

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF SALEM

WASHINGTON COUNTY, INDIANA

January 1, 2013 to December 31, 2013



**FILED**  
02/06/2015



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SCHEDULE OF OFFICIALS

| <u>Office</u>                                  | <u>Official</u>                             | <u>Term</u>                                  |
|--|---|--|
| Clerk-Treasurer                                | Patricia E. Persinger                       | 01-01-12 to 12-31-15                         |
| Mayor  | David L. Bower                              | 01-01-12 to 12-31-15                         |
| President of the Board of<br>Public Works      | David L. Bower                              | 01-01-12 to 12-31-14                         |
| President Pro Tempore of<br>the Common Council | Warren N. Jones<br>Ronald C. Haendiges, Jr. | 01-01-13 to 12-31-13<br>01-01-14 to 12-31-14 |
| Utility Office Manager                         | Carol Brough                                | 01-01-13 to 12-31-14                         |



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
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Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

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

This report is supplemental to our audit report of the City of Salem (City), for the period from January 1, 2013 to December 31, 2013. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://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

October 27, 2014

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CLERK-TREASURER  
CITY OF SALEM

CLERK-TREASURER  
CITY OF SALEM  
FEDERAL FINDINGS

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

We noted several deficiencies in the internal control system of the City 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 City to reduce risks to the achievement of financial reporting objectives. The City has not separated incompatible activities related to receipts and utility collections. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

*Receipts*

One employee in the Clerk-Treasurer's Office is responsible for issuing receipts, balancing the collection drawer, and making the bank deposits. Another employee is responsible for posting the receipts to the ledger. The activities related to receipts were not always reviewed or verified by someone other than the employee performing the activities.

*Utility Collections*

The utility collection process is primarily handled by one person. The Utility Office Manager collects utility payments, balances the collection drawer, post utility payments to the customers' accounts, makes up the utility deposit ticket, and remits the deposit ticket with the collections to the Clerk-Treasurer's Office. There was no evidence provided to indicate that the activities related to utility collections were being reviewed or verified by someone other than the Utility Office Manager.

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 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 occur and remain undetected.



CLERK-TREASURER  
CITY OF SALEM  
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.

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***FINDING 2013-003 - CASH MANAGEMENT***

Federal Agency: Department of Transportation  
Federal Program: Airport Improvement Program  
CFDA Number: 20.106

Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0075-11-2011,  
AIP 3-18-0075-12-2012,  
AIP 3-18-0075-13-2013

Management of the City has not established an effective internal control system which would include segregation of duties, related to Cash Management compliance requirements. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

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

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 that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish and implement controls, including segregation of duties, related to the grant agreement and all compliance requirements applicable to Cash Management that have a direct and material effect to the program.

CLERK-TREASURER  
CITY OF SALEM  
FEDERAL FINDINGS  
(Continued)

***FINDING 2013-004 - INTERNAL CONTROLS OVER THE DAVIS-BACON ACT REQUIREMENTS***

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0075-12-2012,  
AIP 3-18-0075-13-2013

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the compliance requirements that apply to the Davis-Bacon Act. The failure to establish an effective internal control system places the City at risk of non-compliance 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 City hired a Grant Administrator to assist in overseeing the labor standards required by the Davis-Bacon Act. Certified payrolls were submitted by the contractors to the Grant Administrator who would then check to determine if prevailing wages were being properly paid. The City did not have procedures in place to review and approve the work being performed 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.

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"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 City.

We recommended that the City's management establish and implement controls, including segregation of duties, related to the grant agreement and all compliance requirements applicable to the Davis-Bacon Act that have a direct and material effect to the program.



# City of Salem

Patricia E. Persinger, Clerk-Treasurer

## CORRECTIVE ACTION PLAN

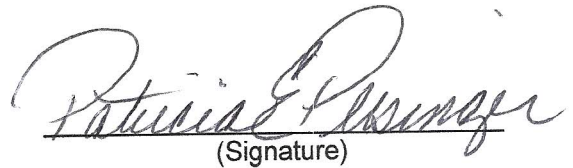
### FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact Person Responsible for Corrective Action: Patricia E. Persinger, Clerk-Treasurer  
Contact Phone Number: 812-883-4264

#### Description of Corrective Action Plan:

The City of Salem now has procedures in place to review and verify all receipts and deposits by the Clerk-Treasurer or in her absence by the 2<sup>nd</sup> Deputy Clerk-Treasurer.

Anticipated Completion Date: September 11, 2014



(Signature)

Clerk-Treasurer  
(Title)

October 16, 2014  
(Date)

201 E. Market St., Suite 101  
Salem, Indiana 47167

Office: (812)883-4264  
Fax: (812)883-3634



# City of Salem

Patricia E. Persinger, Clerk-Treasurer

## CORRECTIVE ACTION PLAN

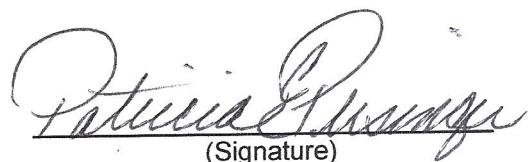
### FINDING 2013-002 - INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact Person Responsible for Corrective Action: Patricia E. Persinger, Clerk-Treasurer  
Contact Phone Number: 812-883-4264

#### Description of Corrective Action Plan:

The City of Salem is now compiling a spread sheet during the year for all Federal grants and monies for correct and accurate reporting on the SEFA. The Clerk-Treasurer will compile the spread sheet and the First Deputy Clerk-Treasurer will verify with the accounts and input into the annual report.

Anticipated Completion Date: October 31, 2014



(Signature)

\_\_\_\_\_  
Clerk-Treasurer  
(Title)

\_\_\_\_\_  
October 16, 2014  
(Date)

201 E. Market St., Suite 101  
Salem, Indiana 47167

Office: (812)883-4264  
Fax: (812)883-3634



# City of Salem

Patricia E. Persinger, Clerk-Treasurer

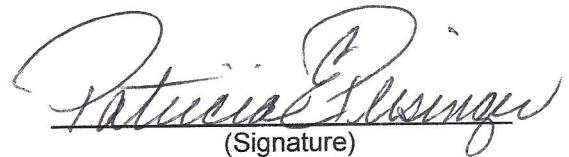
## CORRECTIVE ACTION PLAN

### FINDING 2013-003 - CASH MANAGEMENT

Contact Person Responsible for Corrective Action: Patricia E. Persinger, Clerk-Treasurer  
Contact Phone Number: 812-883-4264

Description of Corrective Action Plan: The City of Salem has procedures now in place between the Clerk-Treasurer and grant administrator to minimize the elapsing time between receipt of funds and the disbursement by the grantee.

Anticipated Completion Date: January 27, 2014

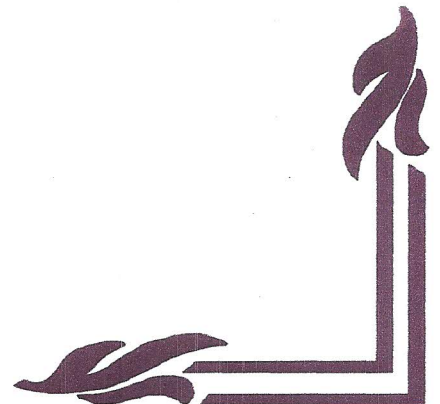
  
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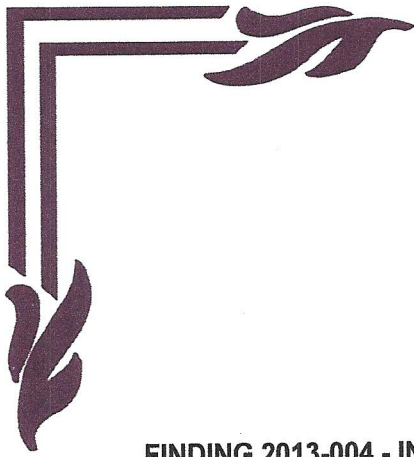
\_\_\_\_\_  
Clerk-Treasurer  
(Title)

\_\_\_\_\_  
October 16, 2014  
(Date)

201 E. Market St., Suite 101  
Salem, Indiana 47167

Office: (812)883-4264  
Fax: (812)883-3634





# City of Salem

Patricia E. Persinger, Clerk-Treasurer

## CORRECTIVE ACTION PLAN

### FINDING 2013-004 - INTERNAL CONTROLS OVER DAVIS BACON REQUIREMENTS

Contact Person Responsible for Corrective Action: Patricia E. Persinger, Clerk-Treasurer  
Contact Phone Number: 812-883-4264

#### Description of Corrective Action Plan:

The City of Salem is requiring the verification by the grant administrator that prevailing wages are being paid properly and are to be reviewed by the Clerk-Treasurer to assure compliance with all laws, regulations, contracts and grant agreements.

Anticipated Completion Date: October 31, 2014



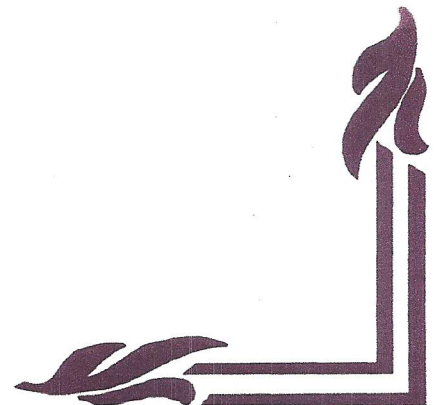
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\_\_\_\_\_  
Clerk-Treasurer  
(Title)

\_\_\_\_\_  
October 16, 2014  
(Date)

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CLERK-TREASURER  
CITY OF SALEM  
AUDIT RESULT AND COMMENT

***COMPENSATION AND BENEFITS***

The hourly rate paid to a part-time employee was different than the rate approved in the salary ordinance.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CLERK-TREASURER  
CITY OF SALEM  
EXIT CONFERENCE

The contents of this report were discussed on October 27, 2014, with Patricia E. Persinger, Clerk-Treasurer; David L. Bower, Mayor; and Ronald C. Haendiges, Jr., President Pro Tempore of the Common Council.



CEMETERY  
CITY OF SALEM

CEMETERY  
CITY OF SALEM  
AUDIT RESULT AND COMMENT

***RECEIPT ISSUANCE***

Receipts were not being issued by the Cemetery for the fee collected on grave openings or from the sale of cemetery lots. Receipts were only being issued by the Cemetery when monument foundation fees were collected.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CEMETERY  
CITY OF SALEM  
EXIT CONFERENCE

The contents of this report were discussed on October 27, 2014, with Dale Jonas, Cemetery Sexton; Patricia E. Persinger, Clerk-Treasurer; David L. Bower, Mayor; and Ronald C. Haendiges, Jr., President Pro Tempore of the Common Council.

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WATER, WASTEWATER, AND SOLID WASTE DISPOSAL UTILITIES  
CITY OF SALEM

WATER, WASTEWATER, AND SOLID WASTE DISPOSAL UTILITIES  
CITY OF SALEM  
FEDERAL FINDING

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*Utility Collections*

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## CORRECTIVE ACTION PLAN

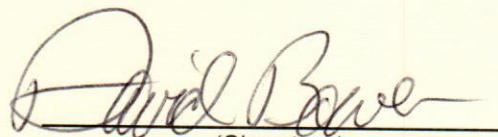
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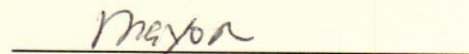
Contact Person Responsible for Corrective Action: Mayor David L. Bower  
Contact Phone Number: 812-883-4265

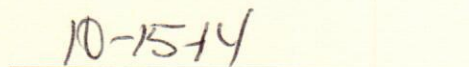
#### Description of Corrective Action Plan:

There have been proper policies and procedures immediately implemented that will ensure accuracy and integrity of the revenues by the employees of Salem Utilities for the City of Salem. Procedures and actions will be verified and received on a daily basis.

Anticipated Completion Date: October 15, 2014

  
(Signature)

  
(Title)

  
(Date)

WATER, WASTEWATER, AND SOLID WASTE DISPOSAL UTILITIES  
CITY OF SALEM  
EXIT CONFERENCE

The contents of this report were discussed on October 27, 2014, with Carol Brough, Utility Office Manager; Patricia E. Persinger, Clerk-Treasurer; David L. Bower, Mayor; and Ronald C. Haendiges, Jr., President Pro Tempore of the Common Council.