

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

PORTER 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	Vicki Urbanik	01-01-15 to 12-31-18
County Treasurer	Michelle Clancy	01-01-15 to 12-31-18
Clerk of the Circuit Court	Karen Martin	01-01-15 to 12-31-18
County Sheriff	David Reynolds	01-01-15 to 12-31-18
President of the Board of County Commissioners	John A. Evans Jeff Good	01-01-16 to 12-31-16 01-01-17 to 12-31-17
President of the County Council	Dan Whitten Mike Jessen	01-01-16 to 12-31-16 01-01-17 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF PORTER COUNTY, INDIANA

This report is supplemental to our audit report of Porter 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 for the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

August 22, 2017

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COUNTY AUDITOR
PORTER COUNTY

COUNTY AUDITOR
PORTER COUNTY
FEDERAL FINDING

FINDING 2016-002

Subject: Child Support Enforcement - 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): FY 2016
Pass-Through Entity: Indiana Department of Child Services
Compliance Requirement: Allowable Costs/Cost Principles
Audit Findings: Significant Deficiency, Other Matters

Repeat Finding

This is a partial repeat of finding number 2015-005 from the immediate prior year.

Condition

An effective internal control system was not in place at the County to ensure compliance with requirements related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement. The review process over the information within the Cost Allocation Plan (CAP) was not effective.

The County hired an outside consultant to prepare their indirect CAP. This consultant requested financial and other pertinent information from the County to complete the CAP. This plan determined the amount of indirect costs that the County was eligible to receive.

The CAP provided allocation methods of expenditures for certain County departments that provided services to other County departments. Expenditure classifications for those departments were allocated based upon available, meaningful, and auditable base units.

When the 2015 CAP was compared to the 2016 CAP, it was determined that the base units and percentages used in both reports for the Accounting A/P Services, Payroll allocations, Sheriff Wages allocations, and Print Shop allocations remained unchanged. The base units used to allocate these services were based upon the number of non-payroll account transactions, number of employees, wages per the financial ledgers per division, and number of copies by department, respectively. The base units used to determine the amount of units and percentages calculated were not accurate.

In addition, longevity paid to employees from the Riverboat fund were allocated in the CAP and \$565 was included in the total of indirect costs. The Clerk of the Circuit Court was reimbursed \$663 for the longevity paid to employees from the Riverboat fund on a monthly reimbursement claim. The County was reimbursed twice for the same cost.

Context

The internal control process was not effective to ensure that the base units used were updated from the prior report to the actual activity of the base year. Four of the fourteen different base units and percentages were not based upon the actual activity of the base year. The longevity duplicate reimbursement was an isolated incident.

COUNTY AUDITOR
PORTER COUNTY
FEDERAL FINDING
(Continued)

Criteria

2 CFR section 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR Appendix V to Part 200 section A states:

- "1. Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis. Since federally-supported awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan provides that process. All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards."

2 CFR 200.413(c) states:

"The salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs. Direct charging of these costs may be appropriate only if all of the following conditions are met:

- (1) Administrative or clerical services are integral to a project or activity;
- (2) Individuals involved can be specifically identified with the project or activity;
- (3) Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
- (4) The costs are not also recovered as indirect costs."

Cause

Management had not developed an effective system of internal controls to ensure compliance with the Allowable Costs/Cost Principles compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the County.

COUNTY AUDITOR
PORTER COUNTY
FEDERAL FINDING
(Continued)

Questioned Costs

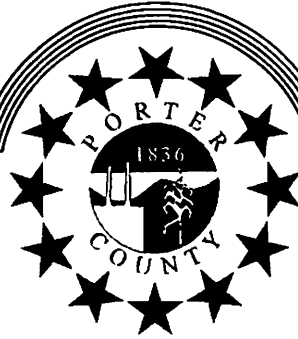
There were no questioned costs identified.

Recommendation

We recommended that the County's management establish effective controls to ensure compliance and comply with the Allowable Costs/Cost Principles compliance requirement.

Views of Responsible Officials

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



Vicki Urbanik
Auditor

(219) 465-3445

CORRECTIVE ACTION PLAN

Date: August 22, 2017

FINDING 2016-002 FINANCIAL TRANSACTIONS AND REPORTING

Contact Person Responsible for Corrective Action: Vicki Urbanik, Auditor
Contact Phone Number: 219-465-3350

Views of Responsible Official:

Since at least 2013, audits of Porter County have included a finding that the county's Cost Allocation Plan is inadequate and/or that the county lacks internal controls over the plan. In the Corrective Action Plan prepared last year in response to the 2015 audit, we proposed to do the following:

- Review the monthly financial data we provide to the consultant for accuracy and research potential discrepancies before transferring the data to the consultant.
- Document the transactions we questioned and/or verified and how that verification was achieved.
- Select certain expenditure accounts and/or certain funds in the CAP and verify that they match our ledger.

The anticipated completion date was "by the next CAP review in early 2017." I am pleased to say that this year we accomplished what we set out to do, for in 2017 I personally reviewed the majority of expenditure accounts and funds in the CAP to verify that they matched our ledger. This exercise proved fruitful, for I identified several discrepancies and questionable items, which I then shared with the consultant who prepares the CAP. I also shared my report with the state examiners and have included it with this response.

However, I conducted this more thorough review of the CAP that reflected the expenditures for the first year that I was in office – for the year 2015 for use beginning in 2017. The finding 2016-002 refers to two earlier CAPs – the 2013 CAP for use in 2015 and the 2014 CAP for use in 2016. I do not disagree that these two reports contained duplicative base units and percentages; the consultant acknowledged that the error occurred because the units were carried forward from the prior year's report.

To ensure that the CAP is accurate and has been properly prepared, we will continue to conduct the analysis described above, but with added attention to the areas that might have been carried over in error from the prior year's plan, such as the base units and percentages. We will continue to share our findings with the consultant, who is expected to produce a thorough plan as stated in the contract.

Vicki Urbanik
Porter County Auditor
August 22, 2017

Cost Allocation Plan Analysis, 2017
Prepared by Vicki Urbanik, Porter County Auditor

Introductory comments

Porter County's Cost Allocation Plan preparer, Jeff Dossett of Dossett Consulting, met with us three times in early 2017: The first meeting, held on Feb. 21, 2017, consisted of an initial review of the 2015 CAP and the financial statements that Mr. Dossett would need to complete the plan. At the second meeting in early March, Mr. Dossett reviewed financial records in our office. I was away at a conference that day, and it was agreed that we would meet again for me to receive the final CAP and to review his findings in greater detail.

This more in-depth meeting took place on May 19. Mr. Dossett and I met for more than 90 minutes reviewing the CAP that he prepared. We reviewed each section of the plan, department by department. This review allowed me to ask questions as we went along. Most of my questions dealt with the nature of how he prepared the plan. I made notations in the plan during our discussion (marked in the CAP in pencil).

It was agreed that I would review the plan in greater detail and return to Mr. Dossett with any follow-up questions or concerns.

My internal review of the CAP consisted of the following:

--Cross checking the figures in the "Summary Schedule" located on Page 6 of the CAP with the department-by-department reports in the plan and with Auditor financial statements. This review was intended to identify possible typographical errors in the totals, as well as potential department-by-department discrepancies between the CAP totals and our expenditure reports.

--Verifying the expenditures reported in the CAP, by matching the CAP figures with our system-generated expenditure reports. The following are the discrepancies or issues noted.

Issues to address

Auditor's General Fund budget, 1000-1002: The CAP reported \$299,490 in fuel costs out of the Auditor's general fund budget. This is in error. This account previously had been in the Auditor's budget but the County Council shifted the authority to maintain the fuel charges to the Commissioners.

Mr. Dossett explained that this account was carried forward from the previous CAP as a formatting matter and that he will make the necessary correction.

Clerk's General Fund budget, 1000-1001: The CAP shows expenditures for benefits, an expenditure that is not similarly shown in the other budgets. (Most benefit costs for general fund departments are paid for through the Commissioners' budget).

I have asked for clarification from Mr. Dossett on this matter.


Prosecutor IV-D General Fund budget, 1000-1035: The costs recorded in the CAP could not be verified. The CAP appears to show costs in excess of actual amounts. For example, the CAP reports salary expenditures totaling \$753,268, while our expenditure reports show \$435,208.

I have asked for clarification from Mr. Dossett on this matter.

Prosecutor Incentive Fund 8897: An expenditure of \$2,322 for data processing equipment was made but not reported in the CAP.

Commissioners General Fund budget, 1000-1030: The water and sewage expenditure in CAP is in error. The CAP shows an expenditure of \$161,712. The actual expenditure in the general fund budget was \$6,599.05. The CAP-reported expenditure of \$161,712 is the sum of the water and sewage accounts in both the general fund and the CCD fund (\$6,599.05 + \$155,112.47). However, the CAP accurately reflects the water and sewage expenditure of \$155,112.47 in the CCD schedule.

Also in the Commissioners General Fund budget, the CAP shows an expenditure of \$767,568 for the power account. This amount was accurately included in the CAP's CCD schedule. No power expenditures were made out of this general fund budget in 2015.


Vicki Urbanik
Porter County Auditor

June, 2017

Summary of CAP internal review

Department	CAP Finding	Auditor Finding
Auditor General Fund, 1000-0002	\$299,249 Fuel	This is an error. The fuel account was moved out of the Auditor's budget prior to 2015. However, this expenditure was properly reported in the CAP's Commissioner schedule.
Clerk General Fund, 1000-0001	Employee benefit costs reported	Employee benefit costs are not directly paid for out of this budget. We are seeking clarification on this reported cost.
Prosecutor IV-D General Fund, 1000-0035	\$753,268 Salaries \$7,380 Office Supplies \$35,513 Other Services	\$435,208 Salaries \$6,000 Office Supplies No "Other Services" account; remainder of expenditures total \$100,609. We are seeking clarification on this reported cost.
Prosecutor Incentive Fund, 8897	No cost reported for data processing.	\$2,322 expended on data processing.
Commissioners General Fund, 1000-1030	\$161,712 Water and Sewage	\$6,599 Water and Sewage

COUNTY AUDITOR
PORTER COUNTY
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The Financial Statement and Federal Single Audit Report for the County included the following funds with overdrawn cash balances at December 31, 2016:

Fund	Amount Overdrawn
Parks-Arcellor Mittal Pond & Prairie Grant	\$ 4,673
JDAI Grant	3,931
Recovery Grant (CFDA# 14.253)	2,315

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 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 County Auditors of Indiana, Chapter 1)

ANNUAL REPORT

The County's 2016 electronic Annual Report did not include Accounts Payable. As a result, the Schedule of Payables and Receivables was understated by approximately \$1,784,718.

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."

COUNTY AUDITOR
PORTER COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 22, 2017, with Vicki Urbanik, County Auditor; Jeff Good, President of the Board of County Commissioners; Mike Jessen, President of the County Council; Dan Whitten, County Council member; Karen Conover, County Council member; Sylvia Graham, County Council member; Scott McClure, County Attorney; Harold Harper, County Council Attorney; Toni Downing, Auditor Chief of Staff; and Tiffany Johnson, Deputy - Financial Analysis and Reporting.

CLERK OF THE CIRCUIT COURT
PORTER COUNTY

CLERK OF THE CIRCUIT COURT
PORTER COUNTY
FEDERAL FINDING

FINDING 2016-001

Subject: Financial Transactions - Clerk of the Circuit Court
Audit Finding: Material Weakness

Repeat Finding

This is a partial repeat of finding number 2015-004 from the immediate prior year.

Condition

There were deficiencies in the internal control system of the Clerk of the Circuit Court (Clerk) related to financial transactions.

The Clerk's office stopped using the PC Superior Trust software system in September 2013. When a judgment was entered on a case in the old software system, the case information was recorded in the new software system (Odyssey) and a bank transfer from the old software system bank account to the Odyssey bank account was made. A disbursement could not be posted to the old software system to record the bank transfer.

We were unable to reconcile or audit the ending cash and investment balance of the PC Superior Trust sub-account of the Clerk's Trust fund of \$1,543,229 at December 31, 2016, because there is not a true outstanding check list. The balance at December 31, 2016, was immaterial to the financial statement as a whole.

Context

The lack of controls was a systemic problem, occurring 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:

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

"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. . . ."

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."

Cause

Management of the Clerk has not established a proper system of internal control.

Effect

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

Recommendation

We recommended that the Clerk establish a system of internal controls that would ensure that reconciliations are performed and that the reported cash and investment balance is accurate.

Views of Responsible Officials

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

COUNTY PORTER



16 LINCOLNWAY # 106

KAREN MARTIN

Clerk of The Circuit And Superior Courts

Valparaiso, Indiana 46383

CORRECTIVE ACTION PLAN

FINDING 2016-001

CONTACT PERSON: Karen Martin

Contact Phone Number: 219-465-3463

We have an outstanding check list created from our Jalan system and confirmed by the banking institution yet due to some check numbers not listed on the Chase bank we are in the process of pulling each file and confirming that the instrument was not negotiated so that the checks may be forwarded to the State.

The plan is to have this finalized by mid 2018

We are in the process of researching and transferring bond money that is in the Jalan account to the Odyssey. This will reflect a more accurate balance.

The plan is to have this finalized by end 2018

Karen Martin
Clerk
Aug 17. 2017

CLERK OF THE CIRCUIT COURT
PORTER COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 16, 2017, with Karen Martin, Clerk of the Circuit Court, and Jacalyn Haney, Deputy Clerk of the Circuit Court.

The contents of this report were discussed on August 22, 2017, with Vicki Urbanik, County Auditor; Jeff Good, President of the Board of County Commissioners; Mike Jessen, President of the County Council; Dan Whitten, County Council member; Karen Conover, County Council member; Sylvia Graham, County Council member; Scott McClure, County Attorney; Harold Harper, County Council Attorney; Toni Downing, Auditor Chief of Staff; and Tiffany Johnson, Deputy - Financial Analysis and Reporting.