

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

KNOX COUNTY, INDIANA

January 1, 2017 to December 31, 2017



FILED
12/06/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
County Auditor:	
Federal Findings:	
Finding 2017-001	
Preparation of the Schedule of Expenditures of Federal Awards	6-8
Finding 2017-002	
Financial Transactions and Reporting	8-10
Corrective Action Plan	11-12
Audit Result and Comment:	
Certification on Internal Control Standards	13
Exit Conference	14
Board of County Commissioners:	
Audit Result and Comment:	
Training on Internal Control Standards	16
Exit Conference	17
County Highway Department:	
Federal Finding:	
Finding 2017-003	
Highway Planning and Construction Cluster - Cash Management	20-21
Corrective Action Plan	22
Exit Conference	23

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Lisa G. 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	Kellie Streeter	01-01-17 to 12-31-18
President of the County Council	Robert Lechner	01-01-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

TO: THE OFFICIALS OF KNOX COUNTY, INDIANA

This report is supplemental to our audit report of Knox 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 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

(This page intentionally left blank.)

COUNTY AUDITOR
KNOX COUNTY

COUNTY AUDITOR
KNOX COUNTY
FEDERAL FINDINGS

FINDING 2017-001

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 2016-001.

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:

1. Two federal programs with expenditures of \$343,318 were omitted.
2. Eight state grants with expenditures of \$256,544 were included in error.
3. Two federal programs' expenditures were overstated by \$14,247 in total.
4. Two federal programs' expenditures were understated by \$22,552 in total.
5. 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 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 a 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."

COUNTY AUDITOR
KNOX COUNTY
FEDERAL FINDINGS
(Continued)

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 2017-002

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 2016-002.

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 Bonds 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:

1. The disbursements reported for one fund was incorrect and did not agree with the records maintained and resulted in an incorrect ending balance.
2. The receipts, disbursements, and balances for all supplemental departments were not reported in the financial statement.
3. Investments for the Cummulative Drainage and Reassessment - 2015 funds, in addition to interest earned on those investments, were not reported.
4. 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 resulted in an understatement of reported receipts and disbursements of \$6,625,631 and \$6,896,638, respectively; an understatement of the beginning cash and investment balance of \$4,752,170, and an understatement of the ending balance of \$4,481,163.

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. . . .

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. . . ."

COUNTY AUDITOR
KNOX COUNTY
FEDERAL FINDINGS
(Continued)

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 2017-001

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.

2017-001: 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



(Signature)



(Title)



(Date)



KNOX COUNTY AUDITOR

LISA G. MADDEN

COURTHOUSE

111 N. SEVENTH STREET, STE. 5

VINCENNES, IN 47591

(812) 885-2502

CORRECTIVE ACTION PLAN

FINDING 2017-002

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 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.

2017-002: 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 same comment also appeared in the prior Report B51444.

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 in the year 2017.

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 G. 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.

BOARD OF COUNTY COMMISSIONERS
KNOX COUNTY

BOARD OF COUNTY COMMISSIONERS
KNOX COUNTY
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROL STANDARDS

The same comment also appeared in the prior Report B51444.

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

Indiana 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 G. 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.

(This page intentionally left blank.)

COUNTY HIGHWAY DEPARTMENT
KNOX COUNTY

COUNTY HIGHWAY DEPARTMENT
KNOX COUNTY
FEDERAL FINDING

FINDING 2017-003

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 # 0301044, DES # 1297771,
DES # 1383643, DES # 1400812

Pass-Through Entity: Indiana Department of Transportation

Compliance Requirement: Cash Management

Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-003.

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 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 2017-003

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)

10-29-18

(Date)

COUNTY HIGHWAY DEPARTMENT
KNOX COUNTY
EXIT CONFERENCE

The contents of this report were discussed on November 14, 2018, with Lisa G. 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.