

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SHELBY COUNTY, INDIANA

January 1, 2016 to December 31, 2016



**FILED**  
11/30/2018



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Mary Jo Phares	01-01-15 to 12-31-18
County Treasurer	Kathy Plunkett	01-01-15 to 12-31-18
Clerk of the Circuit Court	Vicki R. Franklin	01-01-15 to 12-31-18
County Sheriff	Dennis Parks	01-01-15 to 12-31-18
County Recorder	Tawnya J. Williams	01-01-15 to 12-31-18
President of the Board of County Commissioners	Kevin Nigh	01-01-16 to 12-31-18
President of the County Council	Tony Titus	01-01-16 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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TO: THE OFFICIALS OF SHELBY COUNTY, INDIANA

This report is supplemental to our audit report of Shelby 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/](http://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 for the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

October 23, 2018

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COUNTY AUDITOR  
SHELBY COUNTY

COUNTY AUDITOR  
SHELBY 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 finding from the immediately prior audit. The prior audit finding number was 2015-001.

*Condition*

The County had not established effective internal controls over the financial information entered into the Indiana Gateway for Government Units financial reporting system, which was the source for the Schedule of Expenditures of Federal Awards (SEFA). One employee prepared the SEFA without evidence of a review or approval process, or other compensating controls.

*Context*

Due to the lack of controls, the SEFA contained the following errors:

1. Seven state-funded grants were included, which overstated federal expenditures by \$503,467.
2. Two federal grants were reported in error, which overstated federal expenditures by \$1,621.
3. The Crime Victim Assistance expenditures were overstated by \$47,946.
4. The Edward Byrne Memorial Justice Assistance Grant Program expenditures were understated by \$630.
5. The Highway Planning and Construction Cluster was omitted, which understated federal expenditures by \$520,318.
6. The Highway Safety Cluster expenditures were overstated by \$8,572.
7. Interagency Hazardous Materials Public Sector Training and Planning Grants expenditures were overstated by \$1,206.
8. The Child Support Enforcement program was omitted, which understated federal expenditures by \$278,877.
9. The Emergency Management Performance Grants program was omitted, which understated federal expenditures by \$25,852.
10. The Homeland Security Grant Program was omitted, which understated federal expenditures by \$5,500.

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

COUNTY AUDITOR  
SHELBY COUNTY  
FEDERAL FINDINGS  
(Continued)

*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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

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.

COUNTY AUDITOR  
SHELBY COUNTY  
FEDERAL FINDINGS  
(Continued)

- (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*

The County's management had not established a system of internal control that would have ensured proper reporting of the SEFA.

*Effect*

The failure to establish and properly implement internal controls enabled material misstatements to go undetected. The SEFA contained the error identified in the *Context*.

*Recommendation*

We recommended that the County's management establish controls to ensure accurate reporting of 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: Financial Transactions and Reporting - County Auditor  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat of finding from the immediately prior audit. The prior audit finding number was 2015-002.

COUNTY AUDITOR  
SHELBY COUNTY  
FEDERAL FINDINGS  
(Continued)

*Condition*

There were deficiencies in the internal control system of the County related to receipts and financial transactions and reporting. The County had not separated incompatible activities related to these areas of the financial statement.

*Receipts*

One employee collected and recorded the funds in the records without an oversight, review, or approval process.

*Financial Transactions and Reporting*

One employee prepared and submitted the County's financial information into the Indiana Gateway for Government Units financial reporting system, which was the source for the Annual Financial Report and financial statement, 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 had not established a proper system of internal control that segregated key functions.

*Effect*

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

COUNTY AUDITOR  
SHELBY COUNTY  
FEDERAL FINDINGS  
(Continued)

*Recommendation*

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



MARY JO PHARES  
SHELBY COUNTY  
AUDITOR

25 W Polk Street Room 104, Shelbyville, IN 46176  
Phone: (317) 392-6310 Fax: (317) 392-6382

CORRECTIVE ACTION PLAN

**FINDING 2016-001**

Contact Person Responsible for Corrective Action: Mary Jo Phares  
Contact Phone Number: (317) 392-6310

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: We will start having all work double checked before submitting the data in Gateway

Anticipated Completion Date: February 2017 for the year of 2016

**FINDING 2016-002**

Contact Person Responsible for Corrective Action: Mary Jo Phares  
Contact Phone Number: (317) 392-6310

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: We will start having all work double checked before submitting the data in Gateway

Anticipated Completion Date: February 2017 for the year of 2016

Mary Jo Phares  
(Signature)

Auditor  
(Title)

10/23/2018

COUNTY AUDITOR  
SHELBY COUNTY  
AUDIT RESULTS AND COMMENTS

**OVERDRAWN CASH BALANCES**

A similar comment also appeared in prior Report B48100, entitled *OVERDRAWN CASH BALANCES*.

The County's financial statement included the following funds with overdrawn cash balances at December 31, 2016:

Fund	Amount Overdrawn
Sheriffs Commissary	\$ 540
CAGIT County Certified Shares	471,153
Cum Cap Development	37,364
Health	32,655
Insurance	21,611
Settlement	100
EDIT	108,824
Coroners Training & Cont Ed	705
Sex and Violent Offender Admin	122
County CAGIT	473,529
Public Safety LOIT	104,660
Seized Property	10
Clerk - Passport Envelopes	19

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. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

**APPROPRIATIONS**

A similar comment also appeared in prior Report B48100, entitled *APPROPRIATIONS*.

The records presented for audit indicated that the Cum Cap Development and Health funds' expenditures exceeded budgeted appropriations by \$42,253 and \$49,703, respectively.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

COUNTY AUDITOR  
SHELBY COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on October 23, 2018, with Mary Jo Phares, County Auditor; Amy Glackman, Deputy County Auditor; Kevin Nigh, President of the Board of County Commissioners; Tony Titus, President of the County Council; and Ryan Claxton, County Council member.

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COUNTY TREASURER  
SHELBY COUNTY

COUNTY TREASURER  
SHELBY COUNTY  
FEDERAL FINDING

***FINDING 2016-003***

Subject: Financial Transactions and Reporting - County Treasurer  
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 had not separated incompatible activities related to the cash and investments area of the financial statement.

One employee performed the reconcilements of the depository account balance with the record balance. There were no controls in place, such as an oversight, review, or approval process over the bank reconcilements.

*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.

COUNTY TREASURER  
SHELBY 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 control that segregated key functions.

*Effect*

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

*Recommendation*

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

# Kathy A. Plunkett

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## Shelby County Treasurer

25 West Polk Street, Room 102  
Shelbyville, IN 46176  
(317) 392-6375  
Fax (317) 392-6342

[kplunkett@co.shelby.in.us](mailto:kplunkett@co.shelby.in.us)

[www.shelbycounty73.us](http://www.shelbycounty73.us)

### CORRECTIVE ACTION PLAN

#### **FINDING 2016-003**

Contact Person Responsible for Corrective Action: Kathy A. Plunkett  
Contact Phone Number: (317) 392-6375

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: We have always double and triple checked each person's work but did not document with approval with initials on the documents. We will now document that the work has been checked and verified by a different person. We do balance daily between the Auditor's records and the Treasurer's records but we have not written approved initials or signed those reports. We will initial and or sign the reports going forward when they have been reviewed.

I have submitted the Treasurer's office internal controls to the Auditor's office in September of 2018, I will insert the requirement for initialing documents for approval going forward.

Anticipated Completion Date: October 2018 for the year of 2016

Kathy A. Plunkett  
(Signature)

Shelby County Treasurer  
(Title)

October 23, 2018  
(Date)

COUNTY TREASURER  
SHELBY COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on October 23, 2018, with Kathy Plunkett, County Treasurer; Kevin Nigh, President of the Board of County Commissioners; Tony Titus, President of the County Council; and Ryan Claxton, County Council member.

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COUNTY HIGHWAY DEPARTMENT  
SHELBY COUNTY

COUNTY HIGHWAY DEPARTMENT  
SHELBY COUNTY  
FEDERAL FINDING

***FINDING 2016-004***

Subject: Highway Planning and Construction Cluster - Cash  
Management, Matching, Period of Performance

Federal Agency: Department of Transportation

Federal Program: Highway Planning and Construction

CFDA Number: 20.205

Federal Award Numbers and Years (or Other Identifying Numbers): DES #0100361, DES #100447,  
DES #600117, DES #600118,  
DES #1382080, DES #9380756

Pass-Through Entity: Indiana Department of Transportation

Compliance Requirements: Cash Management; Matching, Level of Effort,  
Earmarking; Period of Performance

Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat of finding from the immediately prior audit. The prior audit finding number was 2015-003.

*Condition*

An effective internal control system was not in place at the County in order to ensure compliance with requirements related to the grant agreement and the cash management, matching, and period of performance requirements.

The County had not designed or implemented adequate policies and procedures to ensure compliance with the cash management requirement that program costs be paid before reimbursement of those costs is requested. One employee was primarily responsible for monitoring that program costs were paid by the entity prior to requesting reimbursement without an oversight, review, or approval process.

Additionally, the County had not designed or implemented adequate policies and procedures to ensure that the required local match was met or that expenditures were made within the period of performance. One employee was primarily responsible for ensuring compliance without an oversight, review, or approval process.

*Context*

The lack of controls was a systemic issue throughout the audit period.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

COUNTY HIGHWAY DEPARTMENT  
SHELBY COUNTY  
FEDERAL FINDING  
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

*Cause*

Management had not developed a system of internal controls to ensure compliance with the compliance requirements listed above.

*Effect*

The failure to establish an effective internal control system placed the County at risk of noncompliance with the grant agreement and the compliance requirements listed above. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the County's management establish controls related to the grant agreement and the compliance requirements listed above.

*Views of Responsible Officials*

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

Board of Commissioners

Kevin Nigh  
Donald Parker  
Chris Ross  
John C. DePrez, IV, Attorney



Shelby County, Indiana

25 West Polk Street, Room 206  
Shelbyville, Indiana 46176  
Office (317) 392-6330  
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CORRECTIVE ACTION PLAN

**FINDING 2016-004**

Contact Person Responsible for Corrective Action: Kevin Nigh  
Contact Phone Number: 317-392-6330

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The attached sheet will be reviewed and signed by one of the Shelby County Commissioners for each claim sent to INDOT.

Anticipated Completion Date:

February of 2017

*Kevin Nigh*

(Signature)

*Commissioner*

(Title)

*10/22/2018*

(Date)



COUNTY HIGHWAY DEPARTMENT  
SHELBY COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on October 23, 2018, with Kem Anderson, County Highway Superintendent; Diane Haehl, Executive Assistant; Kevin Nigh, President of the Board of County Commissioners; Tony Titus, President of the County Council; and Ryan Claxton, County Council member.