

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MONROE COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED
12/21/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Steve Saulter	01-01-13 to 07-08-16
	(Vacant)	07-09-16 to 07-28-16
	Therese K. Chambers	07-29-16 to 12-31-16
	Catherine C. Smith	01-01-17 to 12-31-20
County Treasurer	Catherine C. Smith	01-01-13 to 12-31-16
	Jessica McClellan	01-01-17 to 12-31-20
Clerk of the Circuit Court	Linda Robbins	01-01-15 to 03-04-16
	(Vacant)	03-05-16 to 03-20-16
	Nicole Browne	03-21-16 to 12-31-18
County Sheriff	Brad Swain	01-01-15 to 12-31-18
County Recorder	Eric Schmitz	01-01-15 to 12-31-18
County Prosecuting Attorney	Chris Gaal	01-01-15 to 12-31-18
President of the Board of County Commissioners	Patrick Stoffers	01-01-16 to 12-31-16
	Julie Thomas	01-01-17 to 12-31-17
President of the County Council	Cheryl Munson	01-01-16 to 12-31-16
	Ryan Cobine	01-01-17 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF MONROE COUNTY, INDIANA

This report is supplemental to our audit report of Monroe 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

December 13, 2017

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COUNTY AUDITOR
MONROE COUNTY

COUNTY AUDITOR
MONROE COUNTY
FEDERAL FINDINGS

FINDING 2016-001

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

Repeat Finding

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

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). The County relied on one employee to prepare the SEFA. There was no evidence of a control, such as an oversight, review, or approval process by the County, to ensure federal awards information entered and submitted was correct.

Context

The SEFA contained the following types of errors in reporting expenditures: grants were duplicated, grant expenditures were overstated and understated, grant expenditures were omitted, and grant expenditures included state funds. The following is a summary of the net accumulated errors by federal agency:

1. The Department of Justice grants were understated by \$32,994.
2. The Department of Transportation grants were overstated by \$1,181,403.
3. The Department of Health and Human Services grants were understated by \$1,088,751.
4. The Department of Homeland Security grants were understated by \$55,160.

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.

COUNTY AUDITOR
MONROE COUNTY
FEDERAL FINDINGS
(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. . . ."

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:

- (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 that 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.

COUNTY AUDITOR
MONROE COUNTY
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish controls enabled material misstatements of the SEFA to occur.

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.

FINDING 2016-002

Subject: Internal Control over Financial Reporting
Audit Findings: Material Weakness, Noncompliance

Repeat Finding

This is a repeat of Finding 2015-002 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) and the financial statement. 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 a lack of controls over the input of financial information, the original financial information entered into Gateway omitted the Clerk's Trust, Sheriff's Inmate Trust, Jail Commissary, After Settlement Collections, and some redevelopment funds that were not included on the County Auditor's funds ledger.

The net effect of the errors resulted in the beginning cash and investment balance being understated by \$14,386,676, receipts being understated by \$19,951,183, disbursements being understated by \$23,488,027, and the ending cash and investment balance being understated by \$10,849,832.

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
MONROE 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. . . ."

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

The County's management had not established a proper system of internal control to ensure proper reporting of the AFR and financial statement.

Effect

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

Recommendation

We recommended that the County's management establish controls to prevent, or detect and correct, errors on the AFR and financial statement.

Views of Responsible Officials

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



CATHERINE C. SMITH
Monroe County Auditor

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100 West Kirkwood Avenue
Bloomington, IN 47404
Office (812) 349-2510
Fax (812) 349-2280

MEMORANDUM FOR PUBLIC RECORD

CORRECTIVE ACTION PLAN
2016 SBOA Audit Review Fall 2017

FINDING 2016-001

Contact Person Responsible for Corrective Action: Catherine Smith, Monroe County Auditor
Contact Phone Number: 812.349.2515 (Direct Line)

Views of Responsible Official: Auditor Catherine Smith agrees with the deficiencies identified in the 2016 Audit of Monroe County regarding internal control of federal awards, a repeat finding. The Monroe County Auditor's Office takes this review very seriously and will be diligent about working the following plan:

Description of Corrective Action Plan: While Auditor Smith is still completing her first year as the Auditor of Monroe County, she is still developing a systematic approach of the review and organization of the set of federal awards Monroe County receives and there are several. The plan is quite simple in its approach and it is as follows:

1. Apply the necessary man-hours to completely review and organize all grants from inception through their completion.
2. Create and maintain a master control document of all awards, as a working tool to organize, review and track each award.
3. Create a unique file for each award, in a specific format and following a designated convention, for both original paper work and electronic data.
4. Train **internal** Auditor's Department staff members to understand the award process, what the county's responsibilities are for data collection, management and reporting are and how these responsibilities will be performed and reviewed.
5. Train responsible Monroe County Government employees **external** to the Auditor's Office who are integral to the award process in the necessary activities to augment and ensure the county's responsibilities for data collection, management and reporting are met or exceeded and how these compliance criteria will be measured and reviewed by the Auditor's Office to ensure compliance.
6. Eliminate errors by incorporating a structured monthly review of all awards by the Grants' Administrator and reconciling, correcting, and/or mitigating immediate corrective action as needed and thoroughly documenting any adjustments.
7. Build in a preventative maintenance element to grant review, by developing and implementing a monthly systematic process of review of all awards (both federal and non-federal) and the work performed on each award by the Grants' Administrator by the County's Financial Director. This formal monthly review process will include a measurement tool that will be developed and

applied, culminating in a mechanism that requires signatory approval by the Financial Director. Once implemented, this “second set of eyes” approach will prevent errors from propagating or being allowed to float until the year end.

Anticipated Completion Date: **August 31, 2018**

Catherine Smith

(Signature)

Monroe County Auditor

(Title)

December 11, 2017

(Date)



CATHERINE C. SMITH
Monroe County Auditor

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100 West Kirkwood Avenue
Bloomington, IN 47404
Office (812) 349-2510
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MEMORANDUM FOR PUBLIC RECORD

CORRECTIVE ACTION PLAN
2016 SBOA Audit Review Fall 2017

FINDING 2016-002

Contact Person Responsible for Corrective Action: Catherine Smith, Monroe County Auditor
Contact Phone Number: 812.349.2515 (Direct Line)

Views of Responsible Official: Auditor Catherine Smith agrees with the deficiencies identified in the 2016 Audit of Monroe County regarding internal control over Financial Reporting, a repeat finding. The Monroe County Auditor's Office takes this review very seriously and will be diligent about working the following plan:

Description of Corrective Action Plan: During Auditor Smith's inaugural year as the Auditor of Monroe County, she has begun the process of overhauling the financial systems and mechanisms of the auditor's office by recruiting and training key employees and is in the process of developing and implementing a systematic approach of the review and control process of financial reporting, including developing a strong and measurable internal control plan.

While effective internal control does remain an on-going problem, Monroe County as a whole, has taken serious and substantial steps to address this issue, both aggregately and collectively. Major areas of corrective action includes purchasing and implementing a windows-based financial software system (Low) which includes general ledger management, banking reconciliation, payroll processing and employee benefit expense management. This software also includes a yet-to-be implemented purchasing request module. The commissioner's purchased this software in late summer 2016 and implementation began in fall of that year and is still in the process of becoming fully implemented. This includes financial data collection across the county being refined to fit the systematic requirements in order to standardize data elements, such as have like named and formatted elements, in an effort to make reporting more understandable and usable county wide.

Standardizing Monroe County's data, both the collection aspect and the reporting aspect, will go a long way toward effective financial management and internal control, as problems will be more easily recognizable and discrepancies will be more visible. While this is more of a causal approach to our internal control issues, Monroe County recognized there were certainly a few big picture issues that prevented the Auditor's Office from developing good internal controls and this problem of data collection and management was certainly a paramount issue. Purchasing the new financial software was a giant first step taken by the county, as a whole.

Additionally, another large and glaring big picture issue was staffing. The Monroe County Council has

recognized this problem and taken it seriously, as well. The Council began the process of addressing this issue in 2017 by funding the second financial position for 2018. The staffing was so critically short that virtually no internal auditing was being completed, allowing problems to be created, perpetuated and hidden. These issues have been and will continue to be addressed, as follows:

1. Restructure the Auditor's Office financial team from a chaos management team to a highly effective and efficient team of financial talent, driven by a written and measured internal control plan.
2. Focus on error prevention, rather than error identification and correction.
3. Continue identifying, hiring and training excellent Auditor's Department staff responsible for capable financial management, including appropriate internal controls.
-This process began by hiring a very capable and technically proficient Financial Director in the first quarter of 2017. In addition, Monroe County has refunded the position of Second Financial Deputy during the budgeting process for Fiscal Year 2018. A capable candidate has been identified and is scheduled to begin their work of general ledger operating and management in early 2018.
4. Convert the top level Auditor's financial position into one that ensures proper internal controls and executes the internal control plan, performs appropriate internal audits and is responsible for the overall financial operation such as managing the financial employees and by performing appropriate internal audits.
5. Ensure an adequate number of staffing man-hours are applied to effectively administer internal control over all financial processes.
6. Continue to train Auditor's staff and county wide external staff to understand the process and benefit of good internal control, how to develop it and how to restructure it as the county's business needs change.
7. Write a well thought out and measurable plan to manage the county's responsibilities for data collection, management and reporting and how these responsibilities will be performed and reviewed. This plan, written in the Auditor's Office, will address data collection, reporting, segregation of duties, reconciliation processes, authorizations and approval processes and verifications processes.
8. Implement the written Auditor's Internal Control Plan and the inter-departmental purchasing program.
9. Establish a formal performance review process which includes being held to the standard of the Internal Control Plan.

Anticipated Completion Date: End of year, 2018.

Catherine Smith

(Signature)

Monroe County Auditor

(Title)

December 11, 2017

(Date)

COUNTY AUDITOR
MONROE COUNTY
AUDIT RESULTS AND COMMENTS

CAPITAL ASSETS

The same comment appeared in prior Report B47406.

The County has not properly maintained a complete inventory of capital assets for several years. The capital assets records were not updated for additions and deletions for 2016.

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

CONDITION OF RECORDS

A similar comment appeared in prior Report B47406, entitled *CONDITION OF RECORDS, LONG TERM DEBT TRANSACTIONS, AND REPORTING*.

Financial records presented for audit were incomplete and not reflective of debt service activity. The financial information was entered into the Indiana Gateway for governmental units financial system, which is the source for the Annual Financial Report (AFR), and the supplementary Schedule of Leases and Debt. This supplemental schedule was not supported by the debt service amortization schedules for various debt obligations presented by the County. There were insufficient internal controls over the preparation and review of the AFR, prior to submission of the report, to ensure that information was accurate and complete.

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."

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 five components of internal control: Control Environment; Risk Assessment; Control Activities; Information and Communication; and Monitoring. According to this manual:

COUNTY AUDITOR
MONROE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

"The control environment is the basic commonality for all and comprises the integrity and ethical values of the political subdivision established by the oversight body and management."

"Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. Each identified risk is evaluated in terms of its impact and likelihood of occurrence. Overall, risk assessment is the basis of determining how risk will be managed."

"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. . . ."

"External Communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties."

"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 bases. The criteria used are developed by the oversight body, elected officials, management governing boards, or recognized standard-setting bodies or regulators. . . ."

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 AUDITOR
MONROE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on December 13, 2017, with Catherine C. Smith, County Auditor and former County Treasurer; Lorie Robinson, First Financial Director; Hans Huffman, Deputy County Auditor; Jessica McClellan, County Treasurer; Elizabeth Sensenstein, Chief Deputy County Treasurer; Julie Thomas, President of the Board of County Commissioners; Angie Purdie, Commissioner's Administrator; Jeff Cockerill, County Attorney; R. Michael Flory, County Council Attorney; and Geoff McKim, County Council member.