

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF PRINCE'S LAKES

JOHNSON COUNTY, INDIANA

January 1, 2012 to December 31, 2013



**FILED**

11/26/2014



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Karen Harrison	01-01-12 to 12-31-15
President of the Town Council	Charles Bourne	01-01-12 to 12-31-14



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF PRINCE'S LAKES, JOHNSON COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Prince's Lakes (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 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/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

October 2, 2014

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CLERK-TREASURER  
TOWN OF PRINCE'S LAKES

CLERK-TREASURER  
TOWN OF PRINCE'S LAKES  
FEDERAL FINDINGS

***FINDING 2013-001 - 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 the achievement of financial reporting objectives. The Town has not separated incompatible activities related to cash and investment balances, receipts, utility collections, disbursements, and payroll. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

**Cash and Investment Balances:** The Deputy Clerk-Treasurer provides the Clerk-Treasurer with monthly bank reconcilements for review; however, there was no documentation available to verify the review.

**Receipts:** Receipts, including utility collections, are collected by one of the three individuals (Clerk-Treasurer, Deputy Clerk-Treasurer, and Utility Billing Clerk) in the office. In addition, the Deputy Clerk-Treasurer usually prepares the deposit slip and posts the deposits at the end of the month. Therefore, the Deputy Clerk-Treasurer could end up writing receipts, preparing the deposit, and posting them to the ledger. The Clerk-Treasurer normally takes deposit to bank.

**Disbursements:** Water and wastewater vendor claims are not being approved by the Town Council. These claims appeared to have been omitted from the claim docket that the Town Council reviews and approves.

**Payroll:** There is one person who mainly handles payroll. The Deputy Clerk-Treasurer reviews hours worked on time cards and records the hours into the payroll software application. The Deputy Clerk-Treasurer also enters the approved rates of pay for each employee once the salary ordinance is approved by the Town Council. The Deputy Clerk-Treasurer posts payroll and generates the checks. Department heads pick up and distribute checks to employees. The Town Council and the Clerk-Treasurer approve total payroll by fund rather than a detail listing of each employee and their gross pay. The Deputy Clerk-Treasurer also prepares the bank reconciliation for all bank accounts at the end of the month.

2. **Preparing Financial Statement:** 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 and correct, material misstatements, including notes to the financial statement. The financial statement had a payroll and some state revolving funds omitted. There should be someone who enters information for the financial statement and another person who checks that it agrees with the ledger.

The failure to establish and maintain internal controls could enable material misstatements or irregularities to remain undetected.

CLERK-TREASURER  
TOWN OF PRINCE'S LAKES  
FEDERAL FINDINGS  
(Continued)

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

"(c) The fiscal officer of a municipality may not draw a warrant or check for payment of a claim unless . . .

- (5) payment of the claim is allowed by the municipality's legislative body or the board having jurisdiction over allowance of payment of the claim."

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 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 SEFA, we noted numerous errors. The Town failed to report any grants in 2012 and did not report two grants in 2013 on their original SEFA. 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 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."

CLERK-TREASURER  
TOWN OF PRINCE'S LAKES  
FEDERAL FINDINGS  
(Continued)

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.
- (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.
- (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 2013-003 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII***

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): DR1B-09-011, DR1B-09-013, and  
DR1B-09-014

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

The Town has not established an effective internal control system, which would include monitoring activities of a paid consultant (Grant Administrator) to administer the grants and 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: Cash Management, Suspension and

CLERK-TREASURER  
TOWN OF PRINCE'S LAKES  
FEDERAL FINDINGS  
(Continued)

Debarment, Reporting, and Subrecipient Monitoring. 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 program.

The Town relies on the Grant Administrator to prepare cash drawdown reports, quarterly reports, checking for suspension and debarment, and monitoring subrecipients. The Town does not review cash draws or other reports prepared by the Grant Administrator for accuracy. The Town does not request suspension and debarment documentation to verify the Grant Administrator properly checked for these requirements. The Town does not verify that the subrecipients are monitored by the Grant Administrator.

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."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance 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 Town.

We recommended that the Town establish controls to effectively monitor the activities of paid consultants to ensure compliance related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

***FINDING 2013-004 - SUSPENSION AND DEBARMENT***

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): DR1B-09-011, DR1B-09-013, and  
DR1B-09-014

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

As stated in Finding 2013-003, the Town has not established an effective internal control system related to the grant agreement and the Suspension and Debarment compliance requirement.

CLERK-TREASURER  
TOWN OF PRINCE'S LAKES  
FEDERAL FINDINGS  
(Continued)

The Town did not have procedures established to ensure that its subrecipient's, were not excluded, disqualified, or otherwise ineligible from federal procurement and nonprocurement programs (which are considered covered transactions) at the time of contract execution or during the period of project work. There were no policies indicating how a subrecipient's eligibility is verified and what documentation will be maintained to prove this. No documentation was provided for audit to show that the Town had determined the subrecipient's eligibility.

2 CFR, Subpart C-Responsibilities of Participants Regarding Transactions Doing Business With Other Persons, 180.300 states:

"What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

Noncompliance 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 Town.

We recommended that the Town 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.



*"Everybody should have a place to go fishin"*

**TOWN OF PRINCE'S LAKES  
CORRECTIVE ACTION PLAN**

Date: 10-2-14

**Section II Findings**

**Finding 2013-001 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

Contact Person: Karen Harrison  
Contact Number: (317)-933-2163 ext. 6

Anticipated Completion Date: Immediately, we will put this process in place.

Corrective Action: The Prince's Lakes Clerk-Treasurer has implemented a plan to review the monthly bank reconciliation reports that are prepared by the Deputy Clerk-Treasurer and keep them in a file for the audit. Due to the small size of the town it is not feasible to hire the extra help necessary to separate some of the duties as completely as suggested.

**Finding 2013-002 – INTERNAL CONTROLS OVER PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Contact Person: Karen Harrison  
Contact Number: (317)-933-2163 ext. 6

Anticipated Completion Date: Immediately, we will put this process in place.

Corrective Action: The Prince's Lakes Clerk-Treasurer has implemented procedures to assure the reliability of financial information and records. We have established internal controls over the receipting, disbursing, recording and accounting of the finances to avoid risk of invalid transactions, inaccurate records and financial statements.

**Section III Findings**

**Finding 2013-003 – INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE COMMUNITY DEVELOPMENT BLOCK GRANT/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII**

Federal Agency: Housing and Urban Development  
Federal Program: Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii  
CFDA Number: 14.228  
Federal Award Number and Year (or Other Identifying Number): DR1B-09-013, DR1B-09-011 ad DR1B-09-014  
Pass-Through Entity: Indiana Office of Community and Rural Affairs

Contact Person: Karen Harrison  
Contact Number: (317)-933-2163 ext. 6

Anticipated Completion Date: Immediately, we will put this process in place.

Corrective Action: The Prince's Lakes Clerk-Treasurer has implemented a plan to establish controls to effectively monitor the activities of the paid consultants, including segregation of duties, to ensure compliance related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

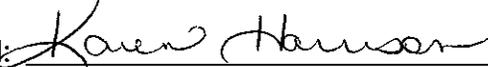
**Finding 2013-004 – SUSPENSION AND DEBARMENT**

Federal Agency: Housing and Urban Development  
Federal Program: Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii  
CFDA Number: 14.228  
Federal Award Number and Year: DR1B-09-013, DR1B-09-011 ad DR1B-09-014  
Pass-Through Entity: Indiana Office of Community and Rural Affairs

Contact Person: Karen Harrison  
Contact Number: (317)-933-2163 ext. 6

Anticipated Completion Date:  
Immediately, we will put this process in place.

Corrective Action: The Town of Prince's Lakes will, in the future, check for suspension and debarment for all sub-recipients and contractors. We have implemented a plan to establish controls to effectively monitor the activities of the paid consultants, including segregation of duties, to ensure compliance related to the grant agreement and all compliance requirements.

Signed: 

Titled: Clerk-Treasurer, Town of Prince's Lakes

Date: 10-2-14

CLERK-TREASURER  
TOWN OF PRINCE'S LAKES  
EXIT CONFERENCE

The contents of this report were discussed on October 2, 2014, with Karen Harrison, Clerk-Treasurer, and Charles Bourne, President of the Town Council.