

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

FAYETTE COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
12/15/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Debra Shaw Kidd	01-01-14 to 12-31-14
	Gertrud Whitaker	01-01-15 to 12-31-15
	Jane Downard	01-01-16 to 12-31-20
County Treasurer	Mary Hiers	01-01-11 to 12-31-16
	Lavonda Glover	01-01-17 to 12-31-20
Clerk of the Circuit Court	Melinda Sudhoff	01-01-11 to 12-31-18
County Sheriff	William E. Wayson Jr.	01-01-11 to 12-31-14
	David J. Laughlin	01-01-15 to 12-31-18
County Recorder	Ann Frost	01-01-11 to 12-31-14
	Ruth Nutty	01-01-15 to 12-31-18
President of the Board of County Commissioners	Barton Baker	01-01-14 to 12-31-14
	Frank Jackson	01-01-15 to 12-31-16
	Leota King	01-01-17 to 12-31-17
President of the County Council	Mike Wenta	01-01-14 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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TO: THE OFFICIALS OF FAYETTE COUNTY, INDIANA

This report is supplemental to our audit report of Fayette County (County), for the period from January 1, 2014 to December 31, 2014. 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 Result and Comment 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 Result and Comment contained herein describes 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

December 14, 2017

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COUNTY AUDITOR
FAYETTE COUNTY

COUNTY AUDITOR
FAYETTE COUNTY
FEDERAL FINDINGS

FINDING 2014-001

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

Condition

The County did not have an effective system of internal control in place to prevent, or detect and correct, material errors on the Schedule of Expenditures of Federal Awards (SEFA).

Context

The SEFA presented for audit contained the following errors:

1. Three federal programs were not included on the SEFA.
2. Four programs' expenditures were overstated. In total, federal expenditures on the SEFA were overstated \$73,337.

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.

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. . . ."

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § ____.310. . . ."

COUNTY AUDITOR
FAYETTE COUNTY
FEDERAL FINDINGS
(Continued)

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. 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 award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual 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 shall 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.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

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 prevent, or detect and correct, errors on the SEFA.

Views of Responsible Officials

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

COUNTY AUDITOR
FAYETTE COUNTY
FEDERAL FINDINGS
(Continued)

FINDING 2014-002

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

Condition

There were several deficiencies in the internal control system of the County related to financial transactions and reporting, resulting in errors on the County's Annual Financial Report (AFR) and financial statement.

1. Lack of Segregation of Duties: The County had not separated incompatible activities related to financial transactions and reporting. The County prepared and submitted the financial information into the Indiana Gateway for Government Units (Gateway) financial system, which is the source of the 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 would have required the County to monitor and assess the quality of the internal control system.

Context

The County's AFR and financial statement contained the following errors: total receipts were overstated by \$864,274, and total disbursements were overstated by \$864,278.

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

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
FAYETTE COUNTY
FEDERAL FINDINGS
(Continued)

"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. . . ."

Indiana Code 5-11-1-4 states, in part:

"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. . . ."

Cause

Management of the County had not established a proper system of internal controls over financial transactions and reporting.

Effect

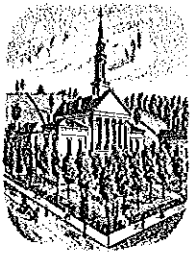
The failure to establish controls enabled material misstatements in the AFR and financial statement to occur and remain undetected.

Recommendation

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

Views of Responsible Officials

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



FAYETTE COUNTY, INDIANA
OFFICE OF THE AUDITOR, JANE E. DOWNARD

401 N. CENTRAL AVENUE, CONNERSVILLE, IN 47331
(765) 825-8987 OFFICE; (765) 827-4936 FAX

CORRECTIVE ACTION PLAN

FINDING 2014-001

Contact Person Responsible for Corrective Action: Jane Downard
Contact Phone Number: (765) 825-8987

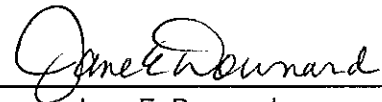
We concur with Finding 2014-001.

Description of Corrective Action Plan:

The County did not have an effective system of internal control in place to prevent, or detect and correct, material errors on the Schedule of Expenditures of Federal Awards (SEFA).

Going forward, prior to submitting the Annual Financial Report, Auditor will have a member of county council and, when appropriate, the county's grant administrator, review the Schedule of Expenditures of Federal Awards.

Anticipated Completion Date: This will be done in 2018 when the Annual Financial Report for 2017 is prepared and submitted.



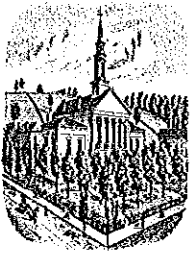
Jane E. Downard

Auditor

Title

12/13/2017

Date



FAYETTE COUNTY, INDIANA
OFFICE OF THE AUDITOR, JANE E. DOWNARD

401 N. CENTRAL AVENUE, CONNERSVILLE, IN 47331
(765) 825-8987 OFFICE; (765) 827-4936 FAX

CORRECTIVE ACTION PLAN

FINDING 2014-002

Contact Person Responsible for Corrective Action: Jane Downard
Contact Phone Number: (765) 825-8987

We concur with Finding 2014-002.

Description of Corrective Action Plan:

The County did not have an effective system of internal control in place over the Annual Financial Report.

Going forward, prior to submitting the Annual Financial Report, Auditor will have a member of county council and, when appropriate, the county's grant administrator, review the Annual Financial Report.

Anticipated Completion Date: This will be done in 2018 when the Annual Financial Report for 2017 is prepared and submitted.

Jane E. Downard

Auditor

Title

12/13/2017

Date

COUNTY AUDITOR
FAYETTE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on December 14, 2017, with Jane Downard, County Auditor; Debra Shaw Kidd, former County Auditor; Gary Naylor, Vice President of the Board of County Commissioners; and Dale Strong, Vice President of the County Council.

COUNTY TREASURER
FAYETTE COUNTY

COUNTY TREASURER
FAYETTE COUNTY
FEDERAL FINDING

FINDING 2014-004

Subject: Financial Transactions and Reporting - County Treasurer
Audit Finding: Material Weakness

Condition

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

1. Lack of Segregation of Duties: The County Treasurer had not separated incompatible activities related to cash and investment. The County Treasurer's bank reconciliations were prepared by one individual. There were no controls in place such as an oversight, review, or approval process of the bank reconciliations.

Context

The lack of controls was a systemic problem 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.

COUNTY TREASURER
FAYETTE 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 controls over financial transactions and reporting and cash and investment.

Effect

The failure to establish controls could have enabled material misstatements in the financial statements to occur and remain undetected.

Recommendation

We recommended that the County's management establish controls, including proper segregation of duties, and monitor those controls.

Views of Responsible Officials

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

Fayette County Treasurer

Lavonda M. Glover, Treasurer
401 Central Avenue
Connersville, IN 47331

CORRECTIVE ACTION PLAN

FINDING 2014-004

Contact Person Responsible for Corrective Action: Lavonda M. Glover
Contact Phone Number: 765-825-1013

Views of Responsible Official: Based upon the reviews of the prior Treasurer, I concur with the Findings.

Description of Corrective Action Plan: Corrective efforts will be put into place from the date of this letter moving forward and be in pursuant to the Corrective Action Plan.

Segregation of Duties: The bank's reconcilements will be performed by the 2nd deputy and printed in hard copy, and reviewed and stamped and dated by the Treasurer before filing away. Bank reconcilements will be performed to balance with the cash book on a monthly basis and maintain all bank accounts be recorded on cash book as noted. Measures will be taken in the Treasurer's Office to correct this and prevent future deficiencies as a part of internal controls. Complete and accurate reconciliation is the highest priority of this office. I, as treasurer, will seek out the assistance needed to maintain accurate monthly reports as to be distributed to the appropriate offices.

Anticipated Completion Date: The corrective action plan will begin immediately and continue from this audit forward.



(Signature)

Treasurer

(Title)

December 12, 2017

(Date)

COUNTY TREASURER
FAYETTE COUNTY
AUDIT RESULT AND COMMENT

BANK ACCOUNT RECONCILIATIONS

The same comment also appeared in prior Reports B44410 and B42320, entitled *BANK ACCOUNT RECONCILIATIONS*.

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the bank account balances were not reconciled to the record balances. The County Treasurer has eight different bank accounts and three of the accounts contained cash long. Overall the bank reconciliation showed unexplained cash long of \$36,499.44.

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 TREASURER
FAYETTE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on December 14, 2017, with Lavonda Glover, County Treasurer; Gary Naylor, Vice President of the Board of County Commissioners; and Dale Strong, Vice President of the County Council.

CLERK OF THE CIRCUIT COURT
FAYETTE COUNTY

CLERK OF THE CIRCUIT COURT
FAYETTE COUNTY
FEDERAL FINDING

FINDING 2014-003

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

Condition

There were several deficiencies in the internal control system of the Clerk of the Circuit Court (Clerk) related to financial transactions and reporting and cash and investment.

1. Lack of Segregation of Duties: The Clerk's office had not separated incompatible activities related to financial transactions and reporting and cash and investment.

Financial Transactions and Reporting: The Clerk had not separated incompatible activities related to receipts and disbursements. One employee was responsible for preparing and making bank deposits, reconciling daily cash collections, and issuing checks.

Cash and Investment: One employee was responsible for performing the reconciliation of the depository account balance with the record balance. There were no controls in place such as an oversight, review, or approval process of the bank reconciliations.

2. Monitoring of Controls: The Clerk had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting would have required the Clerk to monitor and assess the quality of the internal control system.

Context

The lack of controls was a systemic problem 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:

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CLERK OF THE CIRCUIT COURT
FAYETTE 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. . . ."

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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. . . ."

Cause

The Clerk had not established a proper system of internal control over financial transactions and recording and cash and investment.

Effect

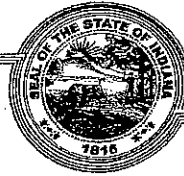
The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

Recommendation

We recommended that the Clerk establish controls, including proper segregation of duties, and monitor those controls.

Views of Responsible Officials

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



Fayette County Government Center
401 Central Avenue
Connersville, IN 47331

Phone: 765-825-1813
Fax: 765-827-4902
Email: clerk@co.fayette.in.us

CORRECTIVE ACTION PLAN

RE: FINDING 2014-003

Melinda Sudhoff, Fayette County Clerk
Contact Phone Number: 765-222-1554

To Whom it may Concern:

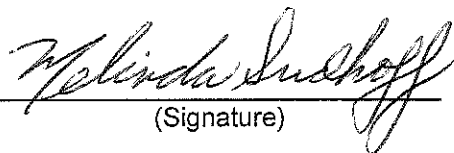
Upon receiving notice of the lack of segregation of duties and the deficiencies of the monitoring of controls from the State Board of Accounts, I have reviewed the finding and concur with the audit.

Description of Corrective Action Plan:

In order to correct the deficiencies, we have implemented a segregation of duties. One person is no longer responsible for the complete daily closeout of financial transactions. We have four persons who have been trained to perform these duties. Each transaction is assigned randomly and is never the same individual daily. As an example: when one person prints checks then another person verifies the check register and the amounts of each check while another individual deposits the checks in the mail. There is no longer an established "routine". Bank reconcilements are also reviewed by several individuals. Our daily deposits are verified upon the return of the individual by another individual who thereby initials the deposit slip.

Concerning the monitoring of Controls, I as Clerk of the Circuit Court have established the implementation of the above practices in order to monitor these controls. Each employee will be reviewed to ascertain that procedures are being adhered to.

Anticipated Completion Date: The segregation of duties and the monitoring of controls have been established and are hereby completed as of this date.



(Signature)

Fayette County Clerk
(Title)

12/11/2017
(Date)

CLERK OF THE CIRCUIT COURT
FAYETTE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on December 14, 2017, with Melinda Sudhoff, Clerk of the Circuit Court; Gary Naylor, Vice President of the Board of County Commissioners; and Dale Strong, Vice President of the County Council.