

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TIPPECANOE COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED
12/19/2017

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|---|-------------------------------------|--|
| County Auditor | Robert A. Plantenga | 01-01-15 to 12-31-18 |
| County Treasurer | Jennifer Weston | 01-01-15 to 12-31-20 |
| Clerk of the Circuit Court | Christa Coffey | 01-01-15 to 12-31-18 |
| County Sheriff | Barry Richard | 01-01-15 to 12-31-18 |
| County Recorder | Shannon Withers | 01-01-15 to 12-31-18 |
| President of the Board of County Commissioners | David Byers Tracy Brown | 01-01-16 to 12-31-16 01-01-17 to 12-31-17 |
| President of the County Council | David Williams John R. Basham II | 01-01-16 to 12-31-16 01-01-17 to 12-31-17 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

TO: THE OFFICIALS OF TIPPECANOE COUNTY, INDIANA

This report is supplemental to our audit report of Tippecanoe 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 Finding, identified in the above referenced audit report, is 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 instance 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 Finding and Official Response to the Audit Result and Comment, incorporated within this report, were not verified for accuracy.

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

December 5, 2017

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COUNTY AUDITOR
TIPPECANOE COUNTY

COUNTY AUDITOR
TIPPECANOE COUNTY
FEDERAL FINDING

FINDING 2016-001

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Condition

There were deficiencies in the internal control system of the County related to financial transactions and reporting. The County had not established effective internal controls over activities related to the Annual Financial Report (AFR) and financial statement. The Deputy County Auditor input the County's financial information into the Indiana Gateway for government units financial reporting system (Gateway), which is the source of the AFR and the financial statement. The County Auditor verified the financial information that was entered in Gateway; however, this verification was not effective in detecting material misstatements.

Context

The following errors occurred on the AFR and the financial statement:

Receipts, disbursements, and ending cash and investments balances reported in Gateway for the Clerk's Trust fund were understated by material amounts. The Clerk of the Circuit Court submitted a Supplemental County Annual Report with the financial information for this fund to the Deputy County Auditor for input into Gateway. Due to a software conversion by the Clerk of the Circuit Court's office, only the transactions for the first five months of the year were reported in Gateway. Receipts were understated by \$11,001,725 and disbursements were understated by \$9,113,301, which caused the ending cash and investments balance to be understated by \$1,888,424.

The Payroll Clearing fund receipts and disbursements were overstated in Gateway by material amounts. Some payroll transactions were posted twice, which appeared to be caused by a software conversion in early 2016. The cash and investments balances were not affected since both receipts and disbursements were overstated by \$5,486,959.

The County also had not monitored the internal control system in place to ensure that controls were properly designed and operating effectively.

Audit adjustments were proposed, accepted by the County, and made to the AFR and 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:

COUNTY AUDITOR
TIPPECANOE 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. . . ."

"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. . . ."

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."

Cause

Management had not established an effective system of internal control that would have ensured proper reporting of the AFR and financial statement. Additionally, the internal control system was not monitored by the County.

Effect

The failure to establish an effective system of internal controls enabled material misstatements to remain undetected.

Recommendation

We recommended that the County establish a system of internal controls related to 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.



Robert A. Plantenga
20 North 3rd Street
Lafayette, Indiana 47901-1214

CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Robert A. Plantenga
Contact Phone Number: (765) 423-9130

Views of Responsible Official:

We concur with the finding. Upon migration to new financial software on March 1, 2016, one segment of payroll journal data was incorrectly converted to post to the PR Clearing Cash line, instead of the proper PR Clearing liability line for health insurance. The erroneous journal import was done systematically since software conversion. The result was an omission of activity in the health insurance liability account, and corresponding overstatement of activity in the cash account for the PR Clearing Fund. The error did not impact fund balance.

Description of Corrective Action Plan:

2016 AFR financial statements were corrected to indicate appropriate receipts and disbursements for both Payroll Clearing Fund and Clerks Trust Fund. Payroll journal import corrected to post appropriately as of November 3, 2017. Comparative review of data will be conducted prior to entry into Gateway.

Anticipated Completion Date: Corrective actions completed November 27, 2017.

Sincerely,

Robert A. Plantenga

COUNTY AUDITOR
TIPPECANOE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on December 5, 2017, with Robert A. Plantenga, County Auditor; Tracy Brown, President of the Board of County Commissioners; John R. Basham II, President of the County Council; Thomas Murtaugh, County Commissioner; and Jeremy Diehl, Chief Deputy Auditor.

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COUNTY TREASURER
TIPPECANOE COUNTY

COUNTY TREASURER
TIPPECANOE COUNTY
AUDIT RESULT AND COMMENT

DESIGNATED DEPOSITORY

The Treasurer's Cash Book shows County funds in the amount of \$22,270,655 at December 31, 2016, on deposit with an investment company that is not a designated depository or a financial institution under Indiana Code 5-13-9-2.

Indiana Code 5-13-9-2 states in part:

"(a) Each officer designated in section 1 of this chapter may invest or reinvest any funds that are held by the officer and available for investment in any of the following:

(1) Securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States and issued by any of the following:

(A) The United States Treasury.

(B) A federal agency.

(C) A federal instrumentality.

(D) A federal government sponsored enterprise.

(2) Securities fully guaranteed and issued by any of the following:

(A) A federal agency.

(B) A federal instrumentality.

(C) A federal government sponsored enterprise.

(3) Municipal securities issued by an Indiana local governmental entity, a quasi-governmental entity related to the state, or a unit of government, municipal corporation, or special taxing district in Indiana, if the issuer has not defaulted on any of the issuer's obligations within the twenty (20) years preceding the date of the purchase. A security purchased by the treasurer of state under this subdivision must have a stated final maturity of not more than ten (10) years after the date of purchase.
. . .

(d) The investing officers of the political subdivisions are the legal custodians of securities under this chapter. They shall accept receipts or other reporting for securities from:

(1) a duly designated depository as prescribed in this article; or

(2) a financial institution located either in or out of Indiana having custody of securities with a combined capital and surplus of at least ten million (\$10,000,000) according to the last statement of condition filed by the financial institution with its governmental supervisory body. . . ."

COUNTY TREASURER
TIPPECANOE COUNTY
AUDIT RESULT AND COMMENT
(Continued)

Indiana Code 5-13-9-2.5 states in part:

"(a) An officer designated in section 1 of this chapter may invest or reinvest funds that are held by the officer and available for investment in investments commonly known as money market mutual funds that are in the form of securities of or interests in an open-end, no-load, management-type investment company or investment trust registered under the provisions of the federal Investment Company Act of 1940, as amended (15 U.S.C. 80a et seq.)

(b) The investments described in subsection (a) shall be made through depositories designated by the state board of finance as depositories for state deposits under IC 5-13-9.5.

(c) The portfolio of an investment company or investment trust described in subsection (a) must be limited to the following:

- (1) Direct obligations of the United States.
- (2) Obligations issued by any of the following:
 - (A) A federal agency.
 - (B) A federal instrumentality.
 - (C) A federal government sponsored enterprise.
- (3) Repurchase agreements full collateralized by obligations described in subdivision (1) or (2). . . ."

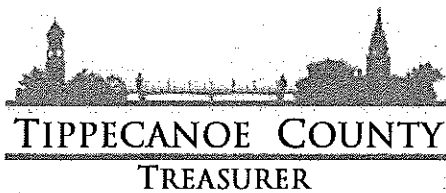
Indiana Code 5-13-4-10 states:

"Financial institution' means any of the following:

- (1) A bank, trust company, or mutual savings bank that:
 - (A) was incorporated under the law of Indiana or any other state; and
 - (B) has its principal office or a branch in Indiana.
- (2) A national banking association with its principal office or a branch in Indiana.
- (3) A savings association operating as a deposit association incorporated under Indiana law.
- (4) A federally chartered savings association with its principal office or a branch in Indiana.
- (5) A federally chartered savings bank with its principal office or a branch in Indiana.
- (6) A state chartered credit union in Indiana that is federally insured or privately insured and that has assets of three million dollars (\$3,000,000) or more."

COUNTY TREASURER
TIPPECANOE COUNTY
AUDIT RESULT AND COMMENT
(Continued)

Investments can only be made in accordance with statutory guidelines. Losses and expenses related to any unauthorized investments and unauthorized investment procedures may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 1)



Jennifer Weston
Dawn Fay, Chief Deputy

20 N 3rd Street
Lafayette, IN 47901-1214

State Board of Accounts
302 West Washington Street, Room E 418
Indianapolis, Indiana 46204-2765

Official Response – Designated Depository

The Tippecanoe County Treasurer has invested County funds through Morgan Stanley, a financial institution with 6 offices in Indiana having custody of securities with a combined capital and surplus of over \$203 Billion dollars as per SEC filings for year ended 2015. Morgan Stanley is a leader in serving Government clients and has a long history in Indiana. Their clients in Indiana include over 70 entity accounts for County Governments specifically. Account sizes range from \$130,000,000 down to \$2,000,000, with the longest relationship in Indiana at 21 years. The Tippecanoe County Treasurer's office began investing idle cash through Morgan Stanley in July of 2010.

County Treasurers around the State have understood Morgan Stanley to be a financial institution under IC 5-13-9-2(d)(2), and have purchased and accepted safekeeping and reporting on securities through Morgan Stanley.

IC 5-13-9-2(d)-(e)

(d) The investing officers of the political subdivisions are the legal custodians of securities under this chapter. They shall accept safekeeping receipts or other reporting for securities from:

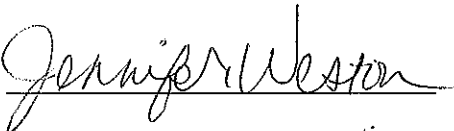
(1) a duly designated depository as prescribed in this article; or

(2) a financial institution located either in or out of Indiana having custody of securities with a combined capital and surplus of at least ten million dollars (\$10,000,000) according to the last statement of condition filed by the financial institution with its governmental supervisory body.

(e) The state board of accounts may rely on safekeeping receipts or other reporting from any depository or financial institution.

However, in 2017 certain State agencies have communicated the opinions that firms such as Morgan Stanley do not meet the meaning of "financial institution" as defined in this chapter. Rather, the agencies refer to the definition used in another chapter, namely IC 5-13-4-10, which includes only banking institutions.

Now that this has been interpreted differently than in the past, the Tippecanoe County Treasurer is making arrangements to have securities purchased through Morgan Stanley or other primary dealers held in custody by an approved depository. Going forward, new purchases of securities and FDIC insured negotiable CDs from Morgan Stanley or other primary dealers will be held in custody by an approved depository.

Official: 

Date: 12/14/17

www.tippecanoe.in.gov/503/treasurer
Phone: 765-423-9273 Fax: 765-423-9158
E-mail: treasurer@tippecanoe.in.gov
Hours: 8:00 AM - 4:30 PM M-F

COUNTY TREASURER
TIPPECANOE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on December 5, 2017, with Jennifer Weston, County Treasurer; Tracy Brown, President of the Board of County Commissioners; John R. Basham II, President of the County Council; and Thomas Murtaugh, County Commissioner.