

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF DELPHI

CARROLL COUNTY, INDIANA

January 1, 2013 to December 31, 2013



**FILED**  
08/08/2014



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Leanne Aldrich	01-01-12 to 12-31-15
Mayor	Randy Strasser	01-01-12 to 12-31-15
President of the Board of Public Works	Randy Strasser	01-01-13 to 12-31-14
President of the Common Council	Carolyn Pearson Richard Traeger	01-01-13 to 12-31-13 01-01-14 to 12-31-14



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF DELPHI, CARROLL COUNTY, INDIANA

This report is supplemental to our audit report of the City of Delphi (City), for the period from January 1, 2013 to December 31, 2013. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa](http://www.in.gov/sboa).

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

June 26, 2014

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CLERK-TREASURER  
CITY OF DELPHI

CLERK-TREASURER  
CITY OF DELPHI  
FEDERAL FINDINGS

***FINDING 2013-001 - INTERNAL CONTROLS OVER FINANCIAL REPORTING***

We noted a deficiency in the internal control system of the City related to financial reporting. We believe the deficiency in the preparation of the financial statement constitutes a material weakness. The Clerk-Treasurer is solely responsible for preparing the financial statement. There is no segregation of duties, which would include an oversight, review, or approval process.

Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the City's audited financial statement and then determining how those identified risks should be managed. The City has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements.

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)

***FINDING 2013-002 - INTERNAL CONTROLS AND COMPLIANCE  
OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The City 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 City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: program names and pass-through entity identifying numbers were not always accurate or were incomplete. The Highway Planning and Construction Grant did not include all federal money received and was understated by \$991,007. The State and Community Highway Safety Grant was overstated by \$99. Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

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)



CLERK-TREASURER  
CITY OF DELPHI  
FEDERAL FINDINGS  
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states in part:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. 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 award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall 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."

***FINDING 2013-003 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS  
OF THE HIGHWAY PLANNING AND CONSTRUCTION PROGRAM***

Federal Agency: Department of Transportation

Federal Program: Highway Planning and Construction

CFDA Number: 20.205

Federal Award Numbers: A249-10-320741, A249-11-320529, A249-13-320546, A249-13-320551,  
A249-13-320552, A249-13-320553, NH-071-5(10)

Pass-Through Entity: Indiana Department of Transportation

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Davis-Bacon Act compliance requirements that have a direct and material effect on the program. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

CLERK-TREASURER  
CITY OF DELPHI  
FEDERAL FINDINGS  
(Continued)

Controls over the monitoring of the Davis-Bacon Act were not designed or implemented. Although the contracts for the project included a clause that the contractor will pay prevailing wages to the laborers who are employed to work under the contract, no monitoring, reviewing, or testing of wages paid was performed by the City. They relied completely on the Project Engineer/Consultant to verify compliance with the Davis-Bacon Act requirements.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) 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."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements that have a direct and material effect on the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect on the program.

***FINDING 2013-004 - INTERNAL CONTROLS AND COMPLIANCE OVER REQUIREMENTS OF THE HIGHWAY PLANNING AND CONSTRUCTION PROGRAM***

Federal Agency: Department of Transportation

Federal Program: Highway Planning and Construction

CFDA Number: 20.205

Federal Award Numbers: A249-10-320741, A249-11-320529, A249-13-320546, A249-13-320551, A249-13-320552, A249-13-320553, NH-071-5(10)

Pass-Through Entity: Indiana Department of Transportation

*Internal Controls*

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Equipment and Real Property Management compliance requirements that have a direct and material effect on the program. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Controls over Equipment and Real Property Management at the City were not properly designed or implemented. They did not establish procedures to confirm that inventories were performed every two years.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) 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."

CLERK-TREASURER  
CITY OF DELPHI  
FEDERAL FINDINGS  
(Continued)

*Compliance*

The City did not comply with Equipment and Real Property Management requirements that a physical inventory be taken at least every two years. Officials did not realize that this was a requirement of the Highway Planning and Construction Program, and therefore, did not perform the required physical inventory.

49 CFR 18.32(d)(2) states: "A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements that have a direct and material effect on the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls to ensure compliance and comply with Equipment and Real Property Management requirements of the program.

***FINDING 2013-005 - INTERNAL CONTROLS AND COMPLIANCE OVER REQUIREMENTS OF THE AIRPORT IMPROVEMENT PROGRAM***

Federal Agency: U.S. Department of Transportation  
Federal Program: Airport Improvement Program  
CFDA Number: 20.106  
Federal Award Number: 3-18-0117-012-2013

*Internal Controls*

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Equipment and Real Property Management compliance requirements that have a direct and material effect on the program. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Controls over Equipment and Real Property Management at the City were not properly designed or implemented. They did not establish procedures to confirm that inventories were performed every two years.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) 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."

*Compliance*

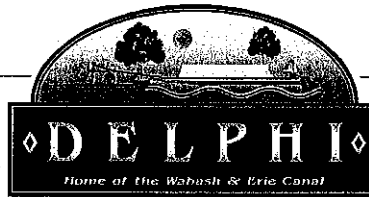
The City did not comply with Equipment and Real Property Management requirements that a physical inventory be taken at least every two years. Officials did not realize that this was a requirement of the Airport Improvement Program, and therefore, did not perform the required physical inventory.

CLERK-TREASURER  
CITY OF DELPHI  
FEDERAL FINDINGS  
(Continued)

49 CFR 18.32(d)(2) states: "A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements that have a direct and material effect on the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls to ensure compliance and comply with Equipment and Real Property Management requirements of the program.



## CORRECTIVE ACTION PLAN

Contact Person Responsible for Corrective Action: Leanne Aldrich, Clerk Treasurer  
Contact Phone Number: 765-564-2097

### FINDING 2013-001 INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Clerk Treasurer will work with the deputy clerk in reviewing reports generated through keystone software before and during the input of information into the financial report. Each report after entered will be confirmed by both to ensure the amounts are entered correctly. After printing off the financial reports a copy will be given to the Mayor and the common council at the next scheduled meeting. Along with the financial statement copies of the fund reports generated through Keystone will be given for their inspection and approval.

This will be the procedure followed for the 2014 year financial report.

### FINDING 2013-001 INTERNAL CONTROLS AND COMPLIANCE OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Clerk Treasurer will make sure a copy of the grant award is in the clerk's office. With a copy of the grant the clerk will be able to review each grant issued to the City of Delphi. A status report similar to the grant summary sheet used in the present binders kept for each grant. The clerk will be able to verify the program names and identifying numbers will be correct for input into the financial statement. The Clerk Treasurer will review each grant issued to the City of Delphi. A report will be composed and entered into the binder kept with copies of invoices as well as receipts. These factors will include the planning and construction costs and stages as well as completion date requirements. All information regarding the following of the grant stipulations will be shown on this report. This will ensure the grant requirements are met.

The City of Delphi has fifteen grants at the present time and each grant will be reviewed and corrections to program names or identifying numbers will be addressed before the financial statement for 2014 filing date.

### FINDING 2013-003 INTERNAL CONROLS OVER COMPLIANCE REQUIREMENTS OF THE HIGHWAY PLANNING AND CONSTRUCTION PROGRAM

Federal Agency: U.S. Department of Transportation  
Federal Program: Highway Planning and Construction  
CFDA Number: 20.205

Federal Award Numbers: A249-10-320741, A249-II-320529, A249-13-320546, A249-13-320551, A249-13-320552, A249-13-320553, NH-071-5(10), A2439-11-320534

Pass Through Entity: Indiana Department of Transportation

The City of Delphi utilizes the services of the inspecting engineering firm for the highway grant to inspect, site check of workers status in pay as well as the pay scale to each employee of the construction firm. A pay request is presented to the clerk's office to be placed on the docket for payment. The Clerk Treasurer or the Mayor will review the wages and ensure they are in compliance with the prevailing wage statement. The signature and date is required of the engineer. The Mayor or Clerk Treasurer will initial and date the document. A copy of the prevailing wages will be kept in clerk's office.

This practice to ensure compliance with the Davis Bacon was put into practice during the 2013 audit. This procedure will be the standard procedure for this grant or any other federal grant in the future.

#### FINDING 2013-4 INTERNAL CONTROLS AND COMPLIANCE OVER REQUIREMENTS OF THE HIGHWAY PLANNING AND CONSTRUCTION PROGRAM

The City of Delphi purchased the capital asset program from Keystone Software. Each time an invoice is paid a determination is made and this can automatically be added to the capital asset data. In order to ensure the software program and the actual assets agree a physical inventory is needed. The asset program was implemented on the 2012 financial report. This year a physical inventory will be done by each department and the inventory will be compared to the items listed in the computer program. This will ensure the assets listed on the financial statement are up to date and accurate.

Departments of the City of Delphi have been informed a physical inventory will be taken and due in the clerk's office by September 30, 2014. A copy of these inventories will be kept in the clerk's office.

#### FINDING 2013-5 INTERNAL CONTROLS AND COMPLIANCE OVER REQUIREMENTS OF THE AIRPORT IMPROVEMENT PROGRAM

Federal Agency: U.S.Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number: 3-18-0117-012-2013

The City of Delphi purchased the capital asset program from Keystone Software. Each time an invoice is paid a determination is made and this can automatically be added to the capital asset data. In order to ensure the software program and the actual assets agree a physical inventory is needed. The asset program was implemented on the 2013 financial report. This year a physical inventory will be done by each department and the inventory will be compared to the items listed in the computer program. This will ensure the assets listed on the financial statement are up to date and accurate.

John Gingrich, President of the Airport Board, has been informed a physical inventory must be taken and due in the clerk's office by September 30, 2014. A copy of this inventory will be kept in the clerk's office.

*Travis Redlich*  
*Clerk Treasurer* 6/26/2014

CLERK-TREASURER  
CITY OF DELPHI  
AUDIT RESULTS AND COMMENTS

**OVERDRAWN CASH BALANCES**

The financial statement presented for the City included the following funds with overdrawn cash balances at December 31, 2013:

Stellar-Program Management	\$225,225
Floodgate Project	47,646
Levee Certification	83,256

The Stellar-Program Management fund is used to separate the City's local match to the Stellar Grant. This fund will be reimbursed with transfers from the General and EDIT funds.

Two funds, Floodgate Project and Levee Certification, were established in 2011 when the City began accumulating expenditures for a new "gate" to alleviate flooding on the west side of the City. The City hopes to acquire funding for the project through the Indiana Office of Community and Rural Affairs; however, the last two attempts to secure the funding have failed. The City continues their efforts to secure funding, meanwhile accumulating \$130,902 in project expenses as of December 31, 2013.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**WATER OPERATING FUNDS USED FOR CITY EXPENSES**

At year end, the City transferred Water Utility operating funds totaling \$44,716.46 to cover over-spent appropriations within the City's General fund.

Indiana Code 8-1.5-3-11(d) states in part: ". . . transfers may not be made from any utility funds to the general fund except from the cash reserve fund."

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, the cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner.

Establishment of a Cash Reserve Fund permits transfer of surplus utility funds to the city or town general fund. After appropriation, such transferred funds may then be used for any legal general fund purpose. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

CLERK-TREASURER  
CITY OF DELPHI  
AUDIT RESULTS AND COMMENTS  
(Continued)

***DELINQUENT WASTEWATER ACCOUNTS***

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
  - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
  - (B) A description of the premises, as shown by the records of the county auditor.
  - (C) The amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

(c) The officer shall record a copy of each list or each individual instrument with the county recorder . . .

(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May."



CLERK-TREASURER  
CITY OF DELPHI  
EXIT CONFERENCE

The contents of this report were discussed on June 26, 2014, with Leanne Aldrich, Clerk-Treasurer; Randy Strasser, Mayor; and Richard Traeger, President of the Common Council.