

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

KNOX 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	Lisa Madden	01-01-15 to 12-31-18
County Treasurer	Brenda Hall	01-01-16 to 12-31-19
Clerk of the Circuit Court	Terri Allen	01-01-15 to 12-31-18
County Sheriff	Michael Morris	01-01-15 to 12-31-18
County Recorder	Lisa Clark-Benock	01-01-15 to 12-31-18
President of the Board of County Commissioners	Larry Holscher Kellie Streeter	01-01-16 to 12-31-16 01-01-17 to 12-31-18
President of the County Council	Robert Lechner	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 KNOX COUNTY, INDIANA

This report is supplemental to our audit report of Knox 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 to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

November 14, 2018

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BOARD OF COUNTY COMMISSIONERS  
KNOX COUNTY

BOARD OF COUNTY COMMISSIONERS  
KNOX COUNTY  
AUDIT RESULT AND COMMENT

***INTERNAL CONTROLS - TRAINING***

County personnel were not trained on the internal control standards and procedures that had been adopted.

Indiana Code 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

BOARD OF COUNTY COMMISSIONERS  
KNOX COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on November 14, 2018, with Lisa Madden, County Auditor; Sheila Hobbs, Bookkeeper; Brenda Hall, County Treasurer; Kellie Streeter, President of the Board of County Commissioners; Trent A. Hinkle, County Commissioner; and Robert Lechner, President of the County Council.

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COUNTY AUDITOR  
KNOX COUNTY

COUNTY AUDITOR  
KNOX 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 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 Auditor entered and submitted federal award information into the Indiana Gateway for Government Units financial reporting system, which was the source for the County's SEFA. There was no evidence of a control, such as an oversight, review, or approval process by the County to ensure federal award information entered and submitted was correct.

*Context*

The SEFA presented for audit contained the following errors:

- Four federal programs with expenditures of \$26,804 were omitted.
- Three state grants with expenditures of \$255,745 were included in error.
- Two federal programs' expenditures were overstated by \$24,949 in total.
- Five federal programs' expenditures were understated by \$128,353 in total.
- There were numerous errors in program names, project names, and/or identifying numbers.

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  
KNOX 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. . . .

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 purpose: . . .

- 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.
- (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.

COUNTY AUDITOR  
KNOX COUNTY  
FEDERAL FINDINGS  
(Continued)

- (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.

*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 related to the preparation 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  
Audit Findings: Material Weakness, Noncompliance

*Repeat Finding*

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

*Condition*

The County did not have a proper system of internal control in place to ensure the completeness and accuracy of the transactions recorded in the funds ledger maintained by the County Auditor and to prevent, or detect and correct, errors on the Annual Financial Report (AFR) and the financial statement.

The County Auditor entered and submitted the financial information for the County into the Indiana Gateway for Government Units (Gateway) financial reporting system. This information was used to compile the County's AFR and financial statement. There was no evidence of a control, such as an oversight, review, or approval process, to ensure the accuracy of the information entered and submitted into Gateway.

There was no evidence of a control, such as an oversight, review, or approval process to ensure that all funds of the County were recorded in the funds ledger. The cash and investment transactions of several county funds were not recorded in the funds ledger maintained by the County Auditor. Receipts, disbursements, and cash and investment balances of the Supplemental - Landfill Retainage fund, Supplemental - Knox County Benefit Trust fund, and the 2015 Economic Development Dispute Resolution Fund were not recorded. In addition, investments of the Cumulative Drainage and the Reassessment - 2015 funds, including interest earned and any investment gains/losses, were not recorded.

COUNTY AUDITOR  
KNOX COUNTY  
FEDERAL FINDINGS  
(Continued)

*Context*

Due to the lack of controls, the following errors occurred on the financial statement:

- Ten supplemental departments were reported in error. The funds of these departments had already been remitted to the County Auditor.
- Six funds were reported with incorrect beginning balances.
- The disbursements reported for two funds were incorrect and did not agree with the records maintained. This resulted in an incorrect ending cash and investment balance.
- The receipts and disbursements reported for the After Settlement Collections fund and the Supplemental - Knox County Benefit Trust fund were materially misstated.
- Investments of the Cumulative Drainage and the Reassessment - 2015 funds, in addition to interest earned on those investments, were not reported.
- The receipts, disbursements, and cash and investment balance of the 2015 Economic Development Bonds Dispute Resolution Fund were not reported.

The net difference of the errors on the financial statement resulted in an overstatement of reported receipts and disbursements of \$39,981,922 and \$39,642,885, respectively, an understatement of the beginning cash and investment balance of \$2,568,245, and an understatement of the ending cash and investment balance of \$2,228,876.

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:

"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  
KNOX COUNTY  
FEDERAL FINDINGS  
(Continued)

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. . . ."

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](#)."

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

*Cause*

Management of the County had not established a proper system of internal control to ensure that all transactions of the County's funds were recorded in the funds ledger and that the information reported in the AFR and financial statement was accurate.

*Effect*

The failure to establish controls enabled the County's funds ledger to be incomplete and enabled misstatements of the AFR and financial statement to remain undetected. The errors are identified in the *Context*.

*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.



# KNOX COUNTY AUDITOR

Lisa G. Madden  
COURTHOUSE  
111 N. SEVENTH STREET, STE. 5  
VINCENNES, IN 47591  
(812) 885-2502

## CORRECTIVE ACTION PLAN

### **FINDING 2016-001**

Contact Person Responsible for Corrective Action: Lisa Madden, Knox County Auditor  
Contact Phone Number: 812-885-2502

Views of Responsible Official: This finding is something the Auditor and Bookkeeper will work diligently in getting SEFA reported accurately.

Description of Corrective Action Plan: Since this has been brought to our attention, the following steps have been taken to assure compliance.

2016-001 1) As Auditor, along with my Deputy Auditor, we will be working together to ensure accurate reporting on the SEFA.

Anticipated Completion Date: 11/14/18

Lisa G. Madden  
(Signature)  
Auditor  
(Title)  
11/15/18  
(Date)



# KNOX COUNTY AUDITOR

Lisa G. Madden

COURTHOUSE

111 N. SEVENTH STREET, STE. 5

VINCENNES, IN 47591

(812) 885-2502

## CORRECTIVE ACTION PLAN

### **FINDING 2016-002**

Contact Person Responsible for Corrective Action: Lisa Madden, Knox County Auditor  
Contact Phone Number: 812-885-2502

Views of Responsible Official: This finding is something the Auditor and Bookkeeper will work diligently in getting fund balances reported accurately on all funds.

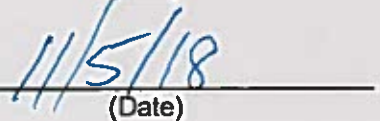
Description of Corrective Action Plan: Since this has been brought to our attention, the following steps have been taken to assure compliance.

2016-002 1) As Auditor, along with my Deputy Auditor, we will be working together to ensure accurate reporting on all funds after discussion with SBOA, we now have an understanding on how to complete the correct reporting of all funds on Gateway. All County funds will be maintained on the ledger.

Anticipated Completion Date: 11/14/18

  
\_\_\_\_\_  
(Signature)

  
\_\_\_\_\_  
(Title)

  
\_\_\_\_\_  
(Date)

COUNTY AUDITOR  
KNOX COUNTY  
AUDIT RESULT AND COMMENT

***CERTIFICATION ON INTERNAL CONTROL STANDARDS***

The County Auditor improperly certified on the County's Gateway Report that the County had provided training to personnel on the internal control standards adopted. No training had been provided during 2016.

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](#)."

COUNTY AUDITOR  
KNOX COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on November 14, 2018, with Lisa Madden, County Auditor; Sheila Hobbs, Bookkeeper; Brenda Hall, County Treasurer; Kellie Streeter, President of the Board of County Commissioners; Trent A. Hinkle, County Commissioner; and Robert Lechner, President of the County Council.

COUNTY HIGHWAY DEPARTMENT  
KNOX COUNTY

COUNTY HIGHWAY DEPARTMENT  
KNOX COUNTY  
FEDERAL FINDING

**FINDING 2016-003**

Subject: Highway Planning and Construction Cluster - Cash Management

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 # 0301004, DES # 1297771,  
DES # 1383643, DES # 1400812

Pass-Through Entity: Indiana Department of Transportation

Compliance Requirement: Cash Management

Audit Finding: Material Weakness

*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 compliance requirement.

The County was required to request reimbursement from the Indiana Department of Transportation using the LPA Invoice-Voucher (voucher). The vouchers listed the gross amount of the claims paid by the County and calculated the percentage of federal share that was reimbursable. The Employee in Responsible Charge (ERC) prepared the vouchers and signed them. There were no procedures in place, such as an oversight, review, or approval process, to ensure the accuracy of the vouchers.

*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  
KNOX 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 Cash Management compliance requirement.

*Effect*

The failure to establish an effective internal control system placed the County at risk of noncompliance with the grant agreement and the Cash Management compliance requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement 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, including segregation of duties, related to the grant agreement and the Cash Management compliance requirement.

*Views of Responsible Officials*

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



# Knox County Highway Department

1472 North State Road 67, Vincennes, IN 47591 Office: 812.882.2884 Fax: 812.882.2496

## CORRECTIVE ACTION PLAN

### **FINDING 2016-003**

Contact Person Responsible for Corrective Action: Bill Horner  
Contact Phone Number: 812-882-2884

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

LPA Vouchers, along with invoices, will be initialed by a second person as an internal control before submitting the information to Indiana Department of Transportation for reimbursement.

Anticipated Completion Date: Immediate

  
\_\_\_\_\_  
(Signature)

Administrative Assistant  
\_\_\_\_\_  
(Title)

10-25-18  
\_\_\_\_\_  
(Date)

COUNTY HIGHWAY DEPARTMENT  
KNOX COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on November 14, 2018, with Lisa Madden, County Auditor; Sheila Hobbs, Bookkeeper; Brenda Hall, County Treasurer; Kellie Streeter, President of the Board of County Commissioners; Trent A. Hinkle, County Commissioner; Robert Lechner, President of the County Council; and Bill Horner, Highway Administrative Assistant.