFFICE

1 W. WASHINGTON ST., RM 20
GREENCASTLE, IN 46135
(765) 653-5513

CORRECTIVE ACTION PLAN

FINDING 2015-001 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact Person Responsible for Corrective Action: Lorie Hallett
Contact Phone Number: 765-653-5513

Views of Responsible Official: We concur with the finding

Corrective Action Plan:

The Putnam County Auditor is in the process of developing procedures and internal controls to insure all departments are included and funds are reported accurately in Gateway system. A process will be implemented for separate review prior to submission.

Anticipated Completion Date: 12/31/17

FINDING 2015-002 – PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact Person Responsible for Corrective Action: Lorie Hallett
Contact Phone Number: 765-653-5513

Views of Responsible Official: We concur with the finding

Corrective Action Plan:

The Putnam County Auditor is in the process of developing procedures and internal controls and working with all departments to ensure that grant information is accurate and all correct information is reported on the Schedule of Expenditures of Federal Awards. The Auditor will develop a review process to detect and correct errors.

Anticipated Completion Date: 12/31/17


Lorie Hallett, Auditor

1-18-17
Date

COUNTY AUDITOR
PUTNAM COUNTY
AUDIT RESULTS AND COMMENTS

CEDIT DISTRIBUTIONS

The County Economic Development Income Tax (CEDIT) Distribution fund is to be used as a clearing fund and should have a zero balance; however, the CEDIT Distribution fund had a balance of \$135,239 at January 1, 2015, and \$53,886 at December 31, 2015. A balance in a distribution fund can be an indication that not all distributions have been properly remitted to the County fund or to other local governments.

Indiana Code 6-3.5-7-16.5 states:

"(a) The county auditor shall timely distribute the certified distribution received under section 12 of this chapter to each city and town that is a recipient of a certified distribution.

(b) A distribution is considered to be timely made if the distribution is made not later than ten (10) working days after the date the county treasurer receives the county's certified distribution under section 12 of this chapter."

OVERDRAWN CASH BALANCES

The financial statements presented in this report included the following non-reimbursement based grant funds with overdrawn cash balances at December 31, 2015:

Fund	Amount Overdrawn
CAGIT County Certified Shares	\$ 347,264
Extradition Fund	2,790
Local Health Maintenance	6,240
Tax Sale Redemption	773
Payroll Withholding - PERF	231
Payroll Withholding - State	513
Payroll Withholding Wage Garni	925
Victims Assistance Grant	5,929
Stop Women's Abuse Team	7,599

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.

In an instance in which a unit receives a reimbursement grant, the unit must be claiming reimbursement in a timely manner. In this case, it would be possible for a fund to be overdrawn for a short period of time. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

COUNTY AUDITOR
 PUTNAM COUNTY
 AUDIT RESULTS AND COMMENTS
 (Continued)

APPROPRIATIONS

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

Fund	Year	Excess Amount Expended
General	2015	\$ 1,082,960
Cumulative Bridge	2015	2,877,480

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."

RECONCILEMENT BETWEEN COUNTY TREASURER AND COUNTY AUDITOR

The County Treasurer's and County Auditor's Ledgers do not agree. At December 31, 2015, the County Auditor's Ledger balance was \$9,538 less than the County Treasurer's balance.

At the close of each calendar month a Monthly Financial Statement, County Form No. 61, shall be prepared, showing the financial transactions for the month and year to date, for each fund and in total.

The county treasurer is also required to independently prepare a Monthly Financial Statement on the same form and the two statements must be reconciled. If any differences exist between the records of the auditor and the treasurer, they must be identified and immediate steps taken to bring the records of the two offices into agreement.

The statements are prescribed to be placed in a post-binder and shall be carefully preserved as a permanent record. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 7)

COUNTY AUDITOR
PUTNAM COUNTY
EXIT CONFERENCE

The contents of this report were discussed on January 24, 2017, with Lorie Hallett, County Auditor; Evelyn J. Williams, First Deputy County Auditor; David E. Berry, President of the Board of County Commissioners; and Darrel L. Thomas, President of the County Council.

COUNTY TREASURER
PUTNAM COUNTY

COUNTY TREASURER
PUTNAM COUNTY
AUDIT RESULT AND COMMENT

RECONCILEMENT BETWEEN COUNTY TREASURER AND COUNTY AUDITOR

The County Treasurer's and County Auditor's Ledgers do not agree. At December 31, 2015, the County Auditor's Ledger balance was \$9,538 less than the County Treasurer's balance.

The Monthly Financial Statement, Form 61, is a permanent record prepared from the treasurer's funds ledger at the close of each month. It is prepared after all postings to the ledger have been completed for the month and reflects the total receipts and disbursements and the balance for each fund for the month and for the year to date. The statement must agree with a similar statement kept by the county auditor, giving consideration to any adjustments required to reconcile the ledgers of the two offices. (Accounting and Uniform Compliance Guidelines Manual for Treasurers of Indiana, Chapter 5)

COUNTY TREASURER
PUTNAM COUNTY
EXIT CONFERENCE

The contents of this report were discussed on January 24, 2017, with Sharon Owens, former County Treasurer, by telephone; Kathy Minnick, County Treasurer; Lorie Hallett, County Auditor; Evelyn J. Williams, First Deputy County Auditor; David E. Berry, President of the Board of County Commissioners; and Darrel L. Thomas, President of the County Council.

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COUNTY PLANNING AND ZONING
PUTNAM COUNTY

COUNTY PLANNING AND ZONING
PUTNAM COUNTY
AUDIT RESULT AND COMMENT

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balance to the bank account balance were not presented for audit for the 12 months of the audit period. Records presented for audit included several errors including, six checks totaling \$18,304 were not posted to the Planning and Zoning Ledger of Receipts, Disbursements and Balances and two checks were posted for the incorrect amount.

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."

All financial transactions pertaining to the governmental unit must be recorded in the records of the governmental unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

COUNTY PLANNING AND ZONING
PUTNAM COUNTY
EXIT CONFERENCE

The contents of this report were discussed on January 24, 2017, with Jessica Jones, interim Director; Lorie Hallett, County Auditor; Evelyn J. Williams, First Deputy County Auditor; David E. Berry, President of the Board of County Commissioners; and Darrel L. Thomas, President of the County Council.