

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF BARGERSVILLE

JOHNSON COUNTY, INDIANA

January 1, 2012 to December 31, 2013



FILED
11/17/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Steven W. Longstreet	01-01-12 to 12-31-15
President of the Town Council	Rowana Umbarger Kenneth E. Zumstein	01-01-12 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 TOWN OF BARGERSVILLE, JOHNSON COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Bargersville (Town), for the period from January 1, 2012 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 Town. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Town, which provides our opinions on the Town'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 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

September 10, 2014

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CLERK-TREASURER
TOWN OF BARGERSVILLE

CLERK-TREASURER
TOWN OF BARGERSVILLE
FEDERAL FINDINGS

**FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING**

We noted deficiencies in the internal control system of the Town related to financial transactions and reporting. Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statement and then determining how those identified risks should be managed. The Town 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 material misstatements.

The Town has not established effective controls to allow for the proper reporting of the Town's financial transactions and cash and investment balances. Reconciled trust and bank account balances were not verified by someone other than the preparer of the reconciliation which allowed material misstatements in the original financial statement. The Town is required to report all financial information in the Annual Financial Report. This information is used to compile the financial statement. The financial statement presented for audit included the following errors and omissions which we believe constitute material weaknesses:

1. The financial statement omitted funds related to the Town's State Revolving Loan Fund construction project. Two funds were omitted for 2012 that accounted for \$15,325,522 in total receipts and disbursements. Four funds were omitted for 2013 that accounted for \$1,310,182 in total receipts and disbursements.
2. Unrecorded transactions, recording errors, and various other errors resulted in the reported cash and investment balances at December 31, 2012 and 2013, to be understated by \$350,173 and \$353,916, respectively.
3. All 2013 operating receipts of the Water, Wastewater, and Storm Water Utilities were reported in the Water Operating fund.

Audit adjustments were proposed, accepted by the Town, and made to the financial statement presented in this report.

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)

Indiana Code 5-11-1-4 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 filed electronically, in a manner prescribed by in the manner prescribed under IC 5-14-3.8-7."

CLERK-TREASURER
TOWN OF BARGERSVILLE
FEDERAL FINDINGS
(Continued)

**FINDING 2013-002 - INTERNAL CONTROL OVER PREPARATION
OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Town 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 Town 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 financial statement, we noted that a SEFA was not presented. The Town subsequently prepared a SEFA which did not accurately report expenditures of federal awards. Audit adjustments were proposed, accepted by the Town, and made to the SEFA presented in this report.

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)

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.

CLERK-TREASURER
TOWN OF BARGERSVILLE
FEDERAL FINDINGS
(Continued)

- (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.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule."

FINDING 2013-003 - DAVIS-BACON ACT

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Drinking Water State Revolving Funds
CFDA Number: 66.468
Federal Award Number: DW 11044101, DW 12014102
Pass-Through Entity: Indiana Finance Authority

Management of the Town 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 Town 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 grant.

The Town relied on a paid consultant to monitor compliance with the Davis- Bacon Act requirements. The consultant reviewed certified payrolls and wage rates from contractors. The Town had no oversight or review process over the consultant's work product. Review of the construction contracts noted that none had the prevailing wage clause included in the contract as required by the Davis-Bacon Act.

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.

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."

40 CFR 31.36(i) states in part:

"*Contract provisions.* A grantee's and subgrantee's contracts must contain provisions in paragraph (i) of this section. . . .

CLERK-TREASURER
TOWN OF BARGERSVILLE
FEDERAL FINDINGS
(Continued)

- (5) Compliance with the Davis-Bacon Act (40 U.S.C. 276a to 276a-7) as supplemented by Department of Labor regulations (29 CFR part 5). (Construction contracts in excess of \$2000 awarded by grantees and subgrantees when required by Federal grant program legislation)"

29 CFR 5.5(a) states in part:

"The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of \$2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in §5.1, the following clauses (or any modifications thereof to meet the particular needs of the agency, *Provided*, That such modifications are first approved by the Department of Labor):

- (1) *Minimum wages.* (i) All laborers and mechanics employed or working upon the site of the work (or under the United States Housing Act of 1937 or under the Housing Act of 1949 in the construction or development of the project), will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by regulations issued by the Secretary of Labor under the Copeland Act (29 CFR part 3)), the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics."

The failure to establish proper controls enabled noncompliance to be 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 Town.

We recommended that the Town establish controls, including 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. We also recommended that the Town comply with the Davis-Bacon Act requirements by including prevailing wage provisions in all applicable construction contracts.

Bargersville Town Council

Kenneth Zumstein
Gayle Allard
Jim Beck
Bruce Morris
Rowana Umbarger



Town Manager
Kevin McGinnis

Clerk-Treasurer
Steve Longstreet

Steven Longstreet Clerk Treasurer
Corrective Action plan

September 17, 2014

Contact persons: Steve Longstreet &/or Nancy Kehl
Contact information: 24 N. Main St.
Bargersville, IN 46106
Phone: 317- 422-3102 &/or 317-422-3130
Email: slongstreet@townofbargersville.org
& /or
Nkehl@townofBargersville.Org

Findings:

2013-01-Internal Controls and Compliance over Financial Transactions and Reporting

Balances are now shown on the Financial Statements. Un-reconciled items are being resolved in accordance with IN-SBOA Guidelines. Utility receipting has been recorded correctly in 2013 and will continue to be reported correctly. We will also ensure that all annual reporting is reviewed by management before submission.

2013 - 002 - Internal Controls over preparation of the schedule of expenditures of Federal Awards

The project is complete. For any future federal dollars we will acquire CEFA training CEFA and ensure continual reporting. We will also ensure that the annual reporting is reviewed by management before submission.

2013 - 003 – Davis Bacon Act

The town will require that paid consultants ensure that all Davis Bacon Act requirements are covered in the contract and the Clerk Treasurer Dept. will not pay any contracts until that review is complete

A handwritten signature in black ink, appearing to read "Steve Longstreet", with a long, sweeping underline.

Steve Longstreet
Bargersville Clerk Treasurer

CLERK-TREASURER
TOWN OF BARGERSVILLE
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS

Water State Revolving fund transactions were not accounted for in the Town's ledger for the audit period. Funds are held in deposit accounts at the Bank of New York. Since the transactions were not part of the Town's ledgers, they were not included in the Annual Financial Report that was filed with the Indiana State Board of Accounts for 2012 and 2013. The Clerk-Treasurer approved the adjustments and the transactions have been included in the financial report presented for the Town, in the funds entitled SRFDW-Bargersville, Water-BNY SRF Construction Draws, and Wtr-BNY SRF 2011 B Debt Svc.

A similar comment appeared in prior Report B40805.

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)

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."

OVERDRAWN FUND BALANCES

The Stormwater Bond and Interest fund was overdrawn \$5,017 at December 31, 2012, and Payroll Withholding fund was overdrawn \$244,668 at December 31, 2013.

A similar comment appeared in prior Report B40805.

The fund 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)

PENALTIES, INTEREST, AND OTHER CHARGES

The Town paid \$1,329.05 in interest in January 2013 to Indiana Department of Revenue because the Town did not remit a Sales Tax payment in a timely basis. This was paid half from Water Operating and half Electric Operating.

A similar comment appeared in prior Report B40805.

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.

CLERK-TREASURER
TOWN OF BARGERSVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

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)

FUND SOURCES AND USES

Handgun license receipts were incorrectly recorded in the Gun Permits fund. These receipts should have been recorded in the Local Law Enforcement Continuing Education fund.

The following types of revenue shall be deposited into the local law enforcement continuing education fund established under Indiana Code 5-2-8-2:

1. Law Enforcement Continuing Education fees (IC 33-37-5-8 and IC 33-37-8-3)
2. Inspection of Motor Vehicle fees (IC 9-29-4-2)
3. Vehicle Accident Reports fees (IC 9-29-11-1)
4. Handgun License fees (IC 35-47-2-3)
5. Proceeds from the Sale of Confiscated Weapons (IC 35-47-3-2)

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliations did not balance at December 31, 2012, and December 31, 2013, due to posting, bank, and fund errors. The bank balances exceeded the fund balance by \$4 and \$7,541 at December 31, 2012 and 2013, respectively.

The Town had 28 bank accounts at December 31, 2013. Some of these are dormant and had no activity in 2013. The largest unbalanced bank account is a pooled cash account. This bank account balance exceeded the fund balance \$7,443 at December 31, 2013.

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.

CLERK-TREASURER
TOWN OF BARGERSVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

PUBLIC RECORDS RETENTION

Two construction contracts pertaining to the State Revolving Fund Advances were not presented for audit.

Indiana Code 5-15-6-3(f), concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Bargersville Town Council
Kenneth Zumstein
Gayle Allard
Jim Beck
Bruce Morris
Rowana Umbarger



Town Manager
Kevin McGinnis

Clerk-Treasurer
Steve Longstreet

TOWN OF BARGERSVILLE

AUDIT RESULTS AND COMMENTS:

RESPONSE

To State Auditors:

I appreciate the chance to respond to the *Audit Results And Comments* contained in the 2012 and 2013 audit report for the Town of Bargersville ("Town"). *My response to these comments are as follows.*

1. Financial activity of the Water State Revolving Fund activity not on Town's records. As noted by the State Board of Accounts, the Town's records did not reflect receipts and payments made by the Bank of New York on State Revolving Fund debt. This omission was due to simply not having enough staff or time to perform all the administrative and clerical tasks assigned to this Office. Combined with these shortages, the office had a turnover of forty-two percent of personnel in the first year of my term. Because the Bank of New York was accounting for this financial activity, this was a non-critical task, and unfortunately, not all non-critical tasks were able to be performed. If additional office staff is budgeted by the Town Board, then comments such as this one should be nonexistent.
2. Payroll Fund Overdrawn and Bank Reconcilements at year-end. Although I agree the payroll fund should not be overdrawn, the fund is a clearing account for Town and utility funds, and as such, adjustments to the individual funds for payroll related activity may not always reconcile or match with the Payroll Fund. Similarly, since the pooled fund usually contains all available cash balances of the other funds, its balance is always changing, and as such it is easy for the bank and book balances to vary by a small degree. However, I understand the importance of correcting these two issues and will strive to do so.
3. Interest paid to Indiana Department of Revenue ("IDOR"). As noted above, with a high turnover rate of personnel, and general understaffing, my first year of office was anything but stable. This upheaval made it extremely difficult meeting deadlines, including the monitoring of sales tax payments. It is important to note the Indiana Department of Revenue felt that these circumstances justified the waiving of any penalty that could be assessed. In addition, I made procedural changes to ensure that this would not happen again.
4. Receipts incorrectly posted to Gun Permit Fund. The misallocation of various fees to the Gun Permit Fund was due to a practice carried over from the prior clerk-treasurer. No one in my office was aware that the fines and fees noted in this Audit and Result Comment were restricted to the Local Law Enforcement Continuing Education Fund. This was an inadvertent error and this practice has been corrected.

5. Public Records Retention. I am cognizant the responsibility for retaining the Town's public records rest with the Clerk-Treasurer, but the reality of the situation is that upon assuming this office, the Utility Superintendent had oversight of the construction project underway since it dealt with the town's water utility. Consequently, I was unable to exercise any oversight over those records, including the two construction contracts that were not made available to the field examiners.

6. Annual Report submitted to the State Board of Accounts ("SBA"). Due to the length and complexity of the annual report filed with the SBA, the same format was followed as was used by my predecessor in preparing the Town's 2012 and 2013 reports. The errors that occurred in my first filed report will be corrected for 2014.

Respectfully,

A handwritten signature in black ink, appearing to read "Steve W. Longstreet", written in a cursive style.

Steve W. Longstreet
Bargersville Clerk Treasurer

CLERK-TREASURER
TOWN OF BARGERSVILLE
EXIT CONFERENCE

The contents of this report were discussed on September 10, 2014, with Steven W. Longstreet, Clerk-Treasurer; Nancy Kehl, Deputy Clerk-Treasurer; Jane Brockes, Controller; and Kenneth E. Zumstein, President of the Town Council.