

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF CLAYPOOL
KOSCIUSKO COUNTY, INDIANA

January 1, 2010 to December 31, 2011



FILED
08/20/2012

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Arlene Leiter Miccah Shepherd	01-01-09 to 12-31-11 01-01-12 to 12-31-15
President of the Town Council	Donald R. Miller II Niki Miller	01-01-11 to 12-31-11 01-01-12 to 12-31-12



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF CLAYPOOL, KOSCIUSKO COUNTY, INDIANA

We were engaged to audit the financial statements of the Town of Claypool (Town), for the years ended December 31, 2010 and 2011. These financial statements are the responsibility of the Town's management.

The Town did not properly maintain accounting records. The Town's records do not permit the application of other auditing procedures to ascertain if the financial statements are fairly stated. In lieu of financial statements, the Town is presenting only the accompanying Schedule of Cash and Investment Balances as of December 31, 2011.

Since the Town did not properly maintain accounting records and we were not able to apply other auditing procedures to satisfy ourselves as to whether the financial information is fairly stated, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on this financial information.

In accordance with Government Auditing Standards, we have also issued a report dated July 12, 2012, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Town's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Because of the significance of the matters described in the second paragraph and because federal grant monies were not accurately and separately identified in the financial ledgers, it is inappropriate to and we do not express an opinion on the Schedule of Expenditures of Federal Awards referred to above.

This report is intended solely for the information and use of the Town's management, Town Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 12, 2012



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE TOWN OF CLAYPOOL, KOSCIUSKO COUNTY, INDIANA

We were engaged to audit the financial statements of the Town of Claypool (Town), for the years ended December 31, 2010 and 2011, and have issued our report thereon dated July 12, 2012. Since the Town did not properly maintain the accounting records and we were not able to apply other auditing procedures to satisfy ourselves as to whether the financial information is fairly stated, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial information. We were unable to follow the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States due to the situation described above. Since the scope of our audit was limited, we cannot be sure that all instances of control deficiencies and noncompliance that should have been detected were detected and reported.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures 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 Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1 to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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 item 2011-1.

The Town's response to the findings identified in our audit is described in the accompanying sections of the report entitled Corrective Action Plan. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town's management, Town Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 12, 2012

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FINANCIAL INFORMATION

The financial information was approved by management of the Town. The financial information is presented as intended by the Town.

TOWN OF CLAYPOOL
STATEMENT OF CASH AND INVESTMENT BALANCES
December 31, 2011

Accounts	Cash and Investments 12-31-11
Town Funds	\$ 175,456
TIF District Funds	69,261
Water Utility Funds	57,408
Wastewater Utility Funds	<u>139,972</u>
Total	<u><u>\$ 442,097</u></u>

TOWN OF CLAYPOOL
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS

Financial records presented for audit were incomplete and not reflective of the activity of the Town of Claypool funds for 2010 and 2011. The records presented did not provide sufficient information to audit or establish beginning balances, receipts, disbursements, ending balances, or the accuracy or correctness of the transactions. Record balances were not reconciled to the bank balances at any time during the two year audit period.

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, (utility billings and collections,) disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to occur and not be detected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.
4. Bank Reconciliations - The Town's fiscal officer did not regularly reconcile the Town's fund balances to the bank balances as shown on monthly bank statements. Failure to perform these reconciliations could enable errors and irregularities to occur and not be detected.

TOWN OF CLAYPOOL
AUDIT RESULTS AND COMMENTS
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ERRORS ON CLAIMS

Of 50 claims reviewed, the following deficiencies were noted:

1. One voucher could not be located.
2. Two vouchers had no supporting documentation and two more had insufficient supporting documentation.
3. One voucher indicated that the Town paid sales tax on purchased goods.

Indiana Code 5-11-10-1.6 states in part: . . .

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CEMETERY RECORDS

The Town accepted partial payments for cemetery lots. There was no record kept of amounts paid and balance due. Without such records, the officials are unable to determine when, or if, the lots have been paid for in full.

TOWN OF CLAYPOOL
AUDIT RESULTS AND COMMENTS
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTEREST ON INVESTMENTS

Interest earned on investments was added to the principal and reinvested and not recorded in the records.

Interest on investments should not be automatically added into the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INVESTMENT MATURITY LIMITATIONS

The governmental unit purchased certain investments which have a stated maturity in excess of two years.

Indiana Code 5-13-9-5.6 states in part: ". . . investments made under this chapter must have a stated final maturity of not more than . . . two (2) years for a fund or political subdivision not described in subdivision (1) or (2); after the date of purchase or entry into a repurchase agreement."

ORDINANCES AND RESOLUTIONS

On May 21, 2007, the Town passed ordinance 2007-04-16 establishing rates to be charged for water usage. The ordinance increased rates each year through 2012. The Water Utility's billing software was not updated as of January 1, 2011, and, customers were billed for all of 2011 using 2010 rates.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PENALTIES, INTEREST, AND OTHER CHARGES

Penalties and interest totaling \$170.33 were paid to the Internal Revenue Service on June 18, 2010, for the period ending March 31, 2010. Additionally, penalties and interest are likely to be assessed for federal income taxes withheld in December 2011 that were underpaid by \$625.19.

Penalties and interest totaling \$451.77 were paid to the Indiana Department of Revenue for late payment of income taxes withheld from payroll and late filing of W-2s for 2010. Additionally, penalties and interest are likely to be assessed for state and local income taxes withheld in November 2011 that were not paid until June 2012.

TOWN OF CLAYPOOL
AUDIT RESULTS AND COMMENTS
(Continued)

Penalties and interest totaling \$211.80 were paid to the Indiana Department of Revenue on October 10, 2010, for late payment of calendar years 2008 and 2009 utility receipts taxes. Additionally, penalties and interest are likely to be assessed for underpayment of utility receipts tax for calendar year 2011.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

HYDRANT RENTAL RECEIVABLE/PAYABLE

The Town of Claypool owed the Claypool Water Utility hydrant rental of \$49,990.17 as of January 1, 2010. The Town incurred additional hydrant rental of \$18,008.21 and \$18,960.96 for the years 2010 and 2011, respectively, pursuant to Rate Ordinance 2007-04-16 passed by the Council on May 21, 2007. The Town made payments of \$35,000 and \$16,700 during 2010 and 2011, respectively, leaving an unpaid balance at December 31, 2011, of \$35,259.34.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CUSTOMER DEPOSIT REGISTER

At December 31, 2011, the total of Water Utility customer deposits per the Customer Deposit Report exceeded the amount of cash and investments per the fund ledger by \$244.98.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

TOWN OF CLAYPOOL
AUDIT RESULTS AND COMMENTS
(Continued)

Fund	Years	Excess Amount Expended
General	2010	\$ 29,929
General	2011	20,468
MVH	2010	8,416
MVH	2011	3,587
Rainy Day	2011	25,000

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

CAPITAL ASSET RECORDS

The Town and Utilities did not maintain capital asset records.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PRESCRIBED FORMS

The following prescribed forms, or approved substitute, were not used or were not properly maintained:

City and Town Form 211, Capital Assets Ledger
General Form 350, Register of Investments

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OFFICIAL BOND

The official bond of the former Clerk-Treasurer for the period from February 2, 2009 through the end of her term, December 31, 2011, was not filed in the Office of the County Recorder. The official bonds of both the former and current Clerk-Treasurer are for the penal sum of \$15,000.

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder. . . ."

Indiana Code 5-4-1-18(c)(2) regarding the bonds of town clerk-treasurers states in part: "The amount may not be less than thirty thousand dollars (\$30,000) . . ."

TOWN OF CLAYPOOL
AUDIT RESULTS AND COMMENTS
(Continued)

CREDIT CARD PURCHASES

The Town used credit cards to purchase items. We tested three payments for these purchases in 2011. For two of the payments tested, there were no paid bills or receipts available to substantiate the eight charges totaling \$1,022.90 on the credit card statements. For the third payment tested, one receipt for \$6.37 was available out of seven charges for a total of \$246.54.

Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WATER UTILITY RECEIPTS TAX AND SALES TAX

The Town of Claypool Water Utility did not properly compute the monthly Indiana sales tax due. The Utility also did not properly estimate its quarterly payments for the Indiana utility receipts tax and did not file a utility receipts tax return (Form URT-1) with the Indiana Department of Revenue for tax year 2011.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE TOWN OF CLAYPOOL, KOSCIUSKO COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Claypool (Town) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the years ended December 31, 2010 and 2011. The Town's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 Town'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. Our audit does not provide a legal determination of the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the years ended December 31, 2010 and 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costa as item 2011-2.

Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Town's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

A deficiency in internal control over compliance 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 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as item 2011-2. 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.

The Town's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the Town's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Town's management, the Town Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 12, 2012

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards presented was approved by management of the Town. The schedule is presented as intended by the Town.

TOWN OF CLAYPOOL
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Years Ended December 31, 2010 and 2011

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-10	Total Federal Awards Expended 12-31-11
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through the Indiana Office of Community and Rural Affairs				
CDBG - State-Administered CDBG Cluster				
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228			
Water improvements		CF-09-104	\$ 342,063	\$ 57,937
Storm water improvements		DR2-09-009	<u>681,756</u>	<u>318,244</u>
Total federal awards expended			<u>\$ 1,023,819</u>	<u>\$ 376,181</u>

TOWN OF CLAYPOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Disclaimer
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiency identified?	none reported
Noncompliance material to financial statements noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiency identified?	yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	yes

Identification of Major Programs:

Name of Federal Program or Cluster

CDBG – State-Administered CDBG Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2011-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to occur and not be detected.

TOWN OF CLAYPOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.
4. Bank Reconciliations - The Town's fiscal officer did not regularly reconcile the Town's fund balances to the bank balances as shown on monthly bank statements. Failure to perform these reconciliations could enable errors and irregularities to occur and not be detected.
5. Condition of Records - The Town's fiscal officer did not properly maintain the records required by Indiana statutes and compliance guidelines. There were numerous transactions that were not posted, others that were posted erroneously, and still others that were posted two and even three times. In addition, beginning balances for one year did not agree with ending balances for the prior year. As a result of the failure to properly maintain accounting records, the Town has received a disclaimer of opinion on its financial statements. The failure to properly maintain records represents material noncompliance at the financial statement level.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

The Accounting and Uniform Compliance Guidelines Manual for Cities and Towns – State of Indiana, Chapter 7 states in part:

". . . Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. . . ."

". . . Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. . . ."

". . . Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. . . ."

We recommended that the Town officials take the following steps to ensure compliance with Indiana accounting guidelines and accurate financial reporting: (1) Identify and assess the risks of material misstatement of the Town's audited financial statements and the risks related to the safeguarding of assets; (2) Develop and implement policies and control procedures designed to minimize the risks identified; (3) Monitor the performance and effectiveness of the controls implemented; and (4) Document each step.

TOWN OF CLAYPOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2011-2 - CAPITAL ASSET RECORDS

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grant - States Program
and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Number and Year (or Other Identifying Number): CF-09-104 and DR9-09-009

Pass-Through Entity: Indiana Office of Community and Rural Affairs

The Town of Claypool did not have proper controls in place to ensure capital asset records were properly maintained. Without adequate records, periodic physical inventories cannot be compared to property records. During 2010 and 2011, \$1,400,000 of Community Development Block Grant funds were used to pay for construction and construction related costs, which should have been accounted for in the Town's capital asset records. Failure to maintain proper records could allow capital assets funded by federal monies to be disposed of and any disposition proceeds to be allocated in violation of federal requirements.

24 CFR 85.32(d) states in part:

"Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, 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 property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, 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."

OMB Circular A-133 section.300 (b) states, "The auditee shall: Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

We recommended that the Town design and implement procedures that would ensure accurate detailed capital asset records are maintained and that inventories of property and equipment and construction in progress are conducted at least every two years and reconciled to the detailed capital assets ledger. Any significant differences should be investigated and the appropriate adjustments made to the records. Also, any assets acquired with Federal funds must be designated as such so that they are not disposed of improperly.

TOWN OF CLAYPOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

TOWN OF CLAYPOOL
CORRECTIVE ACTION PLAN

FINDING NO. 2011-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Lack of Segregation of Duties - The Clerk-Treasurer's office is a one person office. Claypool is a small town, and management has determined that the cost associated with hiring additional staff in order to properly segregate duties would outweigh the benefits. The Town must necessarily rely on oversight by the Town Council to achieve internal control objectives. Management acknowledges and assumes the risk inherent with the current design of our business office.

Bank Reconciliations – There is a new Clerk-Treasurer who is seeking assistance and intends to complete the monthly bank reconciliations in a timely manner.

FINDING NO. 2011-2, CAPITAL ASSET RECORDS

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grant - States Program and Non-Entitlement Grants
in Hawaii

CFDA Number: 14.228

Pass-Through Entity: Indiana Office of Community and Rural Affairs

Auditee Contact Person: Miccah Shepherd

Title of Contact Person: Clerk-Treasurer

Phone Number: (574) 566-2910

Expected Completion Date: December 31, 2012

Corrective Action Planned:

A capital asset record will be created and maintained for all capital assets of the Town, including the utilities. All capital assets whose cost exceeds the threshold established by the Town Council will be recorded. Capital assets purchased or constructed with federal grant money will be identified.

Miccah Shepherd 7/11/12

TOWN OF CLAYPOOL
EXIT CONFERENCE

The contents of this report were discussed on July 12, 2012, with Miccah Shepherd, Clerk-Treasurer, and Niki Miller, President of the Town Council.