

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

ST. JOSEPH COUNTY, INDIANA

January 1, 2018 to December 31, 2018



FILED
07/11/2019

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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 12-31-22
County Treasurer	Michael J. Kruk	01-01-17 to 12-31-20
Clerk of the Circuit Court	Terri J. Rethlake Rita L. Glenn	01-01-15 to 12-31-18 01-01-19 to 12-31-22
County Sheriff	Michael D. Grzegorek William Redman	01-01-15 to 12-31-18 01-01-19 to 12-31-22
County Recorder	Mary B. Wisniewski	01-01-17 to 12-31-20
President of the Board of County Commissioners	Andrew T. Kostielney	01-01-18 to 12-31-19
President of the County Council	Rafael Morton	01-01-18 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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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, 2018 to December 31, 2018. 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

May 28, 2019

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COUNTY AUDITOR
ST. JOSEPH COUNTY

COUNTY AUDITOR
ST. JOSEPH COUNTY
FEDERAL FINDING

FINDING 2018-002

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

Condition

The County Auditor had internal controls in place over the preparation of the Schedule of Expenditures of Federal Awards (SEFA); however, the internal controls were not effective.

The federal grant information entered and submitted in the Indiana Gateway for Government Units financial reporting system was the source of the SEFA. An oversight or review process had been put in place; however, the control was found to be ineffective due to the errors on the SEFA identified below.

Context

Due to the lack of effective internal controls, the SEFA presented for audit included the following errors:

1. The Violence Against Women Formula Grants expenditures were understated by \$76,073.
2. The Highway Planning and Construction Cluster expenditures were understated by \$365,018.
3. The Child Support Enforcement grant expenditures were understated by \$129,458.
4. The Adult Protective Services grant expenditures of \$367,240 were included on the SEFA in error. The source of the grant was state funding.
5. Amounts reported as Passed Through to Subrecipients were overstated by \$264,988.

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. . . .

COUNTY AUDITOR
ST. JOSEPH COUNTY
FEDERAL FINDING
(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. . . ."

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.
- (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
ST. JOSEPH COUNTY
FEDERAL FINDING
(Continued)

Cause

Management had not established an effective 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 a system of internal controls to ensure that federal expenditures will be properly reported 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.

ST. JOSEPH COUNTY AUDITOR

227 West Jefferson Boulevard
County-City Building
South Bend, Indiana 46601
Telephone (574)235-9668
Fax (574)235-5024

May 28, 2019

Michael J. Hamann
Auditor

John H. Murphy
Chief Deputy Auditor

CORRECTIVE ACTION PLAN

FINDING 2018-002

Contact Person Responsible for Corrective Action: Michael J. Hamann
Contact Phone Number: (574) 235-9668

Views of Responsible Official: We concur with the audit finding with respect to the completion of the Schedule of Expenditures of Federal Awards (SEFA).

Description of Corrective Action Plan:

At Saint Joseph County, federal grants are managed and accounted for on a decentralized basis at the departmental level. For the past few years, the County Auditor has engaged a consultant with experience in federal grant reporting and accounting to assist in the preparation of the SEFA. The work of the consultant is reviewed by the Deputy Auditor before it is submitted in the State's Gateway reporting program. On May 28, 2019, the Auditor's Office held a meeting with the State Board of Accounts field examiners, consultant and representatives of the Clerk's Office, Prosecutor's Office and Public Works to review the audit errors that were found during the 2018 audit and to take steps to prevent these errors from occurring in the future. Steps will include closer review of the federal grant records and SEFA by departmental officials, consultant and the Auditor's Office.

Anticipated Completion Date: May 28, 2019



(Signature)

COUNTY AUDITOR

(Title)

5-28-19

(Date)

COUNTY AUDITOR
ST. JOSEPH COUNTY
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCES

The financial statement presented in the Financial Statement and Federal Single Audit Report of the County included the following funds with overdrawn cash balances at December 31, 2018, which were not attributed to timing of reimbursements:

<u>Fund</u>	<u>Amount Overdrawn</u>
S.T.O.P. Violence Against Women	\$ 121,638
Protective Order Project/SJC	1,334
Project Income-C.B.C./Ducomb	292,966
Cyber Crimes Against Children	4,728
Public Defender Case Manager	9,920

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)

COUNTY AUDITOR
ST. JOSEPH COUNTY
EXIT CONFERENCE

The contents of this report were discussed on May 28, 2019, with Michael J. Hamann, County Auditor; John Murphy, Deputy County Auditor; Andrew T. Kostielney, President of the Board of County Commissioners; Rafael Morton, President of the County Council; and Steve Dalton, Municipal Advisor.

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COUNTY TREASURER
ST. JOSEPH COUNTY

COUNTY TREASURER
ST. JOSEPH COUNTY
FEDERAL FINDING

FINDING 2018-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

The County Treasurer had internal controls in place over cash and investments; however, the internal controls were not effective.

The control over cash and investments did not ensure that the bank reconciliations reported the correct investment balance. The investment balance at December 31, 2018, per the investment spreadsheet provided, did not agree to the investment balance in the County Treasurer's Cash Book, nor did it agree to the County Treasurer's Monthly Report. As a result, the bank balance did not reconcile with the ledger balance by an immaterial amount.

Context

The lack of effective controls was a systemic issue, which occurred 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
ST. JOSEPH 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 Treasurer's office had not established an effective system of internal controls.

Effect

The failure to monitor the internal control system placed the County Treasurer at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, misstatements in a timely manner.

Recommendation

We recommended that the County Treasurer establish a system of internal controls related to financial transactions and reporting over 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 2018-001

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) Investments made by the County Treasurer shall be entered on the Investment Ledger at the time of purchase with all relevant information pertaining to the investment.
- 2) One of the columns within the Investment Ledger entitled "Total Cost" will be the amount that investments are entered into the Treasurer's Cash Book and thereby will also be the amount that's reported on the Treasurer's Monthly Report.
- 3) The "Total Cost" will be the total amount expended by the County for the investment which will include any accrued interest plus any premium paid minus any discount.
- 4) No adjustments will be made to the "Total Cost" throughout the term of the investment by either the Treasurer or the Financial Deputy. All coupon (interest) payments received from the investments will go directly to Interest Income.
- 5) When an Investment matures or is called, the investment will be removed from the total investments in Investment Ledger and the "Total Cost" of that investment will be removed from the Treasurer's Cash Book and thereby the Treasurer's Monthly Report.
- 6) In order to bring the Investment Ledger and the Cash Book into agreement, a one-time adjustment will need to be made to the Cash Book. The offsetting entry will be made to Investment Income in the Treasurer's Ledger. The rationale being that if over the last year or so the Investment Ledger and the Cash Book became out of balance, it was more than likely because a) coupon payments got applied to investments or b) investments were removed at par value instead of "Total Cost" from the Cash Book at the time of maturity or call, and the balance of monies received went into interest.
- 7) The Treasurer will compare monthly the investment balance on the Treasurer's Cash Book with the "Total Cost" of investments on the Investment Ledger and make sure they balance and then use that number when preparing the Treasurer's Monthly Report.

Anticipated Completion Date: May 31, 2019



(Signature)



(Title)



(Date)

COUNTY TREASURER
ST. JOSEPH COUNTY
EXIT CONFERENCE

The contents of this report were discussed on May 28, 2019, with Michael J. Kruk, County Treasurer, and Buffy Gerndt, Chief Deputy/Finance-Treasurer.

The contents of this report were discussed on May 28, 2019, with Michael J. Hamann, County Auditor; John Murphy, Deputy County Auditor; Andrew T. Kostielney, President of the Board of County Commissioners; Rafael Morton, President of the County Council; and Steve Dalton, Municipal Advisor.

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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 B51247.

Many outstanding checks in the Clerk of the Circuit Court's (Clerk) office have been on hand for a period of five years or longer. The Clerk's office has been working to remit unclaimed property to the Attorney General and has decreased the amount of outstanding checks in 2019.

The Main Office Trust account reconciliation included \$107,543 in outstanding checks that were considered unclaimed property. The oldest outstanding check was dated January 22, 1999. On February 21, 2019, and April 26, 2019, the Clerk's office remitted \$29,729 and \$21,759, respectively, of outstanding checks to the Attorney General, which leaves a remaining old trust outstanding checks total of \$56,055.

The Small Claims account reconciliation included \$19,925 in outstanding checks that were considered unclaimed property. The oldest outstanding check was dated April 1, 2003. On February 21, 2019, and April 30, 2019, the Clerk's office remitted \$17,265 and \$659, respectively, of outstanding checks to the Attorney General, which leaves a remaining old trust outstanding checks total of \$2,001.

The Mishawaka office account reconciliation included \$3,545 in outstanding checks that were considered unclaimed property. The oldest outstanding check was dated May 16, 2007. The outstanding checklist 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 Main Office Cash Book, but it is reasonable to assume that some of the items are over five years old. The Main Office Cash Book is made up of trusts and bonds from the old software which was used until 2014, and accounts for \$5,076,443 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) (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."

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

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.

(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 B51247.

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 2018 monthly reconciliations of the 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, 2018, the bank account reconciliation for the Clerk's Main Trust checking account identified a cash shortage of \$33,973 and the Small Claims checking account identified cash long of \$642. Additionally, both accounts included unidentified reconciling items of \$24,593 and \$5,448 for the Main Trust and Small Claims accounts, respectively.

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

In addition, the Child Support Indiana Support Enforcement included adjustments for bank service fees of \$14,043 and miscellaneous adjustments of \$7,496 that have been carried on the bank reconciliations 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."

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

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 May 28, 2019, with Rita L. Glenn, Clerk of the Circuit Court.

The contents of this report were discussed on May 28, 2019, with Michael J. Hamann, County Auditor; John Murphy, Deputy County Auditor; Andrew T. Kostielney, President of the Board of County Commissioners; Rafael Morton, President of the County Council; and Steve Dalton, Municipal Advisor.