

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

LAWRENCE COUNTY, INDIANA

January 1, 2017 to December 31, 2017



FILED
12/13/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
County Auditor:	
Federal Findings:	
Finding 2017-001	
Financial Transactions and Reporting	4-5
Finding 2017-002	
Preparation of the Schedule of Expenditures of Federal Awards	5-7
Corrective Action Plan	8-9
Exit Conference	10

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Jody Edwards	01-01-17 to 12-31-20
County Treasurer	Paula R. Stewart	01-01-17 to 12-31-20
Clerk of the Circuit Court	Billie Tumey	01-01-17 to 12-31-20
County Sheriff	Michael Branham	01-01-17 to 12-31-20
County Recorder	Myron D. Rainey	01-01-17 to 12-31-20
President of the Board of County Commissioners	Eugene McCracken Rodney Fish	01-01-17 to 12-31-17 01-01-18 to 12-31-18
President of the County Council	Michael Wright Sam Craig	01-01-17 to 12-31-17 01-01-18 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 LAWRENCE COUNTY, INDIANA

This report is supplemental to our audit report of Lawrence 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 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.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

November 26, 2018

COUNTY AUDITOR
LAWRENCE COUNTY
FEDERAL FINDINGS

FINDING 2017-001

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Repeat Finding

This is a repeat of Finding 2016-001 from the immediately prior audit.

Condition

The County failed to design effective internal controls over the preparation of the financial statement to prevent or detect misstatements. 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 (Gateway) financial reporting system, which is the source for the Annual Financial Report 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

The lack of controls were systemic issues, which occurred throughout the audit period. There were three funds that were not reported correctly in Gateway. In total, receipts were understated \$207,521, disbursements were understated \$138,956, and ending cash and investments was understated \$29,794.

Audit adjustments were proposed, accepted by the County, and made to the 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
LAWRENCE 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](#)."

Cause

Management of the County had not established a proper system of internal control that would have ensured accurate reporting of the financial statement.

Effect

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

Recommendation

We recommended that the County's management establish a system of internal controls that would ensure accurate reporting of the financial statement.

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

Repeat Finding

This is a repeat of Finding 2016-002 from the immediately prior audit.

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).

Context

The SEFA contained the following errors:

1. One federal program was omitted, the federal expenditures for two programs were understated, and the federal expenditures for seven programs were overstated. In total, federal expenditures presented on the SEFA were overstated by \$236,677.
2. Several federal programs were either reported with the incorrect program title, pass-through agency, CFDA number, or project number.

COUNTY AUDITOR
LAWRENCE COUNTY
FEDERAL FINDINGS
(Continued)

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.

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.

COUNTY AUDITOR
LAWRENCE COUNTY
FEDERAL FINDINGS
(Continued)

- (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.

Effect

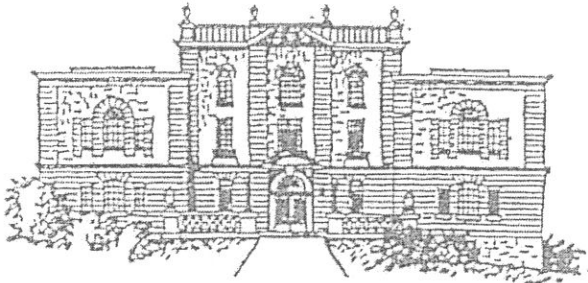
Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Context*.

Recommendation

We recommended that the County's management establish controls to prevent, or detect and correct error 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.



LIMESTONE CAPITAL OF THE WORLD

OFFICE OF
AUDITOR OF LAWRENCE COUNTY
JODY EDWARDS
916 15TH STREET, SUITE 28
BEDFORD, INDIANA 47421

CORRECTIVE ACTION PLAN

FINDING 2017-001

Contact Person Responsible for Corrective Action: County Auditor Jody Edwards

Contact Phone Number: 812-275-3111

Views of Responsible Official:

The correct cash balances from the Auditor's Ledger were reported in the 2017 Annual Report, but caution will be taken to ensure that all transactions and funds also appear. The bookkeeper is still learning, as this is a very complex position and with more experience, I am confident that the problems will resolve.

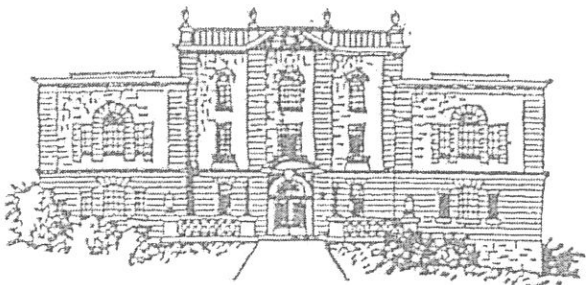
Description of Corrective Action Plan:

There will be more control of the reporting of the financial statement from the Harris Financial System into the Gateway. The upload feature of the Harris Financial System was used in the reporting, with glitches appearing in the system. We will continue to work with the Software Vendor to work out problems with the upload feature. In addition, we will be reviewing the material before the information is confirmed into the Gateway. There will also be cross training for the bookkeepers to ensure that the information is entered correctly, and detect any errors in a timely manner. An Auditor's Office Internal Control Policy has been adopted, stating that the bookkeepers will review each other's work, and must be approved by the Auditor.

Anticipated Completion Date:

The anticipated completion date of this plan will be with the filing of the 2018 Financial Annual Report on February 28th, 2019.

Lawrence County Auditor
November 13, 2018



LIMESTONE CAPITAL OF THE WORLD

OFFICE OF
AUDITOR OF LAWRENCE COUNTY
JODY EDWARDS
916 15TH STREET, SUITE 28
BEDFORD, INDIANA 47421

CORRECTIVE ACTION PLAN

FINDING 2017-002

Contact Person Responsible for Corrective Action: County Auditor Jody Edwards
Contact Phone Number: 812-275-3111

Views of Responsible Official:

It has been very difficult to receive all grant information from departments necessary to correctly report the SEFA. With adopting a new policy, I am confident that the problems will resolve.

Description of Corrective Action Plan:

We will be continuing to require county offices that acquire a federal or state grant to file the grant information with the bookkeeper in the Auditor's office. They will also be required to file a copy of the grant with the bookkeeper, so that she may refer to this information as the SEFA is being reported on the Annual Financial Report. We will be adopting a policy to require grant applications, grant award letter, grant agreement, grant budget, claim vouchers with supporting invoices, requests for advances, and reports with supporting documentation that shall be kept in the Auditor's Office in a separate file. It shall be the responsibility of the departments to comply with grantor's reporting requirements. Final reports from the departments with the supporting documentation will be provided to the Auditor. The Bookkeeper will enter the information into the Gateway from information obtained from the financial records, grant files, etc. The Auditor will review and check the accuracy of the grant information. The Gateway information will then be sent to the departments for review, and they must verify the information and show documentation of the review by initialing the report. Any changes that are necessary will be made and reported into the Gateway system.

Anticipated Completion Date:

The anticipated completion date of this plan will be with the filing of the 2018 Financial Annual Report on February 28th, 2019, but will be an ongoing process.

Lawrence County Auditor
November 14, 2018

COUNTY AUDITOR
LAWRENCE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on November 26, 2018, with Jody Edwards, County Auditor; Rodney Fish, President of the Board of County Commissioners; and Sam Craig, President of the County Council.