

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

HAMILTON 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	
Financial Transactions and Reporting	6-7
Finding 2018-002	
Preparation of the Schedule of Expenditures of Federal Awards	7-9
Corrective Action Plan	10-12
Exit Conference	13

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Robin M. Mills	01-01-17 to 12-31-20
Clerk of the Circuit Court	Tamela Baitz Kathy Williams	01-01-15 to 12-31-18 01-01-19 to 12-31-22
County Recorder	Jennifer Hayden	01-01-15 to 12-31-22
County Sheriff	Mark Bowen Dennis Quakenbush II	01-01-11 to 12-31-18 01-01-19 to 12-31-22
County Treasurer	Jennifer Templeton	01-01-13 to 12-31-20
President of the Board of County Commissioners	Mark Heirbrandt Steve Dillinger	01-01-18 to 12-31-18 01-01-19 to 12-31-19
President of the County Council	Steve Schwartz Brad Beaver	01-01-18 to 12-31-18 01-01-19 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of Hamilton 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 the Comprehensive Annual Financial Report and Federal Single Audit Report of the County, which provides our opinions on the County's Schedule of Expenditures of Federal Awards 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 8, 2019

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COUNTY AUDITOR
HAMILTON COUNTY

COUNTY AUDITOR
HAMILTON COUNTY
FEDERAL FINDINGS

FINDING 2018-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

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 its financial statements. The County hired a consultant to prepare the financial statements and notes. The County reviewed the financial statements and notes; however, the control was not effective. The following errors were identified during the audit of the financial statements:

- On the Statement of Fiduciary Net Position, Trust payable for the Agency Funds was understated by \$25,673,432 due to a formula error.
- The County's Self-Insurance fund, a Proprietary Fund, was comprised of five bank accounts. Transfers between these bank accounts were improperly included in the fund's revenues and expenses. In addition, it was found that reported revenues and expenses did not reflect all activity that occurred within the accounts during the fiscal year. These variances caused revenues and expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Position for the Proprietary Fund to be overstated by \$12,918,281 and \$13,076,039, respectively.

Audit adjustments were proposed, accepted by the County, and the financial statements were adjusted to reflect the accurate amount for these transactions.

Context

The lack of controls and noncompliance were systemic issues, 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 AUDITOR
HAMILTON 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. . . ."

Cause

Management of the County had not established a proper system of internal control.

Effect

The failure to establish controls enabled misstatements or irregularities in the financial statements to remain undetected.

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.

FINDING 2018-002

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

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 hired a consultant to compile the SEFA. The County Auditor and the Deputy Auditor reviewed the compiled SEFA. However, there were errors that remained undetected.

Context

The SEFA contained the following material errors:

- The SEFA contained local expenditures instead of federal expenditures relating to CFDA 20.509, resulting in an overstatement of \$381,249.
- The SEFA contained an overstatement of expenditures passed through to subrecipients relating to CFDA 20.509, in the amount of \$381,249.
- The SEFA contained several other errors that were not material individually. These errors totaled \$119,435.

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

COUNTY AUDITOR
HAMILTON 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
HAMILTON 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 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.

**CORRECTIVE ACTION PLAN*****FINDING 2018-001***

Contact Person Responsible for Corrective Action: Robin M. Mills
Contact Phone Number: (317)770-4424

Views of Responsible Official:

The 2018 Audit has been a transition year for Hamilton County. Upon the retirement of Suzanne Miller, Consultant, Hamilton County has hired Baker Tilly Municipal Advisors, LLC to compile our financials. BT and Hamilton County have worked with the SBOA this year and most errors were identified simultaneously and corrected immediately. In the early meetings with the State Board of Accounts we communicated the need for continued math and word proofing due to the extreme volume of formulas and information in the CAFR. We believed the State Board of Accounts to have been in agreement that these types of errors would not be reported on the Form 22 as long as we corrected them (as was the case).

During the audit it was brought to my attention that the County did not have a proper system of internal control in place to prevent, or detect and correct, errors in my financial statements. The County hired a consultant to prepare the financial statements and notes. The County reviewed the financial statements and notes; however, the control was not effective. The following errors were identified during the audit of the financial statements:

- On the Statement of Fiduciary Net Position, Trust Payable for the Agency Funds was understated by \$25,673,432 due to a formula error.
- The County's Self-Insurance fund, a Proprietary Fund, was comprised of five bank accounts. Transfers between these bank accounts were improperly included in the fund's revenues and expenses. In addition, it was found that reported revenues and expenses did not reflect all activity that occurred within the accounts during the fiscal year. These variances caused revenues and expenses on the Statement of Revenues, Expenses, and Changes in Net Position for the Proprietary Fund to be overstated by \$12,918,281 and \$13,076,039, respectively.

Audit adjustments were proposed, accepted by the County, and the financial statements were adjusted to reflect the accurate amount for these transactions.

Description of Corrective Action Plan:

Auditor Mills has met with BT and will implement the following:

Going forward, Hamilton County has instructed our consultant to continue to utilize check totals in our workpapers to mitigate formula errors. We also instructed them to provide an overall electronic proof sheet to proactively identify mathematical errors and reference errors. Going forward, our consultant will present this proof with each iteration of the CAFR so that management can more readily check the accuracy of each reported total.



In addition, management will continue the existing process of checking information to the best of our ability short of auditing every cell in a multi-page excel workbook.

We have discussed the self-insurance errors with our consultant and have directed them to prepare a more comprehensive assembly process of the Self-Insurance funds for future reports. This process will more clearly indicate for each bank account for every month the receipts, disbursements and transfer activity. In addition, our office will require this documentation as part of the standard workpapers for this fund to ensure that the reported totals reconcile to the monthly activity (net of transfers) on the (currently) five bank accounts that comprise the County's Internal Service Fund.

While our corrective action plan will enhance each of the five components and seventeen principals of internal controls specific corrections are targeted in the Control Environment, Control Activities and Ongoing Monitoring components.

Anticipated Completion Date:

Corrective actions have either already been implemented or are tasked for completion before the 2019 Audit.

FINDING 2018-002

Contact Person Responsible for Corrective Action: Robin M. Mills and Todd Clevenger
Contact Phone Number: (317)770-4424 / (317)770-8814

Views of Responsible Official:

The 2018 Audit has been a transition year for Hamilton County. Upon the retirement of Suzanne Miller, Consultant, Hamilton County has hired Baker Tilly Municipal Advisors, LLC to compile our financials. Hamilton County Auditor hired a Grant Administrator in March 2018. While each error, in hindsight, was preventable, the efforts of the staff and the support of our consultant found far more corrections and went undiscovered.

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 hired a consultant to compile the SEFA. The County Auditor and the Deputy Auditor reviewed the compiled SEFA. However, there were errors that remained undetected.

Context

The SEFA contained the following material errors:

- The SEFA contained expenditures that were local instead of Federal relating to CFDA 20.509, resulting in an overstatement of \$381,249;
- The SEFA contained an overstatement of expenditures passed through to subrecipients relating to CFDA 20.509, in the amount of \$381,249;
- The SEFA contained several other errors that were not material individually. These errors totaled \$119,435.



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

Description of Corrective Action Plan:

Auditor Mills has met with BT and Todd Clevenger and will implement the following:

The County will seek more training for staff involved in the preparation of the SEFA. In our view, this training, combined with a year of experience, will eliminate errors of the type noted by the State Board of Accounts.

While our corrective action plan will enhance each of the five components of internal controls specific corrections are targeted in the Control Environment, Control Activities and Ongoing Monitoring components.

Anticipated Completion Date:

Corrective actions have either already been implemented or are tasked for completion before the 2019 Audit.

Robin M Mills
(Signature)

Auditor
(Title)

07-02-19

COUNTY AUDITOR
HAMILTON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on July 8, 2019, with Robin M. Mills, County Auditor; Dawn Coverdale, Chief Deputy Auditor; Steve Dillinger, President of the Board of County Commissioners; Todd Clevenger, Grant Administrator; Cindy Duncan, Administrative Assistant Deputy; and Kim Rauch, Administrative Assistant.