

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MICHIANA AREA COUNCIL OF GOVERNMENTS

ST. JOSEPH COUNTY, INDIANA

July 1, 2015 to June 30, 2016



FILED

08/03/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	James J. Turnwald	07-01-15 to 06-30-18
Fiscal Accounting Manager	Deborah Gardner	07-01-15 to 06-30-18
Chairman of the Board	Larry Thompson Joseph Thallemer Kevin Overmyer	01-01-15 to 12-31-15 01-01-16 to 12-31-16 01-01-17 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

TO: THE OFFICIALS OF THE MICHIANA AREA COUNCIL OF
GOVERNMENTS, ST. JOSEPH COUNTY, INDIANA

This report is supplemental to our audit report of the Michiana Area Council of Governments (MACOG), for the period from July 1, 2015 to June 30, 2016. It has been provided as a separate report so that the reader may easily identify any Federal Findings that pertain to the MACOG. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the MACOG, which provides our opinions on the MACOG's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Finding, identified in the above referenced audit report, is included in this report.

Any Corrective Action Plan for the Federal Finding, incorporated within this report, was not verified for accuracy.

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

June 14, 2017

MICHIANA AREA COUNCIL OF GOVERNMENTS
FEDERAL FINDING

FINDING 2016-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition

The Michiana Area Council of Governments (MACOG) failed to establish or properly implement effective internal controls over capital assets.

Every other year the MACOG completed a physical inventory of capital assets, processed annual additions and deletions to capital asset records, depreciated assets, and assured subsidiary records agreed to the financial statements by formally having all records reviewed by the Executive Director.

The 2015-2016 fiscal year was the year a physical inventory of capital assets was not taken. For the 2015-2016 fiscal year, all capital asset records were recorded, processed, depreciated, and posted to the financial statements by one employee without the oversight or approval of a second employee or the Executive Director.

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. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . ."

Cause

Management of the MACOG had not established a proper system of internal control and management had not conducted a risk assessment related to the District's financial reporting and transactions.

Effect

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the District at risk that controls may not have been either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, 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.

MICHIANA AREA COUNCIL OF GOVERNMENTS
EXIT CONFERENCE

The contents of this report were discussed on June 14, 2017, with James J. Turnwald, Executive Director; Kevin Overmyer, Chairman of the Board; Philip W. Jenkins, Board member; Jo M. Broden, Board member; George Herendeen, Attorney; Lori Ratliff, Fiscal Accounting Coordinator; and Deborah Gardner, Fiscal Accounting Manager.