

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

ST. JOSEPH COUNTY, INDIANA

January 1, 2019 to December 31, 2019



FILED
09/30/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	Michael J. Hamann	01-01-19 to 12-31-20
County Treasurer	Michael J. Kruk	01-01-19 to 12-31-20
Clerk of the Circuit Court	Rita L. Glenn	01-01-19 to 12-31-20
County Sheriff	William Redman	01-01-19 to 12-31-20
County Recorder	Mary B. Wisniewski	01-01-19 to 12-31-20
President of the Board of County Commissioners	Andrew T. Kostielney	01-01-19 to 12-31-20
President of the County Council	Rafael Morton	01-01-19 to 12-31-20



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO: THE OFFICIALS OF ST. JOSEPH COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of St. Joseph County (County), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 22, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-002, that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Compliance and Other Matters

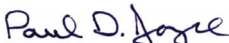
As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-002.

St. Joseph County's Response to Findings

The County's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

September 22, 2020



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

TO: THE OFFICIALS OF ST. JOSEPH COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited St. Joseph County's (County) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2019. The County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

The County's basic financial statements include the operations of the St. Joseph County Airport Authority and the St. Joseph County Solid Waste Management District, which expended federal awards, which are not included in the County's schedule of expenditures of federal awards for the year ended December 31, 2019. Our audit, described below, did not include the operations of the St. Joseph County Airport Authority and the St. Joseph County Solid Waste Management District because the St. Joseph County Airport Authority and the St. Joseph County Solid Waste Management District received a separate audit.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the County's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the County's compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Opinion on the Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and, which are described in the accompanying Schedule of Findings and Questioned Costs as item 2019-003. Our opinion on the major federal program is not modified with respect to these matters.

The County's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2019-003, that we consider to be material weaknesses.

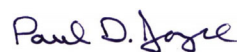
The County's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated September 22, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.


Paul D. Joyce, CPA
State Examiner

September 22, 2020

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the County. The schedule and notes are presented as intended by the County.

ST. JOSEPH COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2019

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Department of Agriculture</u>					
Child Nutrition Cluster					
School Breakfast Program	Indiana Department of Education	10.553			
School Breakfast Program			FY 2019	\$ -	\$ 33,274
National School Lunch Program	Indiana Department of Education	10.555			
School Lunch Program			FY 2019	-	62,324
Commodities				-	8,519
Total - National School Lunch Program				-	70,843
Total - Child Nutrition Cluster				-	104,117
Total - Department of Agriculture				-	104,117
<u>Department of Justice</u>					
Missing Children's Assistance	Indiana State Police	16.543			
Cyber Crimes Against Children			2017-MC-FX-K008	-	6,123
Crime Victim Assistance	Indiana Criminal Justice Institute	16.575			
Victim Assistance Program (8117) VOCA			2017-VA-GX-0004	-	91,960
Violence Against Women Formula Grants	Indiana Criminal Justice Institute	16.588			
Special Victims Unit (8106) STOP			6166	-	168,599
Equitable Sharing Program	Direct	16.922			
Equitable Sharing			IN0710000	-	6,190
Total - Department of Justice				-	272,872
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster					
Highway Planning and Construction	Indiana Department of Transportation	20.205			
Bridge #58 Replacement Underwood over Pine Creek			Des. 1400780	-	36,586
McKinley at Ash Rd Intersection Improvement and Added Travel Lanes from Birch to Ash			Des. 0902286	-	100,330
Cleveland Road Reconstruction from Riverside to SR 933			Des. 1298578; Des. 1401129	-	365,472
Olive Sample Overpass Reconstruction			Des. 1298579; Des. 1401192	-	12,154
Edison at Ash Roundabout			Des. 1382759	-	86,210
Adams Trail Phase II			Des. 1382797	-	3,496
Douglas Road Corridor Reconstruction - Ivy to SR 23 and Intersection Improvement			Des. 1400639	-	333,523
Auten Trail and Lighting from Laurel to SR 933			Des. 1400638	-	62,467
Countywide Bridge and Inventory Inspection			Des. 1592165	-	82,916
Piece Road Reconstruction from US 31 to Miami Hwy			Des. 1702832	-	75,738
Total - Highway Planning and Construction				-	1,158,892
Total - Highway Planning and Construction Cluster				-	1,158,892
Interagency Hazardous Materials Public Sector Training and Planning Grants	Indiana Department of Homeland Security	20.703	#38519HMEPLAN00	-	9,716
Total - Department of Transportation				-	1,168,608
<u>Election Assistance Commission</u>					
2018 HAVA Election Security Grants	Secretary of State	90.404	#04018INHAVAEEC	-	12,164
Total - Election Assistance Commission				-	12,164

ST. JOSEPH COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2019

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Department of Health and Human Services</u>					
Immunization Cooperative Agreements Health Immunization CoAg Grant	Indiana State Department of Health	93.268	H23IP000723; NH23IP000723	-	14,987
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds	Indiana State Department of Health	93.539	NH23IP922631	-	92,582
Medical Reserve Corps Small Grant Program Medical Reserve Corps/Health	National Association of County and City Health Officials	93.008	MRCSG101 005-04-00	-	141
Injury Prevention and Control Research and State and Community Based Programs Health Overdose Response	Indiana State Department of Health	93.136	NU17CE002721	-	28,607
Childhood Lead Poisoning Prevention Projects, State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children Health Lead Free by 3	Indiana State Department of Health	93.197	NUE2EH001379	-	5,246
Child Support Enforcement Superior Court Child Support Probate Court Child Support County Child Support (Indirect) County Child Support (Incentive) County Child Support Clerk Incentive County Child Support Prosecutor County Child Support Prosecutor Incentive Clerk Child Support Circuit Court Child Support	Indiana Department of Child Services	93.563	1504INSCEC 1504INSCEC 1504INSCEC 1504INSCEC 1504INSCEC 1504INSCEC 1504INSCEC 1504INSCEC 1504INSCEC 1504INSCEC	- - - - - - - - - -	6,303 86,167 302,359 222,837 54,052 1,479,732 163,639 119,415 33,366
Total - Child Support Enforcement				-	2,467,870
Maternal and Child Health Services Block Grant to the States F.I.M.R. Programs/Health Dept.	Indiana State Department of Health	93.994	B04MC30611	-	25,000
Total - Department of Health and Human Services				-	2,634,433
<u>Department of Homeland Security</u>					
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Indiana Department of Homeland Security	97.036	#385PA4363000000	-	79,457
Emergency Management Performance Grants	Indiana Department of Homeland Security	97.042	#38517EMPG000000 #38518EMPG000000	- -	63,913 63,913
Total - Emergency Management Performance Grants				-	127,826
Homeland Security Grant Program	Indiana Department of Homeland Security	97.067	#38518SHSP000000	-	137,808
Total - Department of Homeland Security				-	345,091
Total federal awards expended				\$ -	\$ 4,537,285

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

ST. JOSEPH COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the County under programs of the federal government for the year ended December 31, 2019. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the County, it is not intended to and does not present the financial position of the County.

B. Other Significant Accounting Policies

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

Note 2. Indirect Cost Rate

The County has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

ST. JOSEPH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:

<u>Name of Opinion Unit</u>	<u>Opinion Issued</u>
Governmental activities	Unmodified
Aggregate discretely presented component units	Unmodified
Each major fund	Unmodified
Aggregate remaining fund information	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Program and type of auditor's report issued on compliance for it:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
93.563	Child Support Enforcement	Unmodified
Dollar threshold used to distinguish between Type A and Type B programs: \$750,000		
Auditee qualified as low-risk auditee?		no

Section II - Financial Statement Findings

FINDING 2019-001

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

Repeat Finding

This is a repeat finding from the immediately prior audit report concerning cash and investments. The prior audit finding number was 2018-001.

ST. JOSEPH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Condition and Context

There were deficiencies in the internal control system of the County related to financial transactions and reporting. The County had not separated incompatible activities related to cash and investments and revenue and expenditure adjustments.

Cash and Investments

The County Treasurer had internal control procedures in place over the bank reconciliations; however, they were not effective. The internal control did not ensure that the bank reconciliations reported the correct investment balance, or that the cash and investment balances were reconciled to the County Auditor's fund balance. A reconciliation between the County Treasurer's cash and investment balance and the County Auditor's fund balance revealed that investments in the County Treasurer's Cash Book were overstated by \$2,509,128, and the County Treasurer's Reported Cash Collections after settlement was under reported by \$1,596,381. After corrections, a variance of \$332,109 remained.

Investments were not properly recorded in the County's official records; the investments were reported on an excel spreadsheet maintained solely by the County Treasurer. In addition, there was not effective segregation of duties for investments. The Deputy County Treasurer prepared the bank reconciliations monthly for the checking accounts but did not reconcile with the investment register balance. In addition, the investment amount used on the County Treasurer's Cash Book was not verified to the investments per the investment register, and did not agree to the investment register at year end.

Revenue and Expenditure Adjustments

Controls over revenue and expenditure adjustments were not in place consistently at the County. Adjustments were sometimes made by one employee without evidence of an oversight or approval process to ensure the accuracy of the adjustments recorded.

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. . . .

ST. JOSEPH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(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. . . ."

At the close of each calendar month a Monthly Financial Statement, County Form No. 61, shall be prepared, showing the financial transactions for the month and year to date, for each fund and in total.

The county treasurer is also required to independently prepare a Monthly Financial Statement on the same form and the two statements must be reconciled. If any differences exist between the records of the auditor and the treasurer, they must be identified and immediate steps taken to bring the records of the two offices into agreement.

The statements are prescribed to be placed in a post-binder and shall be carefully preserved as a permanent record. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 7)

The Monthly Financial Statement, Form 61, is a permanent record prepared from the treasurer's funds ledger at the close of each month. It is prepared after all postings to the ledger have been completed for the month and reflects the total receipts and disbursements and the balance for each fund for the month and for the year to date. The statement must agree with a similar statement kept by the county auditor, giving consideration to any adjustments required to reconcile the ledgers of the two offices. (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 5)

Cause

Management of the County had not established a proper system of internal controls that segregated key functions.

Effect

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

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2019-002

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 report. The prior audit finding number was 2018-002.

ST. JOSEPH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Condition and Context

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 had not properly reviewed the federal grant information prepared and submitted into the Indiana Gateway for Government Units financial reporting system, which was the source of the SEFA. The County had an oversight or review process in place; however, the control was not effective and did not prevent material noncompliance.

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

1. The Child Nutrition Cluster commodities were omitted, which understated expenditures by \$8,519.
2. The Highway Planning and Construction expenditures were understated by \$287,264.
3. The Interagency Hazardous Materials Public Sector Training and Planning Grants program was omitted, which understated expenditures by \$9,716.
4. The 2018 HAVA Election Security Grants program was omitted, which understated expenditures by \$12,164.
5. The Immunization Cooperative Agreements expenditures were overstated by \$106,582.
6. The PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds program was omitted, which understated expenditures by \$92,582.
7. The Child Support Enforcement expenditures were understated by \$108,307.
8. The Disaster Grants - Public Assistance (Presidentially Declared Disasters) program was omitted, which understated expenditures by \$79,457.
9. The Emergency Management Performance Grant program was omitted, which understated expenditures by \$127,826.
10. The Homeland Security Grant Program was omitted, which understated expenditures by \$137,808.
11. Seven of the federal programs did not have the correct program title.
12. One federal program had an incorrect identifying number.

Audit adjustments were proposed, accepted by the County, and made to the SEFA presented in this report.

ST. JOSEPH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(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. . . .

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.

ST. JOSEPH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (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 percent 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 *Condition and Context*.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

Section III - Federal Award Findings and Questioned Costs

FINDING 2019-003

Subject: Child Support Enforcement - Allowable Costs/Cost Principles
Federal Agency: Department of Health and Human Services
Federal Program: Child Support Enforcement
CFDA Number: 93.563
Federal Award Number and Year (or Other Identifying Number): 1504INSCEC
Pass-Through Entity: Indiana Department of Child Services
Compliance Requirement: Allowable Costs/Cost Principles
Audit Findings: Material Weakness, Other Matters

Condition and Context

An effective internal control system was not in place at the County to ensure compliance with requirements related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement related to the cost allocation plan.

ST. JOSEPH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

A County official certified that the cost allocation plan was true and correct by signing the Certificate of Indirect Cost form, but this was not effective and did not ensure compliance. Due to the lack of effective controls, the cost allocation plan did not include the organizational chart and the allocated cost pool for building use.

The lack of effective internal controls and the noncompliance were isolated to the items not included in the cost allocation plan.

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 Part 200, Appendix V, part A states in part:

"1. Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis. Since federally supported awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan provides that process. All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards. . . ."

2 CFR Part 200, Appendix V, part E states in part:

". . . 1. General

All proposed plans must be accompanied by the following: an organization chart sufficiently detailed to show operations including the central service activities of the state/local government whether or not they are shown as benefitting from central service functions; a copy of the Comprehensive Annual Financial Report (or a copy of the Executive Budget if budgeted costs are being proposed) to support the allowable costs of each central service activity included in the plan; and, a certification (see subsection 4.) that the plan was prepared in accordance with this Part, contains only allowable costs, and was prepared in a manner that treated similar costs consistently among the various Federal awards and between Federal and non-Federal awards/activities. . . ."

Cause

The County had not developed a system of internal controls that would have ensured compliance with the Allowable Costs/Cost Principles compliance requirement.

ST. JOSEPH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the Allowable Costs/Cost Principles 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 a system of internal controls to ensure compliance and comply with the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

AUDITEE-PREPARED DOCUMENTS

The subsequent documents were provided by management of the County. The documents are presented as intended by the County.



ST. JOSEPH COUNTY

ESTABLISHED 1830

OFFICE OF THE TREASURER

MICHAEL J KRUK
Treasurer

ROBYN LUTHER
Chief Deputy Treasurer

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2018-001

Fiscal year in which the finding initially occurred: 2018

Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: Not Applicable

Contact Person responsible for Corrective Action: Michael Kruk, County Treasurer

Contact Phone Number: 574-235-9539

Status of Audit Finding: A Corrective Action Plan was implemented on May 28, 2019 that included a 7-step detailed procedure meant mainly to address the issues outlined in the "Condition" section of the 2018-001 Finding.

The Corrective Action Plan was meant to establish a consistent manner in the way investments would be entered, maintained and removed from the Daily Cash Sheets and the ledgers. These steps were discussed with the two personal who are responsible for entering/removing investments from the ledgers and the daily cash sheets in order to eliminate any confusion going forward.

In addition, this office completed an exhaustive 12-month (January 2018 – December 2018) review of the Cash Sheets to determine the specific reasons for the discrepancies. This review found numerous instances of investments being removed from the Cash Sheets at a value different from the value at which they were entered at the time of purchase. The review also found items that had been added to or removed from the investments that were totally unrelated to investments as well as deposits being credited to interest income when they were actually a return of investment principal.

This 12-month review was done as part of step 6 of the Plan in order to more accurately pinpoint where adjustments needed to be made. The discrepancies were corrected, and an adjustment was made to the Cash Sheet in December 2019.

Month-end reconciliations of the investments started January 31, 2020 for the investment balance per the Investment Ledger, investments bank statements and the month-end Cash Sheet balance of investments.

We understand there is still a need for additional internal controls related to the financial transactions and we are open to initiating additional procedures.

It's been difficult to get where we need to be because the two employees responsible for much of the day-to-day financial operations are new to those positions and assumed those positions with little or no training from their predecessors. Unfortunately I have had to spend a good deal of my time over the last two years doing extensive reconciliations of the type mentioned above and it has slowed the progress of getting that accomplished.

As they have become more confident in their positions and their understanding of how different functions interact, we look forward to putting in place those additional internal controls deemed necessary.



(Signature)

St. Joseph County Treasurer

(Title)

July 20, 2020

(Date)

ST. JOSEPH COUNTY AUDITOR

227 W. Jefferson Blvd. Second Floor

County City Building

South Bend, IN 46601

Telephone 574-235-9668

Fax 574-235-5024

Michael J. Hamann

Auditor

John H. Murphy

Chief Deputy Auditor

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2018-002

Fiscal year in which the finding initially occurred: 2018

Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: Not Applicable

Contact Person Responsible for Corrective Action: Michael J. Hamann

Contact Phone Number: (574) 235-9668

Status of Audit Finding:

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 Schedule of Expenditures of Federal Awards (SEFA). The work of the consultant is reviewed by the Chief Deputy Auditor before it is submitted in the State's Gateway reporting program. Each department provides the consultant with their federal grant information, which is reviewed and entered in the Gateway program. The procedure was the same in 2019 as it was in 2018.

If this procedure is not deemed adequate for 2019, and results in a repeat finding, the County Auditor will take additional steps during 2020 to address this matter. Specifically, the County Auditor will re-purpose an existing vacant finance position in the Auditor's office to hire a full-time grant accountant who will monitor federal and state grants on a daily basis and prepare the SEFA. The County Auditor will work with the County Council and County Commissioners to approve the necessary salary ordinance and budget changes need in order to create and fund this position. The County Auditor will seek to hire a qualified and experienced grant accountant no later than December 31, 2020.

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Michael J. Hamann

Auditor

John H. Murphy

Chief Deputy Auditor

CORRECTIVE ACTION PLAN

FINDING 2019-001

Contact Person Responsible for Corrective Action: Michael J. Hamann, County Auditor

Contact Phone Number: (574) 235-9668

We concur with the audit finding

Description of Corrective Action Plan:

Cash and Investments

The Treasurer's office has control over investments and the reconciliation of the primary bank account at 1st Source Bank. With respect to investments, the County Commissioners will submit a request for proposals to qualified financial institutions to assume responsibility for investing county money and recordkeeping. The investments will be in accordance with the County's investment policy and State of Indiana statutes. The financial institution will be registered with the State of Indiana Public Deposit Insurance Fund (PDIF), which was created in 1937 to protect public funds of the state and its political subdivisions deposited in approved financial institutions. The PDIF insures those public funds deposited in approved financial institutions which exceed the limits of coverage provided by any federal deposit insurance. The financial institution will provide a monthly investment report which will be sent to the County Treasurer, County Auditor, Commissioners and County Council members. On at least a quarterly basis, the investment manager will meet with this same group of officials to review investment results and plan performance.

With respect to the reconciliation of the primary bank account, County officials will make bank reconciliations a priority going forward. Therefore, in the 2021 budget, the county will include the position of Senior Accountant and budget a market-rate salary for this position. The individual hired will be required to have a four-year accounting degree and a minimum of three years of experience, preferably in the public sector. An individual with a CPA designation will be given preference for this position. The Senior Accountant will be a full-time position and will report to the County Treasurer and County Auditor.

Revenue and Expenditure Adjustments

The adjustments of revenue and expenditure accounts may occur, for example, if a check is posted to an incorrect general ledger account. Most of the adjustments are made by the Chief Deputy Auditor and Finance Director in the County Auditor's office. Due in part to staff working from home, and paper records stored at the office, the county was not able to provide documentation of all adjustments made. Accordingly, a new **Journal Entry/PO Adjustment Form** (Attachment A) was created and distributed to all fiscal officers on July 29, 2020. This form is required for all claims, receipt, payroll, revenue estimate, purchase order and purchase order liquidation adjustments. A minimum of two people in the Auditor's office or Procurement office will be required to sign and date this form. In addition, the Finance Director will save all emails electronically for revenue and expenditure adjustments made in the Auditor's office.

Anticipated Completion Dates:

Investments – January 1, 2021

Bank Reconciliation – April 1, 2021

Revenue and Expenditure Adjustments – July 29, 2020

ST. JOSEPH COUNTY AUDITOR

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Telephone (574)235-9668
Fax (574)235-5024

May 28, 2020

Michael J. Hamann
Auditor

John H. Murphy
Chief Deputy Auditor

CORRECTIVE ACTION PLAN

FINDING 2019-002

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 Chief Deputy Auditor before it is submitted in the State's Gateway reporting program.

As this is a repeat finding from the State Board of Accounts and an ongoing concern, the County Auditor will take additional steps during 2020 to address this matter. Specifically, the County Auditor will re-purpose an existing vacant finance position in the Auditor's office to hire a full-time grant accountant who will monitor federal and state grants daily and prepare the SEFA. The County Auditor will work with the County Council and County Commissioners to approve the necessary salary ordinance and budget changes need in order to create and fund this position. The County Auditor will seek to hire a qualified and experienced grant accountant no later than January 31, 2021. The new grant accountant will work with the consultant and employees in the Auditor's office to make sure the SEFA for the year ending December 31, 2020 is correct and included in the Annual Financial Report.

Anticipated Completion Date: March 1, 2021

ST. JOSEPH COUNTY AUDITOR

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Fax (574)235-5024

May 28, 2020

Michael J. Hamann
Auditor

John H. Murphy
Chief Deputy Auditor

CORRECTIVE ACTION PLAN

FINDING 2019-003

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 including an organizational chart and an allocated cost pool for Building Use in the Cost Allocation Plan.

Description of Corrective Action Plan:

Saint Joseph County uses a very good and reputable consulting firm to prepare its Annual Countywide IV-D Cost Allocation plan. The County Auditor will work with the consulting firm to include an organizational chart and the allocated cost pool for Building Use in all future reports.

Anticipated Completion Date: December 31, 2020

OTHER REPORTS

In addition to this report, other reports may have been issued for the County. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.