

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF ORLEANS

ORANGE COUNTY, INDIANA

January 1, 2012 to December 31, 2013



FILED
01/30/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Robert F. Henderson	01-01-12 to 12-31-15
President of the Town Council	Michael H. Fields	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 ORLEANS, ORANGE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Orleans (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

December 11, 2014

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CLERK-TREASURER
TOWN OF ORLEANS

CLERK-TREASURER
TOWN OF ORLEANS
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:

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 and payroll. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

Cash and Investment: The Deputy Clerk-Treasurer prepares the monthly bank reconciliations and these are given to the Clerk-Treasurer to review and approve. There was not any evidence to verify the Clerk-Treasurer's review or approval of the bank reconciliation.

Payroll: The Town's payroll processing was handled primarily by one person within the Clerk-Treasurer's Office. When the processing of payroll is completed each week, the printed checks and supporting documentation are given to the Clerk-Treasurer for review and signature on the check. There is no audit trail to verify the Clerk-Treasurer's review and approval of the supporting documentation. Employees' payroll claims/time records are to be approved by the appropriate official or department head or fiscal officer. We found that this did not always occur. Additionally, a detailed listing of employees' weekly payroll is not approved by the Town Council. The payroll is approved in total by fund on the monthly claim docket.

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 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 SEFA, we noted the following errors: all federal grants were not listed, all CFDA numbers were not provided, program titles were not always correct, and expenditures for some federal grants were incorrect. Audit adjustments were proposed, accepted by the Town, and made to the SEFA presented in this report.

CLERK-TREASURER
TOWN OF ORLEANS
FEDERAL FINDINGS
(Continued)

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.
- (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."

CLERK-TREASURER
TOWN OF ORLEANS
FEDERAL FINDINGS
(Continued)

FINDING 2013-003 - CASH MANAGEMENT OVER 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): A192-13-DR2-09-225
Pass-Through Entity: Indiana Office of Community and Rural Affairs

The Town has not established an effective internal control system over the compliance requirements relating to Cash Management. The Town failed to implement policies and procedures to ensure that all Community Development Block Grant (CDBG) funds received would be disbursed within the applicable financial management requirements. The failure to establish an effective internal control system places the County at risk of noncompliance with the grant agreement and compliance requirements.

The Town entered into a grant agreement for the White Castle Clearance Project (A192-13-DR2-09-225) with the Indiana Office of Rural and Community Affairs (OCRA). The Town did not pay the contractor until March 27, 2013, for a reimbursement that was deposited to the Town's bank account on March 6, 2013. This was beyond the five business days as required by the grant agreement.

The "Indiana CDBG Handbook, Community Development Block Grants" issued by the Indiana Office of Community and Rural Affairs states in part:

"6.5. Draw-downs and disbursements: . . . After approval of the Claim Voucher by the Lt. Governor's business office, the claim is forwarded to the Auditor's Office for payment. Funds are electronically transferred to the Grantee's bank account of record. If the grantee makes changes to their bank account of record, they must notify the Auditor's office of the updated account information. Grantees must be alert to the receipt of federal funds and be prepared to issue payments to their contractors within five business days of the deposit.

Under no circumstances should a Grantee retain more than \$5,000 of federal money in their bank account for more than five business days. If for any reason the federal funds cannot be disbursed during that five day period, the Grantee will be required to return all interest earned on the federal funds to OCRA by check made payable to the U.S. Treasury. Grantees are advised to keep federal funds in non-interest bearing accounts."

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."

Noncompliance of the grant agreement or the compliance requirements 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.

CLERK-TREASURER
TOWN OF ORLEANS
FEDERAL FINDINGS
(Continued)

FINDING 2013-004 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO 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

FDA Number: 14.228

Federal Award Number and Year (or Other Identifying Number): A192-12-FF-11-100

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 the compliance requirements over the Davis-Bacon Act. 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 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 meet compliance requirements for the Davis-Bacon Act. The Town does not request the Davis-Bacon Act documentation to verify the Grant Administrator was properly complying with these requirements nor did they monitor that certified payrolls of contractors and subcontractors were filed.

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 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 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 could 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.



CLERK-TREASURER
Robert F. Henderson, Jr.

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CORRECTIVE ACTION PLAN

Section II-Financial Statement Findings

FINDING 2013-001 Internal Controls Over Financial Transactions and Reporting

Contact Person Responsible for Corrective Action:
Robert F. Henderson orleansclerk@netsurfusa.net
Theresa Nevill theresa.orianstown@netsurfusa.net
Janie Baker janie.orianstown@netsurfusa.net

Contact Phone Number: 812-865-2539

Corrective Action:

- 1) The Clerk-Treasurer regularly reviews and approves the town's monthly bank reconciliements. Upon completion of the monthly review the CT will now initial the statement portion providing an audit trail as recommended.
- 2) The Clerk-Treasurer weekly reviews the payroll summary and employee pay checks verifying & approving pay amounts along with signing each check. In addition the CT will now initial the weekly payroll summary and check to see that all time sheets are properly signed off on by the appropriate department head or town official.

The CT office has now created as recommended a separate detailed form of all employees being paid weekly to be formally approved by the town council along with the monthly claim docket.

Expected Completion Date: 12/31/14

FINDING 2013-002 Internal Control Over The Schedule of Expenditures of Federal Awards

Contact Person Responsible for Corrective Action:
Robert F. Henderson orleansclerk@netsurfusa.net
Theresa Nevill theresa.orianstown@netsurfusa.net

Contact Phone Number: 812-865-2539

Corrective Action:

The CT office has recently requested and received Council Approval to purchase and install new software in Key Fund allowing us to better track in detail all town related projects in a separate file. The new software provides detailed information on each receipt and expenditures and the project connected to it.

Expected Completion Date: 12/31/14

FINDING 2013-003 Internal Controls and Compliance Over Cash Management

Contact Person Responsible for Corrective Action:
Robert F. Henderson orleansclerk@netsurfusa.net
Theresa Nevill theresa.orianstown@netsurfusa.net
Janie Baker janie.orianstown@netsurfusa.net

Contact Phone Number: 812-865-2539

Corrective Action:

The CT along with staff are presently working to evaluate internal controls for this area and will implement a new system of segregation of duties relating to all future grant agreements.

Expected Completion Date 12/31/14

FINDING 2013-004 Internal Control Over Davis Bacon

Contact Person Responsible for Corrective Action:
Robert F. Henderson orleansclerk@netsurfusa.net
Janie Baker janie.orianstown@netsurfusa.net

Contact Phone Number: 812-865-2539

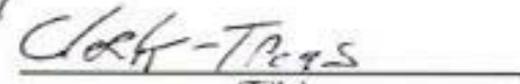
Corrective Action:

The CT along with staff are currently exploring on how best to establish the recommended proper controls related to any future grant agreements and compliance requirements.

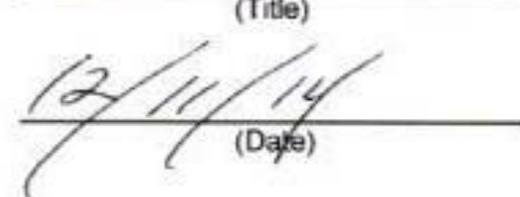
Expected Completion Date: 2/28/15



(Signature)



(Title)



(Date)

CLERK-TREASURER
TOWN OF ORLEANS
AUDIT RESULTS AND COMMENTS

CUSTOMER DEPOSIT REGISTER

As noted in prior Report B41589, the detailed listing of customer deposits as recorded in the customer deposit register for the Water and Wastewater Utilities was not reconciled with the general ledger. This condition still existed during the current audit period.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PENALTIES, INTEREST, AND OTHER CHARGES

The Town paid penalties, interest, and other charges to the Indiana Department of Revenue as follows because the Town did not remit the payment on a timely basis: April 2012 utility receipts tax in the amount of \$139; September 2012 utility receipts tax in the amount of \$41; and May 2013 sales tax in the amount of \$262.

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.

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)

HYDRANT RENTAL RECEIVABLE (PAYABLE)

As noted in prior Report B41589, the Town owes the Water Utility hydrant rental. Rate Ordinance 2008-14 passed by the Town Council on November 20, 2008, removed the charge for hydrant rental. Therefore, pursuant to Rate Ordinance 2005-5 passed by the Town Council on February 17, 2005, the Town owes the Water Utility hydrant rental of \$24,670; \$24,670; and \$23,170 for the years 2006, 2007, and 2008, respectively.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN COUNCIL
Mike H. Fields
Ernie Sluss
Steve Lantis



The Town of ORLEANS

Founded 1815

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orleanstownhall@netsurfusa.net

CLERK-TREASURER
Robert F. Henderson, Jr.

December 17, 2014

Re: Orleans Audit Response

State Board of Accounts
302 W. Washington St, Rm. E 418
Indianapolis, IN 46204-2765

Attn: Lisa David

Dear Lisa,

The recent State Board of Accounts audit on the Town of Orleans resulted in a "FINDING" designated as 2013-004. We would like to offer our comments in an effort to resolve the outstanding finding.

When the Town applied for and was awarded a grant from the Indiana Office of Community and Rural Affairs for our Wastewater Improvements project, we were very much aware that the funding was from the U. S. Department of Housing and Urban Development and that we would be required to closely adhere to the many regulations attached to the grant award. For the purpose of assisting us with compliance, the Town engaged the services of Kenna Consulting, Certified Grant Administrators, with whom we had worked previously and trusted that they would assist the Town in the implementation of the grant funded project as they were required by OCRA to be fully accredited under OCRA's grant administrator certification program. Giving the Town even more confidence that Kenna would guide us through the regulations was the fact that Donna Anderson, President of Kenna Consulting, actually maintains a "Master Level" certification which is the highest level available and that very few have attained.

Throughout the course of the project, the Town Officials were in regular contact with Kenna Consulting, who attended the monthly progress meetings, reported to us on the status of the project, any problems that had been encountered, and the performance of all contractors and subcontractors. While the Town did not personally review the Certified Payroll Reports, we were advised of any discrepancies and notified of any restitution required to be paid to employees who worked on the project. In addition, we received documentation for all invoices and claim vouchers pertaining to the project for our review prior to submitting the claim vouchers to the state CDBG program for payment. This was to assure that these were allowable costs and were within the project budget.

Due to the extensive guidelines of the Community Development Block Grant program, the Town Officials were aware that we needed to rely on our professional services providers; however, we did not avoid the responsibility of following the progress of the project and the performance of the contractors.

Should the Town of Orleans be fortunate enough to be awarded federal grant funds in the future, we will more clearly establish an effective internal control system so that this situation will not surface again. We sincerely hope that our explanation and pledge to be more cognizant of the professional services providers' activities will resolve your audit Finding.

Sincerely,

Robert F. Henderson
Clerk-Treasurer

CLERK-TREASURER
TOWN OF ORLEANS
EXIT CONFERENCE

The contents of this report were discussed on December 11, 2014, with Robert F. Henderson, Clerk-Treasurer, and Michael H. Fields, President of the Town Council.