

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

HARRISON COUNTY, INDIANA

January 1, 2018 to December 31, 2018



FILED
07/30/2019

TABLE OF CONTENTS

| <u>Description</u> | <u>Page</u> |
|---|-------------|
| Schedule of Officials | 2 |
| Transmittal Letter | 3 |
| County Auditor: | |
| Federal Findings: | |
| Finding 2018-001 | |
| Preparation of the Schedule of Expenditures of Federal Awards | 6-8 |
| Finding 2018-002 | |
| Financial Transactions and Reporting | 8-9 |
| Finding 2018-003 | |
| Federal Transit Cluster - Equipment | 9-11 |
| Corrective Action Plan | 12-14 |
| Exit Conference | 15 |

SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|---|---|--|
| County Auditor | Chad Shireman | 11-27-16 to 12-31-22 |
| County Treasurer | Debbie Dones | 01-01-15 to 12-31-22 |
| Clerk of the Circuit Court | Sherry Brown | 01-01-17 to 12-31-20 |
| County Sheriff | Rodney Seelye Nicholas Smith | 01-01-15 to 12-31-18 01-01-19 to 12-31-22 |
| County Recorder | Debbie Dennison | 01-01-17 to 12-31-20 |
| President of the Board of County Commissioners | Kenny Saulman | 01-01-18 to 12-31-19 |
| President of the County Council | Gary Davis Holli Castetter Donnie Hussung | 01-01-18 to 12-31-18 01-01-19 to 06-23-19 06-24-19 to 12-31-19 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of Harrison 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 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

July 9, 2019

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COUNTY AUDITOR
HARRISON COUNTY

COUNTY AUDITOR
HARRISON COUNTY
FEDERAL FINDINGS

FINDING 2018-001

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

Repeat Finding

This is a repeat of Finding 2017-001 from the immediately prior audit report.

Condition

The County did not have a proper system of internal control in place to prevent, or detect and correct, errors in 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).

Context

Due to the lack of internal controls, the following errors resulted in the overstatement of the total federal awards expended on the SEFA by \$2,350,153:

1. Five program titles were incorrect, one pass-through agency was incorrect, and one CFDA number was incorrect, which resulted in the grant erroneously not being reported as part of a cluster.
2. The expenditures for five state grants were incorrectly included on the SEFA, resulting in an overstatement of \$2,074,973.
3. The expenditures for the Equitable Sharing Program were overstated by \$59,400.
4. The expenditures for the Formula Grants for Rural Areas program included the state portion of the grant funds awarded and were overstated by \$215,979.
5. The expenditures for the Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements program were overstated by \$7,586.
6. The expenditures for the Maternal and Child Health Services Block Grant to the States program were understated by \$3,035.
7. The Spanish Interpreter - Superior Court project was omitted from the SEFA, resulting in an understatement of \$6,082. Additionally, the Child Support Clerk and Child Support Prosecutor projects were understated and overstated by \$5,938 and \$7,270, respectively. These errors resulted in a net understatement of Child Support Enforcement program expenditures in the amount of \$4,750.

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

COUNTY AUDITOR
HARRISON 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. . . ."

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
HARRISON 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

The County's 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 2018-002

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

The County did not have a proper system of internal control in place to prevent, or detect and correct, errors during the financial close and reporting process. Financial information was entered into the Indiana Gateway for Government Units financial reporting system, which was the source for the financial statement, by the County Auditor with no evidence of an independent review, oversight, or approval process to ensure the accuracy of the information reported. There were no signoffs or other documentation to indicate that someone other than the County Auditor was involved in the financial close and reporting process.

Context

The lack of controls was a systemic issue, which affected the entire financial close and reporting process.

COUNTY AUDITOR
HARRISON 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. . . ."

Cause

Management of the County had not established a proper system of internal control related to financial close and reporting.

Effect

The failure to establish a proper system of internal controls could have enabled misstatements or irregularities within the financial statement to occur and remain undetected.

Recommendation

We recommended that the County's management establish and implement a system of internal controls related to financial close and reporting to ensure proper 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 2018-003

Subject: Federal Transit Cluster - Equipment
Federal Agency: Department of Transportation
Federal Program: Bus and Bus Facilities Formula Program
CFDA Number: 20.526
Federal Award Number and Year (or Other Identifying Number): A249-18-G170077
Pass-Through Entity: Indiana Department of Transportation
Compliance Requirement: Equipment and Real Property Management
Audit Findings: Material Weakness, Modified Opinion

COUNTY AUDITOR
HARRISON COUNTY
FEDERAL FINDINGS
(Continued)

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 Equipment and Real Property Management compliance requirement.

Controls were not in place to ensure that capital assets purchased with federal grant funds were properly recorded in the County's capital asset records, that the capital asset records were properly updated to reflect the disposition of capital assets, and that physical inventories were conducted as required.

Two vans were purchased during the audit period, neither of which was added to the capital asset register. Additionally, two vans that were purchased under the grant were disposed of during the audit period, and the capital asset register was not updated to reflect either of the dispositions. Finally, the County did not conduct a physical inventory at least once every two years and reconcile the results with the capital asset register.

Context

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period.

Criteria

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). . . ."

2 CFR 200.313(d) states in part:

"Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. . . ."

COUNTY AUDITOR
HARRISON COUNTY
FEDERAL FINDINGS
(Continued)

Cause

Management of the County had not established an effective internal control system that would have ensured compliance with the grant agreement and the Equipment and Real Property Management compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to remain undetected. The failure to comply with the grant agreement and the Equipment and Real Property Management compliance requirement could have resulted in the loss of federal funds to the County.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the County's management establish an effective system of internal controls to ensure compliance with the grant agreement and the Equipment and Real Property 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.

HARRISON COUNTY AUDITOR

245 ATWOOD STREET • STE. 211

CORYDON, INDIANA 47112

(812) 738-8241

CORRECTIVE ACTION PLAN

FINDING 2018-001

Contact Person Responsible for Corrective Action: Chad Shireman
Contact Phone Number: 812-738-8241

Views of Responsible Official: We concur with the finding. Most of the issues found during the 2015-2017 audit were not addressed prior to the 2018 AFR being due. As a result, some of the same findings were reported for the Schedule of Expenditures of Federal Awards.

Description of Corrective Action Plan: As of July 1, 2019, a new accounts payable employee has been hired to free up more experienced personnel for the oversight and preparation needed for an accurate and timely submission of the Annual Financial Report with special emphasis on the Schedule of Expenditures of Federal Awards. We will be using SAM.gov and also reaching out to departments with grants to completely revamp the process of securing information for new federal grants, as well as maintaining current/ongoing grants within the county. With the added personnel, my office will begin preparation for the annual financial report early. We will also have more accurate grant information on file based on the updated methods for maintaining this information. Finally, after all information has been gathered and entered into Gateway, a checks and balances process will take place to guarantee accuracy.

Anticipated Completion Date: The anticipated completion date for the new grant maintenance process with the auditor's office will be September 1, 2019. January 1, 2020 will serve as the start date for the newly improved AFR process, with preliminary work beginning at the first of the year and overview taking place up to the March 1, 2020 submission deadline.

Chad Ae

Signature

Harrison County Auditor

Title

07-09-2019

Date

CHAD SHIREMAN, AUDITOR

HARRISON COUNTY AUDITOR

245 ATWOOD STREET • STE. 211

CORYDON, INDIANA 47112

(812) 738-8241

CORRECTIVE ACTION PLAN

FINDING 2018-002

Contact Person Responsible for Corrective Action: Chad Shireman
Contact Phone Number: 812-738-8241

Views of Responsible Official: We concur with the finding. Yet again this year, getting the annual report submitted took longer than expected, with the deadline taking more priority than the internal controls process. The only way to address the issue is to start sooner.

Description of Corrective Action Plan: As of July 1, 2019, a new accounts payable employee was hired. As she learns the claims process and begins data entry, this will free up time for more experienced personnel to focus on early preparation for the annual financial report. By implementing early preparation, the deadline will no longer be an issue. Once the correct steps are taken for timely and accurate submissions, the county auditor will continue to enter all information into Gateway. Using the 'report outputs' function, all information entered into Gateway will be printed and reviewed by auditor's office personnel prior to submission.

Anticipated Completion Date: The new employee has been hired and is currently being trained. This will be an ongoing process, adding to her workload and taking from the workload of other employees. Once enough free time is created, more experienced personnel will work on preparation and review of the annual financial report. The anticipated completion date for this process in January 1, 2020.

Chad Ae

Signature

Harrison County Auditor

Title

07-09-2019

Date

CHAD SHIREMAN, AUDITOR

HARRISON COUNTY AUDITOR

245 ATWOOD STREET • STE. 211
CORYDON, INDIANA 47112
(812) 738-8241

CORRECTIVE ACTION PLAN

FINDING 2018-003

Contact Person Responsible for Corrective Action: Chad Shireman
Contact Phone Number: 812-738-8241

Views of Responsible Official: We concur with the finding. A limited amount of delegation from the elected official caused errors on the submission of capital assets. As a result of this, figures from the prior year's AFR were submitted again.

Description of Corrective Action Plan: In order to correct this issue, the county auditor has worked with the accounts receivable employee who maintains the schedule of capital assets. The auditor has also reached out to Blue River Services to get the appropriate information needed to update the current capital assets inventory. The next step will be for the county auditor to schedule an onsite visit to Blue River Services to reconcile results with the capital asset ledger. Once the county auditor enters the capital asset information into Gateway, he will use the 'report output' feature to print this section. The aforementioned accounts receivable employee will ensure the accuracy of these numbers prior to the auditor's final submission.

Anticipated Completion Date: The current capital asset register has been updated to account for the noted changes. A physical inspection of the vehicles will be scheduled by the end of July 2019. All other portions of the corrective action plan pertaining to internal controls will begin on January 1, 2020 as the office starts their newly revised AFR preparation process.

Chad Shireman

Signature

Harrison County Auditor

Title

07-09-2019

Date

CHAD SHIREMAN, AUDITOR

COUNTY AUDITOR
HARRISON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on July 9, 2019, with Chad Shireman, County Auditor; Kenny Saulman, President of the Board of County Commissioners; and Donnie Hussung, President of the County Council.