

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

ST. JOSEPH COUNTY, INDIANA

January 1, 2017 to December 31, 2017



FILED
11/09/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Michael J. Hamann	01-01-15 to 12-31-18
County Treasurer	Michael J. Kruk	01-01-17 to 12-31-20
Clerk of the Circuit Court	Terri J. Rethlake	01-01-15 to 12-31-18
County Sheriff	Michael D. Grzegorek	01-01-15 to 12-31-18
County Recorder	Mary B. Wisniewski	01-01-17 to 12-31-20
President of the Board of County Commissioners	Andrew Kostielney	01-01-17 to 12-31-18
President of the County Council	Rafael Morton	01-01-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF ST. JOSEPH COUNTY, INDIANA

This report is supplemental to our audit report of St. Joseph County (County), for the period from January 1, 2017 to December 31, 2017. 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 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 Finding 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

October 3, 2018

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COUNTY AUDITOR
ST. JOSEPH COUNTY

COUNTY AUDITOR
ST. JOSEPH COUNTY
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statement presented in the Financial Statement and Single Audit Report of the County included the following funds with overdrawn cash balances at December 31, 2017, which were not attributed to timing of reimbursements:

Fund	Amount Overdrawn
Mich St Withholding	\$ 318
St Joe Co Group Ins	5,831,481
Juvenile Accountability Block	442
Project Income-C.B.C./Ducomb	141,731

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)

JUVENILE PROBATION FEES FUND

On August 31, 2017, a transfer of \$20,000 was made from the Juvenile Probation Fees fund to the County General fund for Public Defender salaries. The juvenile probation user fee and administration fee is only to be used to supplement the salaries of juvenile probation officers and to support the juvenile probation program. There is no authority to transfer juvenile probation user fee funds to the County General fund or to use the fees to pay for the cost of Public Defenders.

Indiana Code 31-40-2-1 states in part:

"(a) Subject to [IC 31-40-1-3](#), a juvenile court may order each delinquent child who receives supervision under [IC 31-37-19](#) or the child's parent, guardian, or custodian to pay to either the probation department or the clerk of the court:

COUNTY AUDITOR
ST. JOSEPH COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

- (1) an initial probation user's fee of at least twenty-five dollars (\$25) but not more than one hundred dollars (\$100);
- (2) a probation user's fee of at least ten dollars (\$10) but not more than twenty-five dollars (\$25) for each month the child receives supervision; and
- (3) an administrative fee of one hundred dollars (\$100) if the delinquent child is supervised by a juvenile probation officer. . . .

(c) The probation department or clerk shall collect the administrative fee under subsection (a)(3) before collecting any other fee under subsection (a). The probation department or the clerk shall deposit the probation user's fees and the administrative fees paid under subsection (a) into the county supplemental juvenile probation services fund. . . ."

Indiana Code 31-40-2-2 states:

"(a) The fiscal body of the county shall appropriate money from the county supplemental juvenile probation services fund:

- (1) to the juvenile courts of the county for the use by the courts in supplementing probation services to juveniles; and
- (2) to supplement the salaries of juvenile probation officers in accordance with the salary schedule set by the county fiscal body under [IC 36-2-16.5](#).

(b) Money in the county supplemental juvenile probation services fund may be used only for supplementing probation services and to supplement the salaries of probation officers in accordance with [IC 31-31-5](#)."

Saint Joseph County Official Response

Overdrawn Cash Balances

The Saint Joseph County Auditor concurs with the comment regarding overdrawn cash balances. The deficit in the St. Joseph County Group Insurance fund has been eliminated in 2018. The County is also monitoring the cash balances of the interlocal (agency) members of the insurance programs to make sure sufficient premiums are being charged and that any deficit cash balances are eliminated in a timely manner. The County has established an insurance task force that meets monthly to review the status of the health and liability insurance programs. The task force consists of members from the County Council, County Commissioners, Human Resources, Auditor's Office, the Deputy County Attorney, and various insurance brokers and consultants.

The County Auditor will also review the cash balances in other funds for deficit balances and will make sure necessary corrections are made to eliminate deficits in these funds.

Juvenile Probation User Fee Fund

The Saint Joseph County Auditor understands the comment regarding the proper use of monies in the Juvenile Probation User Fee Fund. The Auditor has been reviewing the current practice with the County Attorney and is prepared to change this practice, and reimburse the Juvenile Probation User Fee Fund if necessary, if the current practice is determined to be improper.

COUNTY AUDITOR
ST. JOSEPH COUNTY
EXIT CONFERENCE

The contents of this report were discussed on October 3, 2018, with Michael J. Hamann, County Auditor; John Murphy, Deputy County Auditor; Andrew Kostielney, President of the Board of County Commissioners; Rafael Morton, President of the County Council; Robert Kruszynski, County Council member; Diana L. Hess, County Council member; Dr. Deborah Fleming, County Commissioner; Dave Thomas, County Commissioner; and Jamie C. Woods, County Attorney.

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CLERK OF THE CIRCUIT COURT
ST. JOSEPH COUNTY

CLERK OF THE CIRCUIT COURT
ST. JOSEPH COUNTY
AUDIT RESULTS AND COMMENTS

CLERK'S TRUST ITEMS OVER FIVE YEARS OLD AND TRUST REGISTER

The same comment also appeared in the prior Report B48753.

Many outstanding checks in the Clerk of the Circuit Court's (Clerk) office had been on hand for a period of five years or longer. The Clerk had not implemented policies and procedures for reporting and remitting unclaimed property to the Attorney General after the five year holding period.

The Main Office Trust account reconciliation included \$105,097 in outstanding checks that were considered unclaimed property. The oldest outstanding check was dated January 22, 1999.

The Small Claims account reconciliation included \$17,983 in outstanding checks that were considered unclaimed property. The oldest outstanding check was dated April 1, 2003.

The Mishawaka office account reconciliation included \$3,393 in outstanding checks that were considered unclaimed property. The oldest outstanding check was dated May 16, 2007. The outstanding check list also included ten other checks that were not dated; however, based on the check number sequence, they were older than May 16, 2007.

Additionally the Clerk's office was not able to provide a detailed trust register for the Clerk Main Office Cashbook, but it is reasonable to assume that some of the items are over five years old. The Clerk Main Office Cashbook is made up of Trust and Bonds from the old software, which was used until 2014 and accounts for \$5,481,726 of the Clerk's funds.

Indiana Code 32-34-1-20(c) states in part:

"Property that is held, issued, or owed in the ordinary course of a holder's business is presumed abandoned if the owner or apparent owner has not communicated in writing with the holder concerning the property or has not otherwise given an indication of interest in the property during the following times: . . .

- (6) For property or proceeds held by a court or a court clerk, five (5) years after the property or proceeds become distributable. The property or proceeds must be treated as unclaimed property under [IC 32-34-3](#). . . ."

Indiana Code 32-34-1-26(a) states:

"A holder of property that is presumed abandoned and that is subject to custody as unclaimed property under this chapter shall report in writing to the attorney general concerning the property. Items of value of less than fifty dollars (\$50) may be reported by the holder in the aggregate."

Indiana Code 32-34-1-27(a) states "Except as provided in subsections (b) and (c), on the data a report is filed under section 26 of this chapter, the holder shall pay or deliver to the attorney general the property that is described in the report as unclaimed."

Indiana Code 32-34-3-2 states in part:

"(a) Except for money related to child support, the attorney general may collect all money that remains in the office of a clerk for at least five (5) years after being distributable without being claimed by the person entitled to the money.

CLERK OF THE CIRCUIT COURT
ST. JOSEPH COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

(b) The attorney general may collect all money related to child support that remains in the office of a clerk for at least ten (10) years after being distributable without being claimed by the person entitled to the money. . . ."

As soon as possible after the cash book and the daily balance record have been closed for the month, the clerk should reconcile the trust fund register with these two records.

Total all items appearing on hand in the trust fund register. This also must be done as of the last day of the month. The total of these items must equal the balance in the trust fund column of the cash book and in the daily balance record.

If there is a difference, an error has been made. You must immediately review the work to detect the error and make the necessary correction. Do not leave the books out of balance. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 9)

BANK ACCOUNT RECONCILIATIONS

A similar comment appeared in the prior Report B48753

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliations of some accounts within the Clerk's office did not balance.

A review of the 2017 monthly reconcilements of the County Clerk's Main Trust and Small Claims checking accounts indicated that record balances were not fully reconciled to the depository balances. As of December 31, 2017, the bank account reconciliation for the County Clerk's Main Trust checking account identified \$48,713 cash short and the Small Claims checking account identified \$642 cash long. Additionally both accounts included adjustments for unidentified reconciling items: Main Trust \$10,388 and Small Claims \$5,998.

Officials have been unable to determine the source of the unidentified cash variance shown in its financial records for funds accounted for in both the County Clerk's Main Trust and Small Claims checking accounts. Monthly reconcilements show that the Clerk had consistently maintained these variances for several years.

In addition, a review of the December 31, 2017 bank reconciliation for the Indiana Support Enforcement Tracking System (ISETS) included adjustments for bank service fees totaling \$14,043 and miscellaneous adjustments totaling \$7,999, which have been carried on the bank reconcilements for several years and have not been resolved.

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."

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 Clerks of the Circuit Courts of Indiana, Chapter 1)

CLERK OF THE CIRCUIT COURT
ST. JOSEPH COUNTY
EXIT CONFERENCE

The contents of this report were discussed on October 1, 2018, with Terri J. Rethlake, Clerk of the Circuit Court.

The contents of this report were discussed on October 3, 2018, with Michael J. Hamann, County Auditor; John Murphy, Deputy County Auditor; Andrew Kostielney, President of the Board of County Commissioners; Rafael Morton, President of the County Council; Robert Kruszynski, County Council member; Diana L. Hess, County Council member; Dr. Deborah Fleming, County Commissioner; Dave Thomas, County Commissioner; and Jamie C. Woods, County Attorney.

COUNTY TREASURER
ST. JOSEPH COUNTY

COUNTY TREASURER
ST. JOSEPH COUNTY
FEDERAL FINDING

FINDING 2017-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

There were deficiencies in the internal control system of the County Treasurer related to financial transactions and reporting. The County Treasurer had not separated incompatible activities related to cash and investments. The Deputy County Treasurer prepared the bank reconciliements without an oversight, review, or approval process.

Context

The lack of controls was a systemic issue 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.

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 Treasurer's office had not established a proper system of internal controls that segregated key functions.

Effect

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

Recommendation

We recommended that the County's management establish a system of controls, including segregation of duties, related to financial transactions and reporting of cash and investments.

Views of Responsible Officials

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

CORRECTIVE ACTION PLAN

FINDING 2017-001

Contact person Responsible for Corrective Action: Michael Kruk, County Treasurer

Contact Phone Number: 574-235-9539

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

- 1) Each bank account of the county shall be reconciled and reviewed on a monthly basis by either the County Treasurer or the Finance Deputy.
- 2) Upon completion of the reconciliation, the person who prepared the reconciliation shall sign off on the front page of the bank statement by writing "Reconciled by _____" and the date.
- 3) If the Treasurer prepared the reconciliation, then the Finance Deputy shall review it, and if the Finance Deputy prepared the reconciliation, then the Treasurer shall review it.
- 4) Upon completion of the review, the person who reviewed the reconciliation shall sign off on the front page of the bank statement by writing "Reviewed & Approved by _____" and the date.

Anticipated Completion Date: October 15, 2018



(Signature)



(Title)



(Date)

COUNTY TREASURER
ST. JOSEPH COUNTY
EXIT CONFERENCE

The contents of this report were discussed on October 1, 2018, with Michael J. Kruk, County Treasurer; and Buffy Gerndt, Chief Deputy/Finance-Treasurer.

The contents of this report were discussed on October 3, 2018, with Michael J. Hamann, County Auditor; John Murphy, Deputy County Auditor; Andrew Kostielney, President of the Board of County Commissioners; Rafael Morton, President of the County Council; Robert Kruszynski, County Council member; Diana L. Hess, County Council member; Dr. Deborah Fleming, County Commissioner; Dave Thomas, County Commissioner; and Jamie C. Woods, County Attorney.