

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF WASHINGTON

DAVISS COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
08/29/2014

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|--|-------------------------------------|--|
| Clerk-Treasurer | Karen Brown | 01-01-12 to 12-31-15 |
| Mayor | Joseph Wellman | 01-01-12 to 12-31-15 |
| President of the Board of Public Works and Safety | Joseph Wellman | 01-01-12 to 12-31-15 |
| President Pro Tempore of the Common Council | Louis J. Fleck Michael Singleton | 01-01-13 to 12-31-13 01-01-14 to 12-31-14 |
| Superintendent of Water Utility | Charles Kane | 01-01-13 to 12-31-14 |
| Superintendent of Wastewater Utility | Scott Rainey | 01-01-13 to 12-31-14 |
| Superintendent of Electric Utility | Randy Emmons | 01-01-13 to 12-31-14 |
| Superintendent of Storm Water Utility | Scott Rainey | 01-01-13 to 12-31-14 |
| Utility Office Manager | Anita Ash | 01-01-13 to 12-31-14 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF WASHINGTON, DAVIESS COUNTY, INDIANA

This report is supplemental to our audit report of the City of Washington (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/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Result and Comment 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 Result and Comment contained herein describes 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, incorporated within this report, were not verified for accuracy.

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

July 21, 2014

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CLERK-TREASURER
CITY OF WASHINGTON

CLERK-TREASURER
CITY OF WASHINGTON
FEDERAL FINDINGS

**FINDING 2013-001- INTERNAL CONTROLS 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: two federal grants were not reported, and three grants were reported for the incorrect amounts; no CFDA numbers or identifying numbers assigned by the pass-through entities were reported; and the federal grantor agencies, pass-through entities and federal program titles were not always correct. 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)

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:

"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.

CLERK-TREASURER
CITY OF WASHINGTON
FEDERAL FINDINGS
(Continued)

- (3) Provide the total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

FINDING 2013-002 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's Program
and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Number and Year (or Other Identifying Number): NSP1-009-028

Pass-Through Entity: Indiana Housing and Community Development Authority

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Allowable Activities; Allowable Costs; Cash Management; Matching, Level of Effort, and Earmarking; Period of Availability; Program Income; Reporting; and Special Tests and Provisions. 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.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

CLERK-TREASURER
CITY OF WASHINGTON
FEDERAL FINDINGS
(Continued)

The City entered into a contract with Myszak and Palmer, Inc., for program administration services. The City signed the required documents but did not monitor that the compliance requirements of the program were met. The City relied on Myszak and Palmer, Inc., to meet all federal compliance requirements of the program and did not perform any monitoring to ensure this occurred.

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. Non-compliance of the grant agreement or the compliance requirements that have a direct and material effect to 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 to the program.

FINDING 2013-003 - CASH MANAGEMENT

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's Program
and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Number and Year (or Other Identifying Number): NSP1-009-028

Pass-Through Entity: Indiana Housing and Community Development Authority

The City entered into a contract with Myszak and Palmer, Inc. (Program Administrator), to provide program administration for the Neighborhood Stabilization Program (NSP1 Tokeim) grant. The Program Administrator was responsible, per the contract with the City, for disbursing grant funds to vendors performing services related to the program.

The Program Administrator compiled the invoices to be submitted for reimbursement and filed the reimbursement requests from the City's computer that had Indiana Housing and Community Development Authority's (IHCDA) software installed. The Clerk-Treasurer authorized and submitted the reimbursement requests to IHCDA. When the reimbursements were received, the City receipted them into a separate grant fund and then disbursed the reimbursement amounts to the Program Administrator within the required three business days. The Program Administrator was then required to disburse the grant funds within three business days to the vendors in accordance with the claims that were submitted with the reimbursement requests. The Program Administrator did not comply with the requirement of disbursing the funds within three days of receiving the reimbursements from the City.

The Program Administrator did not provide a federal cash control register to the City documenting the transactions of the grant funds that were received and subsequently disbursed. The City could not adequately monitor that the grant funds that were remitted to the Program Administrator were disbursed to vendors in accordance with the claims that were submitted for reimbursement.

CLERK-TREASURER
CITY OF WASHINGTON
FEDERAL FINDINGS
(Continued)

The grant funds that the City remitted to the Program Administrator were not accounted for separately, but instead were comingled with other grant funds in the business bank account of the firm.

Indiana Housing and Community Development Authority Neighborhood Stabilization Program Manual, Chapter 12, Section II: Drawing Funds Process, paragraph H., states in part:

"NSP recipients may choose to either establish a separate fund within the general fund or establish a separate bank account for the NSP program. The bank account must be non-interest bearing."

"NSP recipients have three business days to disburse drawn funds from their local NSP account to a \$5,000 balance or less. The NSP recipient must begin counting the three days from the date it receives the NSP reimbursement check from IHCDA. Additionally, if the recipient disburses the NSP funds to a subrecipient or award administrator, they, in turn, must achieve a \$5,000 balance or less within three business days of receiving the funds."

"If the recipient is unable to disburse the federal funds in a timely manner, the recipient must immediately return the funds to IHCDA."

Indiana Housing and Community Development Authority Neighborhood Stabilization Program Manual, Chapter 12, Section II: Drawing Funds Process, paragraph K., states in part:

"The Federal Cash Control Register must be used to record requests for claims submitted, checks received, disbursements, and the balance of federal cash on hand on both a daily and cumulative basis."

"If you employ the services of an award administrator or subrecipient who makes payments with the NSP funds, this entity is also responsible for keeping a federal cash control register and is responsible for disbursing funds in the manner prescribed for the funding source."

Noncompliance with the grant agreement or compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management develop procedures to ensure compliance with the requirements related to Cash Management.

City of Washington
Karen Brown
Clerk-Treasurer
101 N. E. Third Street
Washington, IN 47501
(812) 254-6143 Office (812) 254-8227 Fax

CORRECTIVE ACTION PLAN

FINDING NO. 2013-001, INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS

AUDITEE CONTACT PERSON: Karen Brown
TITLE OF CONTACT PERSON: Clerk-Treasurer
PHONE NUMBER OF CONTACT PERSON: 812-254-6143

EXPECTED COMPLETION DATE:

- as information is made available
- at time of annual report

PLAN:

- determine if/when grants are received, as well as ending dates
- create and maintain spreadsheet listing of grants and awards
- consult with office personnel to insure all grants are included in report

Karen Brown

Clerk-Treasurer
May 8, 2014

City of Washington
Karen Brown
Clerk-Treasurer
101 N. E. Third Street
Washington, IN 47501
(812) 254-6143 Office (812) 254-8227 Fax

CORRECTIVE ACTION PLAN

FINDING NO. 2013-002

AUDITEE CONTACT PERSON: Karen Brown
TITLE OF CONTACT PERSON: Clerk-Treasurer
PHONE NUMBER OF CONTACT PERSON: 812-254-6143

EXPECTED COMPLETION DATE:

- as information is made available
- at time of annual report

PLAN:

- establish an internal control system, with segregation of duties
- monitor any and all program administrators to ensure that they remain in compliance with requirements of the program



Clerk-Treasurer
July 14, 2014

City of Washington
Karen Brown
Clerk-Treasurer
101 N. E. Third Street
Washington, IN 47501
(812) 254-6143 Office (812) 254-8227 Fax

CORRECTIVE ACTION PLAN

FINDING NO. 2013-003

AUDITEE CONTACT PERSON: Karen Brown
TITLE OF CONTACT PERSON: Clerk-Treasurer
PHONE NUMBER OF CONTACT PERSON: 812-254-6143

EXPECTED COMPLETION DATE:

- as information is made available
- at time of annual report

PLAN:

- monitor any and all program administrators to ensure they comply with requirements of disbursing funds
- require a federal cash control register from any and all program administrators showing documentation of transactions of grant funds
- develop procedures to ensure compliance with requirements related to cash management



Clerk-Treasurer
July 14, 2014

CLERK-TREASURER
CITY OF WASHINGTON
AUDIT RESULT AND COMMENT

ANNUAL FINANCIAL REPORT

The Annual Financial Report for 2013 contained a number of errors and did not properly reflect the financial activity of the City of Washington.

The Clerk-Treasurer omitted four funds from the Annual Financial Report and did not verify that the report agreed to the ledger at December 31, 2013. The capital asset and debt information on the Annual Financial Report was materially incorrect.

Corrections to the Annual Financial Report were proposed and accepted by the City. Corrections were made to the Annual Financial Report by the Clerk-Treasurer to reflect accurate reporting as of December 31, 2013.

The Annual Financial Report was not filed electronically until March 3, 2014, the due date was March 1, 2014.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

CLERK-TREASURER
CITY OF WASHINGTON
EXIT CONFERENCE

The contents of this report were discussed on July 21, 2014, with Joseph Wellman, Mayor; Karen Brown, Clerk-Treasurer; and Michael Singleton, President Pro Tempore of the Common Council.