

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

ST. JOSEPH COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED
09/23/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Michael J. Hamann	01-01-15 to 12-31-18
County Treasurer	Michael J. Kruk	01-01-13 to 12-31-20
Clerk of the Circuit Court	Terri J. Rethlake	01-01-15 to 12-31-18
County Sheriff	Michael D. Grzegorek	01-01-15 to 12-31-18
County Recorder	Phillip G. Dotson Mary B. Wisniewski	01-01-13 to 12-31-16 01-01-17 to 12-31-20
President of the Board of County Commissioners	Andrew Kostielney	01-01-16 to 12-31-17
President of the County Council	Rafael Morton	01-01-16 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF ST. JOSEPH COUNTY, INDIANA

This report is supplemental to our audit report of St. Joseph County (County), for the period from January 1, 2016 to December 31, 2016. 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

August 10, 2017

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COUNTY AUDITOR
ST. JOSEPH COUNTY

COUNTY AUDITOR
ST. JOSEPH COUNTY
FEDERAL FINDING

FINDING 2016-001

Subject: Internal Controls over Financial Transactions and Reporting
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat of finding number 2015-001 from the immediate prior year.

Condition

There were deficiencies in the internal control system of the County related to financial transactions and the input of financial information entered into the Indiana Gateway for Government Units financial reporting system (Gateway), which is the source for the Annual Financial Report (AFR), the financial statement, and the Schedule of Expenditures of Federal Awards (SEFA). Financial information was prepared and submitted into Gateway without effective oversight, review, approval, or other compensating control to ensure the accuracy of the information prior to submission.

Context

Due to the lack of controls over the input of financial information entered into Gateway, the financial statement and SEFA presented for audit included the following errors:

Financial Statement

1. The transactions of the County Sheriff's Cash Book were included in error, which overstated the receipts and disbursements by \$6,646,277 and \$6,646,338, respectively.
2. The Clerk Judge Ordered Accounts fund was omitted, which understated disbursements by \$13,314.
3. The Treasurer After Settlement Collections fund receipts and disbursements were each overstated by \$278,262,230.
4. The Community Based Corrections fund disbursements were understated by \$3,500.
5. The J.J.C.-D.O.C. Grant (C.B.C.) fund receipts and disbursements were each overstated by \$12,867.

SEFA

1. The Child Nutrition Cluster expenditures were overstated by \$3,910.
2. The Juvenile Accountability Block Grants expenditures were understated by \$2,433.
3. The Child Support Enforcement expenditures were understated by \$254,182.
4. The Emergency Management Performance Grants expenditures were understated by \$46,756.
5. The Voting Access for Individuals with Disabilities_Grants to States was omitted which understated expenditures by \$7,100.

COUNTY AUDITOR
ST. JOSEPH COUNTY
FEDERAL FINDING
(Continued)

6. The 2017 Hazardous Materials Emergency Preparedness Grant was included in error, which overstated expenditures by \$40,989.
7. The Crime Victim Assistance and Violence Against Women Formula Grants both erroneously included amounts passed through to subrecipients.
8. Several grants were not titled correctly.

Audit adjustments were proposed, accepted by the County Auditor, and made to the financial statement and 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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities. . . .

- Accurate and timely recording of transactions. . . ."

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:

COUNTY AUDITOR
ST. JOSEPH COUNTY
FEDERAL FINDING
(Continued)

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."

Cause

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

Effect

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

Recommendation

We recommended that the County's management establish controls to ensure complete and accurate financial transactions and reporting.

Views of Responsible Officials

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

ST. JOSEPH COUNTY AUDITOR

227 W. Jefferson Blvd. Second Floor
County City Building
South Bend, IN 46601
Telephone 574-235-9668
Fax 574-235-5024

Michael J. Hamann
Auditor

Teresa M. Shuter
Chief Deputy Auditor

CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person: Kathy Gregorich

(574)235-9398

Responsible Officer: Michael J. Hamann

We concur with the findings regarding grants.

We are still working on putting proper procedures in place to insure information provided to our office is accurate.

Anticipated Completion date: December 31, 2017. New personnel will be assuming these duties.

We concur with the findings regarding financial statements.

We have taken steps to address those problems.

COUNTY AUDITOR
ST. JOSEPH COUNTY
AUDIT RESULTS AND COMMENTS

ADDITIONAL COMPENSATION AND BENEFITS

Employees in the County Auditor's office were reimbursed for monthly parking rental, which was not included on the salary ordinance. The rental fee was deducted from the employee's paycheck then reimbursed to the employee through the vendor claim process. This compensation was not included on the employees' W-2 Wage and Tax Statements.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

OVERDRAWN CASH BALANCES

The financial statement presented in the Financial Statement and Single Audit Report of the County included the following funds with overdrawn cash balances at December 31, 2016, which were not attributed to timing of reimbursements:

Fund	Amount Overdrawn
Cyber Crimes Against Children	\$ 30,962
Juvenile Accountability Block	442
V.O.C.A. - One-time Grant	124

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. In an instance in which a unit receives a reimbursement grant, the unit must be claiming reimbursements 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 County Auditors of Indiana, Chapter 1)

FUND SOURCES AND USES

On March 4, 2014, the County established a new fund titled Ineligible Deduction -7/1/13 with a transfer of the June 13, 2013 balance (\$1,339,545) of the Ineligible Deduction Fund. There have been no additional receipts into the new fund and the County has been making disbursements from both funds since 2014. Through December 31, 2016, total disbursements from the Ineligible Deduction -7/1/13 were \$395,110 and the Cash and Investment balance at December 31, 2016, was \$944,435. There was no authority to create the new fund.

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

COUNTY AUDITOR
ST. JOSEPH COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 10, 2017, with Michael J. Hamann, County Auditor; Rafael Morton, President of the County Council; Robert Kruszynki, Jr., County Council member; and Kathy Gregorich, Office Manager/Settlement Specialist.

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CLERK OF THE CIRCUIT COURT
ST. JOSEPH COUNTY

CLERK OF THE CIRCUIT COURT
ST. JOSEPH COUNTY
FEDERAL FINDING

FINDING 2016-002

Subject: Internal Controls over Financial Transactions and Reporting - Clerk of the Circuit Court
Audit Finding: Significant Deficiency

Repeat Finding

This is a repeat of finding number 2015-002 from the immediate prior year.

Condition

There were deficiencies in the internal control system of the Clerk of the Circuit Court's (Clerk) office related to financial transactions and reporting. The Clerk had not separated incompatible activities related to some disbursements which constituted a significant deficiency. Disbursements for bonds, restitution, and refunds were prepared by one individual with no oversight, review, or other compensating control.

Context

The control deficiencies were systemic issues, which occurred throughout the audit period.

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.

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

Cause

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

Effect

The failure to establish controls could have enabled misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the County 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, misstatements in a timely manner.

Recommendation

We recommended that the County's management establish controls, including segregation of duties to ensure accurate financial transactions and reporting.

Views of Responsible Officials

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

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

CORRECTIVE ACTION PLAN

FINDING 2016-002

Contact Person Responsible for Corrective Action: Terri J. Rethlake, County Clerk
Contact Phone Number: 574-235-9635

Views of Responsible Official:

Internal Controls were put in place last year for the disbursements of prepared Small Claims and Upper Court trust checks. Since we do not release any bonds without a judicial order as to the payment of all Probate, criminal fines/costs; and refunds, we thought that was sufficient paperwork to track those disbursements. All clerk staff that are involved in the financial aspects of this office have participated in, prior to audit, the required SBOA internal controls video.

Description of Corrective Action Plan:

On July 19, 2017, the following plan was put into place for disbursement of all Circuit, Superior and Probate Court trust funds:

- Deputy clerk disbursing the check(s) calls the bookkeeping department to print checks they have disbursed in Odyssey. Bookkeeping clerk prints check and compares the judicial order to the amount of the check. Person receiving refund signs the copy of the order for verification they have received the check.
- Small Claims & Upper Court disbursement of garnishment collection checks are verified by opposite bookkeeping clerk who disburses them.

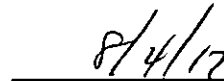
Anticipated Completion Date: Completed



(Signature)



(Title)



(Date)

CLERK OF THE CIRCUIT COURT
ST. JOSEPH COUNTY
AUDIT RESULTS AND COMMENTS

CLERK'S TRUST ITEMS OVER FIVE YEARS OLD AND TRUST REGISTER

Many outstanding checks in the Clerk of the Circuit Court's (Clerk) office had been on hand for a period of five years or longer. The Clerk had not implemented policies and procedures for reporting and remitting unclaimed property to the Attorney General after the five year holding period.

The Main Office Trust account reconciliation included \$107,107 in outstanding checks that were considered unclaimed property. The oldest outstanding check was dated January 22, 1999.

The Small Claims account reconciliation included \$12,385 in outstanding checks that were considered unclaimed property. The oldest outstanding check was dated April 1, 2003.

The Mishawaka office account reconciliation included \$2,326 in outstanding checks that were considered unclaimed property. The oldest outstanding check was dated May 16, 2007. The outstanding check list also included ten other checks that were not dated; however, based on the check number sequence, they were older than May 16, 2007.

Additionally, the Clerk was not able to provide a detailed trust register for the main office Cash Book, but it is reasonable to assume that some of these items were over five years old. The main office Cash Book is made up of Trust and Bonds from the old software system, which was used until 2014 and accounts for \$5,523,342 of the Clerk's Cash and Investment balance.

A similar comment appeared in prior Report B46965.

Indiana Code 32-34-1-20(c) states in part:

"Property that is held, issued, or owed in the ordinary course of a holder's business is presumed abandoned if the owner or apparent owner has not communicated in writing with the holder concerning the property or has not otherwise given an indication of interest in the property during the following times: . . .

- (6) For property or proceeds held by a court or a court clerk, five (5) years after the property or proceeds become distributable. The property or proceeds must be treated as unclaimed property under IC 32-34-3. . . ."

Indiana Code 32-34-1-26(a) states: "A holder of property that is presumed abandoned and that is subject to custody as unclaimed property under this chapter shall report in writing to the attorney general concerning the property. Items of value of less than fifty dollars (\$50) may be reported by the holder in the aggregate."

Indiana Code 32-34-1-27(a) states: "Except as provided in subsections (b) and (c), on the date a report is filed under section 26 of this chapter, the holder shall pay or deliver to the attorney general the property that is described in the report as unclaimed.

CLERK OF THE CIRCUIT COURT
ST. JOSEPH COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 32-34-3-2 states in part:

"(a) Except for money related to child support, the attorney general may collect all money that remains in the office of a clerk for at least five (5) years after being distributable without being claimed by the person entitled to the money.

(b) The attorney general may collect all money related to child support that remains in the office of a clerk for at least ten (10) years after being distributable without being claimed by the person entitled to the money. . . ."

As soon as possible after the Cash Book and the daily balance record have been closed for the month, the Clerk should reconcile the trust fund register with these two records.

Total all items appearing on hand in the trust fund register. This also must be done as of the last day of the month. The total of these items must equal the balance in the trust fund column of the Cash Book and in the daily balance record.

If there is a difference, an error has been made. You must immediately review the work to detect the error and make the necessary correction. Do not leave the books out of balance. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 9)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliations of some accounts within the Clerk's office did not balance.

A review of the 2016 monthly reconcilments of the Clerk's Main Trust and Small Claims checking accounts indicated that record balances were not fully reconciled to the depository balances. As of December 31, 2016, the bank account reconciliation for the County Clerk's Main Trust checking account identified a cash short in the amount of \$50,849 and the Small Claims checking account identified a cash long of \$642. Additionally, both accounts included adjustments for unidentified reconciling items; Main Trust totaled \$12,611 and Small Claims \$5,983.

Officials have been unable to determine the source of the unidentified cash variance shown in its financial records for funds accounted for in both the County Clerk's Main Trust and Small Claims checking accounts. Monthly reconcilments show that the Clerk has consistently maintained these variances for several years.

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 must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 1)

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

OFFICAL RESPONSE 2016 AUDIT

CLERK'S TRUST ITEMS OVER FIVE YEARS OLD AND TRUST REGISTER

1. Clerk's Trust

Outstanding checks are being worked on by staff as time allows from their regular duties. Last year it was all hands on deck to process Absentee ballots for the Presidential Elections. This year, we have worked on several different outstanding check items. We are in the process working through a problem with the Attorney General's site as it would not accept our electronic file. The dollar amounts have changed from the amounts listed in the audit.

2. Trust Register

We have received Excel files of what is believed to be outstanding trust in the old Llow Clerk System. Going through each and every case is a time consuming and laborious process that is worked on as time from regular duties allows.

3. Bank Account Reconciliations

This is related to the two previous comments. We reconcile monthly with the current balances in our computer system.


Signature

Clerk of Circuit Court, St. Joseph County

CLERK OF THE CIRCUIT COURT
ST. JOSEPH COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 8, 2017, with Terri J. Rethlake, Clerk of the Circuit Court.

COUNTY COUNCIL
ST. JOSEPH COUNTY

COUNTY COUNCIL
ST. JOSEPH COUNTY
AUDIT RESULT AND COMMENT

FUND SOURCES AND USES

On March 4, 2014, the County established a new fund titled Ineligible Deduction -7/1/13 with a transfer of the June 13, 2013 balance (\$1,339,545) of the Ineligible Deduction Fund. There have been no additional receipts into the new fund and the County has been making disbursements from both funds since 2014. Through December 31, 2016, total disbursements from the Ineligible Deduction -7/1/13 were \$395,110 and the Cash and Investment balance at December 31, 2016, was \$944,435. There was no authority to create the new fund.

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

COUNTY COUNCIL
ST. JOSEPH COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 10, 2017, with Michael J. Hamann, County Auditor; Rafael Morton, President of the County Council; Robert Kruszynki, Jr., County Council member; and Kathy Gregorich, Office Manager/Settlement Specialist.