

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF WEST LAFAYETTE

TIPPECANOE COUNTY, INDIANA

January 1, 2013 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	Judith C. Rhodes	01-01-12 to 12-31-15
Mayor	John R. Dennis	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	John R. Dennis	01-01-12 to 12-31-15
President of the Common Council	Ann H. Hunt	01-01-13 to 12-31-14
Wastewater Utility Director	David Henderson	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 WEST LAFAYETTE, TIPPECANOE COUNTY, INDIANA

This report is supplemental to our audit report of the City of West Lafayette (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 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.

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

September 9, 2014

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CLERK-TREASURER  
CITY OF WEST LAFAYETTE

CLERK-TREASURER  
CITY OF WEST LAFAYETTE  
FEDERAL FINDING

**FINDING 2013-001 - 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. The Clerk-Treasurer independently prepares the SEFA without oversight, review, or approval.

During the audit of the SEFA, we noted that program income of \$174,693 was not included. 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 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.
- (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."



**Office of the Clerk-Treasurer**

Judith C. Rhodes, Ph.D., CPA, IAMC, MMC, CPFA  
711 West Navajo Street  
West Lafayette, Indiana 47906  
765.775.5150  
Fax: 765.807.0229  
clerk@westlafayette.in.gov

**CORRECTIVE ACTION PLAN**

***FINDING 2013-001*** (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Judith C. Rhodes, Clerk-Treasurer  
Contact Phone Number: (765) 775-5150

Description of Corrective Action Plan:

Current practice: The Clerk-Treasurer prepares the SEFA based on grant award documents, transactions posted to City ledgers and grant financial reports that are filed with the Clerk-Treasurer. In addition, with the exception of the Community Development Block Grant (CDBG), grant vouchers are copied to the Clerk-Treasurer's office which then matches grant draw requests to grant receipts and related claims for grant reimbursements. Departments review ledger postings related to grant transactions (claims submitted by departments, grant receipts, and fund balances as applicable) to review account postings for accuracy. The Community Development Block Grant (CDBG) is administered by the Department of Development which makes grant draws online and then files notifications of the draws with the Clerk-Treasurer's office.

Precipitating incident: The Department of Development reported \$174,693 in CDBG program income to HUD relating to activities of New Chauncey Housing Inc. (NCHI) in the quarterly Federal Financial Report (Standard Form 425) without notifying the Clerk-Treasurer or providing a copy of these reports. The program income transactions, both income and expenditures, are carried out by NCHI and posted to NCHI ledgers. The Department of Development separately tracks these transactions. The City does not have custody of these funds.

The corrective action plan is as follows:

1. Following the preparation of the SEFA by the Clerk-Treasurer, all departments administering federal grants will be required to review and verify that all reportable federal grant transactions have been disclosed on the SEFA. Anticipated Completion Date: Immediate
2. All departments will be required to file copies of all federal grant financial reports with the Clerk-Treasurer. The Department of Development has revised its CDBG Procedures Manual to specify that the quarterly Federal Financial Reports are to be copied to the Clerk-Treasurer on the email transmission to HUD, and it has provided copies of all prior reports filed starting with the period ending 12/31/2013. Anticipated Completion Date: October 30, 2014.
3. The Grant Master module on the Munis ERP system currently being implemented will provide centralized grant overview of grant transactions and documents for the Finance Department. Anticipated Completion Date: December 31, 2015.
4. All departments are to notify the Clerk-Treasurer of any pending audits of any federal grant programs. The Clerk-Treasurer is to be copied on all correspondence, findings, and corrective actions resulting from such audits. Anticipated Completion Date: Immediate

Joseph C. Madden  
(Signature)

Clerk-Treasurer  
(Title)

9/9/2014  
(Date)

David Went  
(Signature)

President, City Council  
(Title)

9/9/2014  
(Date)

CLERK-TREASURER  
CITY OF WEST LAFAYETTE  
EXIT CONFERENCE

The contents of this report were discussed on September 9, 2014, with Judith C. Rhodes, Clerk-Treasurer.

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DEPARTMENT OF DEVELOPMENT  
CITY OF WEST LAFAYETTE

DEPARTMENT OF DEVELOPMENT  
CITY OF WEST LAFAYETTE  
FEDERAL FINDINGS

**FINDING 2013-003 - INTERNAL CONTROLS OVER COMMUNITY  
DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS**

Federal Agency: Housing and Urban Development

Federal Program: Community Development Block Grants/Entitlement Grants

CFDA Number: 14.218

Federal Award Numbers: B-09-MC-18-0009, B-10-MC-18-0009, B-11-MC-18-0009, B-12-MC-18-0009,  
B-13-MC-18-009, Program Income

Direct grant

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and some compliance requirements that have a direct and material effect on the program. This includes the following compliance requirements: Davis-Bacon Act; Procurement, Suspension, and Debarment; and Program Income. 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 grant.

*Davis-Bacon Act*

The City's Department of Development (Department) implemented procedures for compliance with labor standards. However, the procedures were not effective in ensuring that the proper prevailing wage rates were paid. Although wage decisions were obtained and compared to actual wages paid, the incorrect wage decision was used on several of the City's CDBG infrastructure projects.

*Procurement, Suspension, and Debarment*

The Department did not have a documented policy or standard procedure in place for determining whether or not a vendor has been suspended or excluded from doing business with the federal government. Records were not maintained to document if the Department researched the vendors and whether or not they were suspended or debarred.

*Program Income*

Although the Department does have a policy or standard procedure in place for ensuring that program income is properly determined and reported to the Federal Department of Housing and Urban Development, they did not have a policy or procedure in place to communicate this information to the Clerk-Treasurer's Office for proper reporting by the City. There was also no evidence of oversight or review by the City for compliance with this requirement.

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.

DEPARTMENT OF DEVELOPMENT  
CITY OF WEST LAFAYETTE  
FEDERAL FINDINGS  
(Continued)

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 - DAVIS-BACON ACT***

Federal Agency: Housing and Urban Development

Federal Program: Community Development Block Grants/Entitlement Grants

CFDA Number: 14.218

Federal Award Numbers: B-09-MC-18-0009, B-10-MC-18-0009, B-11-MC-18-0009, B-12-MC-18-0009,  
B-13-MC-18-0009, Program Income

Direct Grant

Compliance with the Davis-Bacon Act requires payment of federal prevailing wage rates for construction, repair, or alteration work funded in whole or in part with Community Development Block Grant Funds. The grantee must establish controls for monitoring wages paid by contractors. They must obtain the correct date and applicable wage rates from the U.S. Department of Labor and incorporate them into the construction contract. According to officials of the Department of Development, who administer the program, they obtained the wrong wage determination. Officials indicated that the program coordinator was monitoring the prevailing wage rates; however, the wage determination being used was not from the correct date. Due to using the incorrect wage determination, some contractors were not paid prevailing wages.

CERCLA 104(g) (1) states:

"All laborers and mechanics employed by contractors or subcontractors in the performance of construction, repair, or alteration work funded in whole or in part under this section shall be paid wages at rates not less than those prevailing on projects of a character similar in the locality as determined by the Secretary of Labor in accordance with the Davis-Bacon Act. The President shall not approve any such funding without first obtaining adequate assurance that required labor standards will be maintained upon the construction work."

The use of the incorrect wage determination resulted in a liability to the City for restitution to 30 employees totaling \$20,015. No restitution was made during the year 2013. As of August 7, 2014, 20 of the employees had been paid. The City is attempting to pay the remaining 10 employees.

We recommended that City officials comply with the Davis-Bacon Act by paying prevailing wages on construction contracts funded in whole, or in part, by federal awards.



Department of Development  
609 West Navajo Street  
West Lafayette, Indiana 47906-1995  
(765) 775-5160  
FAX: (765) 775-5196

## CORRECTIVE ACTION PLAN

### **FINDING 2013-003**

Contact Person Responsible for Corrective Action: Dale Dixon  
Contact Phone Number: (765) 775-5160

#### Description of Corrective Action Plan:

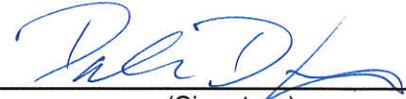
All activities carried out with CDBG funds are initiated through the City's Citizen Participation Plan (included with this action plan). This involves two public meetings where citizens and the Mayor's CDBG Advisory Committee develop an action plan that is ultimately submitted to HUD for approval and shows in detail how every dollar of the block grant will be spent. This plan is also presented to the City Common Council for approval, as well as the public. Once the plan and activities contained therein have passed through the steps of approval, the activities are entered into HUD's software system known as the Integrated Disbursement & Information System (IDIS). Certain activities require outside contractors to complete. Depending on the activity, the method of procurement falls under HUD's requirements of one of the following: small purchase, sealed bids with formal advertising, competitive proposals, or non-competitive proposals.

The contractor who has been awarded the work submits invoices as work is completed. Several people are involved in approving payments before any funds are released. The following steps describe this process:

1. The department overseeing the activity (i.e. Engineering, Parks, etc.) will first acknowledge that the work being invoiced for has been completed satisfactorily.
2. The Department of Development, which administers the Community Development Block Grant, verifies the activity is in compliance with the action plan. The invoice is approved at this stage and forwarded to another person within the department.
3. A voucher for payment is created in IDIS.
4. After the voucher is created, someone in the department other than the person who created the voucher, logs into IDIS and examines and approves the voucher thereby requesting a disbursement from HUD to the City so that the contractor can be paid.
5. The contractor's invoice is also scanned into the City's accounting software where the Director of Development is required to review and choose to approve all invoices that come into the Development Department.
6. The invoice must also be approved by the Clerk-Treasurer's Office.
7. After an invoice has gone through all the aforementioned steps and approvals, it is presented to the City's Board of Public Works. The Board of Works holds weekly public meetings and is the last approving body before an invoice is paid. Department heads attend these meetings and are regularly asked to explain various invoices that come before the Board for approval. The City's CDBG procedures manual also contains the information included in this response.

Anticipated Completion Date:

The above corrective action plan has been in place for a number of years, with the exception of the invoice being scanned into the City's accounting software. This new accounting software and the process of scanning invoices was implemented in the spring of 2014.



\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
Housing Program Coordinator

(Title)

\_\_\_\_\_  
September 9, 2014

(Date)



Department of Development  
609 West Navajo Street  
West Lafayette, Indiana 47906-1995  
(765) 775-5160  
FAX: (765) 775-5196

## CORRECTIVE ACTION PLAN

### ***FINDING 2013-004***

Contact Person Responsible for Corrective Action: Dale Dixon  
Contact Phone Number: (765) 775-5160

#### Description of Corrective Action Plan:

As previously stated in an entrance interview, HUD brought this situation to the City's attention during a monitoring of the Davis-Bacon procedures in 2013. The City has complied with HUD's finding and is making all reasonable efforts to make restitution to the affected workers. Additionally, in December of 2013, the City established a new control in the form of a checklist to ensure the required compliance to the Davis-Bacon Act procedures are followed. This checklist contains several steps pertaining to Davis-Bacon procedures, as well as, showing proof of contractor eligibility. Each step contained within the checklist requires two people to initial and date as completed. For your reference, a copy of the newly developed checklist is included with this response. Additionally, in the first half of 2014, the City developed a CDBG procedures manual which includes a section that covers the Davis-Bacon Act requirements and the aforementioned checklist as Exhibit E.

#### Anticipated Completion Date:

The above corrective action plan has now been in place since December 2013.

  
\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
Housing Program Coordinator  
(Title)

\_\_\_\_\_  
September 9, 2014  
(Date)

DEPARTMENT OF DEVELOPMENT  
CITY OF WEST LAFAYETTE  
EXIT CONFERENCE

The contents of this report were discussed on September 9, 2014, with Dale Dixon, Housing Program Coordinator.

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WASTEWATER UTILITY  
CITY OF WEST LAFAYETTE

WASTEWATER UTILITY  
CITY OF WEST LAFAYETTE  
FEDERAL FINDING

***FINDING 2013-002 - INTERNAL CONTROLS OVER MAJOR CUSTOMER WASTEWATER BILLING***

We noted a deficiency in the internal control system concerning the billing procedures for the Wastewater Utility's major customer that we believe constitutes a material weakness. Control activities should be selected and developed at various levels of the Utility to reduce risks to the achievement of financial reporting objectives. This major customer, which provided approximately 39 percent of the Wastewater Utility's revenue for 2013, reads their own water meters and calculates their own wastewater bill (based off the water consumption) for each of their 358 water meters. They calculate and present their total wastewater bill, along with their payment, to the Utility each month. The Utility has not implemented any internal control procedures to verify that accurate meter readings are used to calculate the customer's wastewater bill.

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)



**Wastewater Treatment Utility**  
 500 South River Road  
 West Lafayette, Indiana 47906-4377  
 Phone: 765.775.5145  
 Fax: 765.775.5149

**CORRECTIVE ACTION PLAN**

**FINDING 2013-002 – MAJOR CUSTOMER WASTEWATER BILLINGS**

Contact Person Responsible for Corrective Action: David S. Henderson, Utility Director  
 Contact Phone Number: (765) 775-5145

Description of Corrective Action Plan:

Purdue University will be asked to document the current meter reading process, self-reporting process, and internal controls over these processes. The City of West Lafayette Wastewater Utility will review these processes.

The City of West Lafayette Wastewater Utility, West Lafayette Board of Public Works and Safety, and Purdue University must approve a formal agreement that delineates an acceptable meter reading and self-reporting process, including internal controls at Purdue. The agreement should also include a procedure for resolution of billing issues.

The City of West Lafayette Wastewater Utility will develop, document and implement a monitoring process to verify meter reading and self-reporting processes, as well as internal controls at Purdue, are being followed as documented.

Anticipated Completion Date: April 1, 2015

*Madison C. Moad*  
 (Signature)

Clerk-Treasurer  
 (Title)

9/9/2014 <sup>Resign</sup> 10/2/14  
 (Date)

*David S. Henderson*  
 (Signature)

Utility Director  
 (Title)

10/2/2014  
 (Date)

WASTEWATER UTILITY  
CITY OF WEST LAFAYETTE  
EXIT CONFERENCE

The contents of this report were discussed on September 9, 2014, with David Henderson, Wastewater Utility Director.