

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

NOBLE COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED
11/09/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Tonya L. Marks	01-01-15 to 12-31-18
County Treasurer	Michele J. Bricker	01-01-13 to 12-31-20
Clerk of the Circuit Court	Michelle L. Mawhorter	01-01-13 to 12-31-20
County Sheriff	Douglas A. Harp	01-01-15 to 12-31-18
County Recorder	Candy B. Myers	01-01-13 to 12-31-18
President of the Board of County Commissioners	Gary D. Leatherman	01-01-16 to 12-31-17
President of the County Council	Michael C. Toles	01-01-16 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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TO: THE OFFICIALS OF NOBLE COUNTY, INDIANA

This report is supplemental to our audit report of Noble 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, incorporated within this report, was not verified for accuracy.

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

September 25, 2017

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COUNTY AUDITOR
NOBLE COUNTY

COUNTY AUDITOR
NOBLE COUNTY
FEDERAL FINDINGS

FINDING 2016-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Other Matters

Repeat Finding

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

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).

Context

During the audit of the SEFA, there were several errors including seven programs which were omitted and eight programs which were reported with errors. In total, the SEFA was understated by \$551,339. Audit adjustments were proposed and accepted by the County.

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 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
NOBLE COUNTY
FEDERAL FINDINGS
(Continued)

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."

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 *Context*.

Recommendation

We recommended that the County's management establish controls to ensure proper reporting of the SEFA.

COUNTY AUDITOR
NOBLE COUNTY
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

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

FINDING 2016-002

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

Repeat Finding

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

Condition

There were several deficiencies in the internal control system of the County related to financial transactions and reporting.

1. Lack of Segregation of Duties: The County had not separated incompatible activities related to financial transactions and reporting. The County Auditor prepared and submitted the financial information into the Indiana Gateway for Government Units (Gateway) financial system, which is the source of the Annual Financial Report (AFR) and financial statement. The County did not have effective controls to verify the accuracy of the financial information prior to submission.
2. Monitoring of Controls: The County had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the County to monitor and assess the quality of the system of internal control.
3. The County's AFR and financial statement contained numerous errors. The beginning balance was understated \$671,582, total receipts were overstated \$1,477,935, total disbursements were overstated \$39,445, and the ending balance was overstated \$766,908. Audit adjustments were proposed, accepted by the County, and made to the financial statement.

Context

Due to the lack of controls over the input of financial information entered into Gateway, the AFR and financial statement presented for audit included the errors identified in the *Condition*.

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:

COUNTY AUDITOR
NOBLE COUNTY
FEDERAL FINDINGS
(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. . . ."

"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. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Guidelines Manual for Counties of Indiana, Chapter 2)

Cause

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

Effect

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

Recommendation

We recommended that the County's management establish controls to ensure proper segregation of duties and monitoring of controls.

Views of Responsible Officials

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

NOBLE COUNTY AUDITOR

Tonya L. Marks

*Room 220 - Courthouse
101 N. Orange Street
Albion, Indiana 46701*

*Phone 260-636-2658
Fax: 260-636-4001
tmarks@nobleco.org*

Corrective Action Plan

Finding 2016-001

Auditee Contact Person(s)

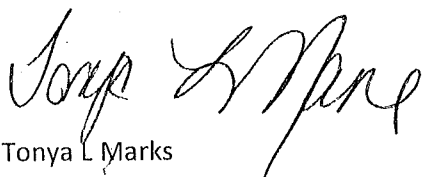
Tonya L. Marks tmarks@nobleco.org 260-636-2658

Corrective Action:

Status of Audit Finding:

Noble County Auditor implemented additional internal controls policies in 2017 to maintain and correct errors on the Schedule of Expenditures of Federal Awards. With the guidance given by the State Board of Accounts this process will be much more manageable for future reporting. Additionally all departments that are involved with the grant process will be notified and reminded of the importance of providing the necessary paperwork to the Auditor's office. Finally controls over recording and accounting for the financial activities are in place to avoid any further problems with reporting. A second person has been assigned to oversee the preparation of the spread sheet and receipting and disbursing of each grant.

Anticipated Completion Date 12/31/17



Tonya L. Marks

Noble County Auditor

9/18/17

NOBLE COUNTY AUDITOR

Tonya L. Marks

Room 220 - Courthouse
101 N. Orange Street
Albion, Indiana 46701

Phone 260-636-2658
Fax: 260-636-4001
tmarks@nobleco.org

Corrective Action Plan

Finding 2016-002

Auditee Contact Person

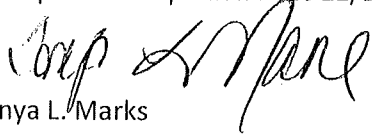
Tonya L Marks tmarks@nobleco.org 260-636-2658

Corrective Action:

Status of Audit Finding:

There were errors with the reporting of the Annual Financial Report with comparison to the Gateway submission. Further internal control policies have been implemented to track the accuracy of this report. A second and even a third person will be required to check all data entered into the Gateway system. Further action will consist of the Auditor also checking entries and overseeing the receipts and disbursements process.

Anticipated Completion Date 12/31/17


Tonya L. Marks

Noble County Auditor

9/18/17

COUNTY AUDITOR
NOBLE COUNTY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS - EXCESS (SURPLUS) TAX

Internal controls over the recording and accounting for the financial activities of the Surplus Tax fund were insufficient due to a lack of oversight by County officials. The individual excess (surplus) tax records do not reconcile to the County Auditor's Funds Ledger, Surplus Tax fund. The County Auditor's Funds Ledger, Surplus Tax fund has a balance at December 31, 2016, of \$76,726. The individual excess (surplus) tax records' were maintained on worksheets that have since been updated which made it difficult to determine the cumulative balance at December 31, 2016.

A similar comment appeared in the prior Report B47584.

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:

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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. . . ."

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 County Auditors of Indiana, Chapter 1)

COUNTY PRESCRIBED CHART OF ACCOUNTS

The County implemented the new chart of accounts prescribed by the Indiana State Board of Accounts as required by January 1, 2012. However, many of the fund numbers used were incorrect.

A similar comment appeared in the prior Report B47584.

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

COUNTY AUDITOR
NOBLE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on September 25, 2017, with Tonya L. Marks, County Auditor; Gary D. Leatherman, President of the Board of County Commissioners; David Abbott, Commissioner; David J. Dolezal, Commissioner; Dennis Graft, County Attorney; and Jacqueline L. Knafel, County Coordinator.