

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SHELBY COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED
05/10/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Mary Jo Phares	01-01-15 to 12-31-18
County Treasurer	Kathy Plunkett	01-01-15 to 12-31-18
Clerk of the Circuit Court	Vicki R. Franklin	01-01-15 to 12-31-18
County Sheriff	Dennis Parks	01-01-15 to 12-31-18
County Recorder	Tawnya J. Williams	01-01-15 to 12-31-18
President of the Board of County Commissioners	Kevin Nigh	01-01-15 to 12-31-17
President of the County Council	Tony Titus	01-01-15 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF SHELBY COUNTY, INDIANA

This report is supplemental to our audit report of Shelby 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

March 29, 2017

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COUNTY AUDITOR
SHELBY COUNTY

COUNTY AUDITOR
SHELBY COUNTY
FEDERAL FINDINGS

**FINDING 2015-001 - PREPARATION OF THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS**

Condition

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 Auditor was primarily responsible for compiling and inputting the SEFA information into the Indiana Gateway for Government Units financial system. There was no control in place to ensure the SEFA information submitted was accurate.

The following errors occurred:

1. Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii program expenditures were understated by \$336,261.
2. Highway Planning and Construction program expenditures were understated by \$312,801.
3. Child Support Enforcement program expenditures were understated by \$272,379.
4. Emergency Management Performance Grants program expenditures were understated by \$46,569.
5. Crime Victim Assistance program expenditures were overstated by \$40,543.
6. Substance Abuse and Mental Health Services_Projects of Regional and National Significance program expenditures were understated by \$35,482.
7. Grant program expenditures of \$210,520 were included on the SEFA in error.
8. The total amount passed through to subrecipients was overstated by \$206,168.

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.

COUNTY AUDITOR
SHELBY COUNTY
FEDERAL FINDINGS
(Continued)

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 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. . . ."

2 CFR 200.510(b) states:

"*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 the 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."

COUNTY AUDITOR
SHELBY COUNTY
FEDERAL FINDINGS
(Continued)

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.

FINDING 2015-002 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition

The following deficiencies in the internal control system of the County related to financial transactions and reporting occurred.

Lack of Segregation of Duties: The County had not separated incompatible activities related to financial close and reporting. The County Auditor was primarily responsible for inputting and submitting the County's financial information into the Indiana Gateway for Government Units financial system, which is the source for the Annual Financial Report and financial statement. There was no control in place to ensure the financial information reported was accurate.

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. . . ."

COUNTY AUDITOR
SHELBY COUNTY
FEDERAL FINDINGS
(Continued)

Cause

Management of the County had not established a proper system of internal control.

Effect

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

Views of Responsible Officials

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

FINDING 2015-004 - INTERNAL CONTROL OVER COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII

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-013-008
Pass-Through Entity: Indiana Housing and Community Development Authority

Condition

An effective internal control system was not in place related to the grant agreement and the following compliance requirements: Cash Management, Matching, Reporting, and Procurement and Suspension and Debarment.

Cash Management

The County contracted with a Grant Administrator who was responsible for monitoring that grant funds were expended within the required number of days of receipt of the funds.

Matching and Procurement and Suspension and Debarment

The County contracted with a Grant Administrator who was responsible for compliance with the Matching and Procurement and Suspension and Debarment compliance requirements.

Reporting

The County contracted with a Grant Administrator who was responsible for compliance with Reporting requirements, including preparing and submitting grant reports.

Context

The lack of internal controls was a systemic problem affecting the grant award listed above.

COUNTY AUDITOR
SHELBY COUNTY
FEDERAL FINDINGS
(Continued)

Criteria

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. . . ."

Cause

Management had not developed a system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system placed the County at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

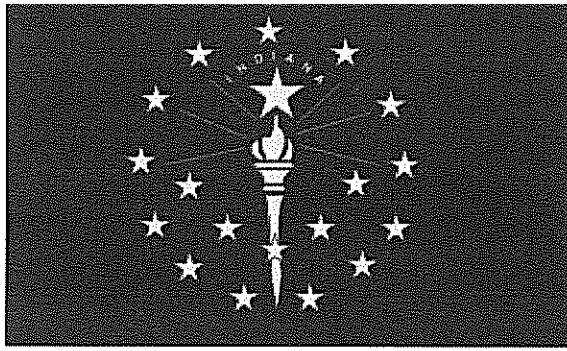
There were no questioned costs identified.

Recommendation

We recommended that the County's management establish controls, including segregation of duties related to the grant agreement and the compliance requirements listed above.

Views of Responsible Officials

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



MARY JO PHARES
SHELBY COUNTY
AUDITOR

25 W Polk Street Room 104, Shelbyville, IN 46176
Phone: (317) 392-6310 Fax: (317) 392-6382

CORRECTIVE ACTION PLAN

FINDING 2015-001

Contact Person Responsible for Corrective Action: Mary Jo Phares
Contact Phone Number: (317) 392-6310

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: We will start having all work double checked before submitting the data in Gateway

Anticipated Completion Date: February 2017 for the year of 2016

FINDING 2015-002

Contact Person Responsible for Corrective Action: Mary Jo Phares
Contact Phone Number: (317) 392-6310

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: We will start having all work double checked before submitting the data in Gateway

Anticipated Completion Date: February 2017 for the year of 2016

FINDING 2015-004

Contact Person Responsible for Corrective Action: Mary Jo Phares

Contact Phone Number: (317) 392-6310

Views of Responsible Official: I concur with the finding.

Corrective Action Plan: We will make sure to request copies of completed reports and documentation of vendors so we know if they have been checked for suspension or debarred by the State. We will also make sure to receive documentation of the grant administrators review of Cash Management and Matching calculations so that the County can ensure these requirements were complied with.

Anticipated Completion Date: February 2017

Mary Jo Phares
(Signature)

Auditor
(Title)

3/7/2017

COUNTY AUDITOR
SHELBY COUNTY
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

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

Fund	Year	Excess Amount Expended
Local Road & Street	2015	\$ 130,921
Cumulative Bridge	2015	436,517

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."

ERRORS ON CLAIMS

A test of travel claims identified the following deficiency:

One claim in the amount of \$1,100 did not contain adequate supporting documentation. The County paid the Shelby County Soil and Water Conservation District the total amount appropriated for mileage. There was no supporting documentation presented that the mileage expense had been incurred prior to payment.

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;

COUNTY AUDITOR
SHELBY COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

- (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. . . ."

OVERDRAWN CASH BALANCES

The financial statement of the County included the following funds with overdrawn cash balances at December 31, 2015:

Fund	Amount Overdrawn
CAGIT County Certified Shares	\$ 162,195
Payroll	12,010
Settlement	102
Settlement Fund II	4,252
County Wheel Tax	307
Civil Process Fees	2,356
Community Correction Juv	2,250
Sheriff Training Fund	466
93.041 Adult Protective Service 2013	128,730

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 unit. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

COUNTY AUDITOR
SHELBY COUNTY
EXIT CONFERENCE

The contents of this report were discussed on March 29, 2017, with Mary Jo Phares, County Auditor; Amy Glackman, Deputy County Auditor; Kevin Nigh, President of the Board of County Commissioners; and Tony Titus, President of the County Council.

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COUNTY HIGHWAY
SHELBY COUNTY

COUNTY HIGHWAY
SHELBY COUNTY
FEDERAL FINDING

FINDING 2015-003 - PERIOD OF PERFORMANCE, MATCHING, AND CASH MANAGEMENT

Federal Agency: Department of Transportation

Federal Program: Highway Planning and Construction

CFDA Number: 20.205

Federal Award Numbers and Years (or Other Identifying Numbers): DES# 0600117; DES# 0600118;
DES# 9380756; DES# 0100361;
DES# 1382080

Pass-Through Entity: Indiana Department of Transportation

This is a repeat finding from the immediate prior year. The prior year finding number was 2014-003.

Condition

An effective internal control system was not in place at the County to ensure compliance with the requirements related to the grant agreement and the following compliance requirements: Period of Performance, Cash Management, and Matching.

Period of Performance and Matching

The County had one employee responsible for compliance with Period of Performance and Matching requirements.

Cash Management

The County had one employee primarily responsible for monitoring that program costs were paid by the entity prior to requesting reimbursement.

Context

The lack of internal controls was a systemic problem affecting all grant awards listed above.

COUNTY HIGHWAY
SHELBY COUNTY
FEDERAL FINDING
(Continued)

Criteria

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. . . ."

Cause

Management had not developed a system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system placed the County at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the County's management establish controls, including segregation of duties related to the grant agreement and the compliance requirements listed above.

Views of Responsible Officials

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

Board of Commissioners

Kevin Nigh
Donald Parker
Chris Ross
John C. DePrez, IV, Attorney



Shelby County, Indiana

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CORRECTIVE ACTION PLAN

FINDING 2015-003

Contact Person Responsible for Corrective Action: Kevin Nigh
Contact Phone Number: 317-392-6330

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The attached sheet will be reviewed, approved and signed by one of the Shelby County Commissioners or the 2nd Deputy for each claim sent to INDOT for reimbursement.

The form addresses internal control for the Period of Availability, Cash Management and Matching requirements.

Anticipated Completion Date:

This process will be started in February 2017.

Kevin Nigh

(Signature)

Commissioner

(Title)

2/07/2017

(Date)

COUNTY HIGHWAY
SHELBY COUNTY
EXIT CONFERENCE

The contents of this report were discussed on March 29, 2017, with Mary Jo Phares, County Auditor; Amy Glackman, Deputy County Auditor; Kevin Nigh, President of the Board of County Commissioners; and Tony Titus, President of the County Council.

COUNTY SHERIFF
SHELBY COUNTY

COUNTY SHERIFF
SHELBY COUNTY
AUDIT RESULT AND COMMENT

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the Sheriff's Inmate Trust fund balances to the bank account balances were conducted; however, the reconciliation at December 31, 2015, included outstanding checks, but a detailed list of outstanding checks was not presented for audit.

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 SHERIFF
SHELBY COUNTY
EXIT CONFERENCE

The contents of this report were discussed on March 29, 2017, with Dennis Parks, County Sheriff; Nancy Holmes, Secretary; Kevin Nigh, President of the Board of County Commissioners; Tony Titus, President of the County Council; Mary Jo Phares, County Auditor; and Amy Glackman, Deputy County Auditor.