

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF DELPHI

CARROLL COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
09/25/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Leanne Aldrich	01-01-12 to 12-31-15
Mayor	Randy Strasser	01-01-12 to 12-31-15
President of the Board of Public Works	Randy Strasser	01-01-14 to 12-31-15
President Pro Tempore of the City Council	Richard Traeger	01-01-14 to 12-31-15



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
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE CITY OF DELPHI, CARROLL COUNTY, INDIANA

This report is supplemental to our audit report of the City of Delphi (City), for the period from January 1, 2014 to December 31, 2014. 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/.

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

August 11, 2015

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CLERK-TREASURER
CITY OF DELPHI

CLERK-TREASURER
CITY OF DELPHI
FEDERAL FINDINGS

FINDING 2014-001 - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The City has not established an effective control system over the preparation of the Schedule of Expenditures of Federal Awards (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 were undetected.

During the audit of the SEFA, we noted that the SEFA included state matching grants totaling \$253,713; fund transfers totaling \$306,551; the Indiana Department of Transportation's payments made directly to contractors totaling \$428,091; and other local funds totaling \$379,661. Audit adjustments were proposed, accepted by the City, 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."

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."

CLERK-TREASURER
CITY OF DELPHI
FEDERAL FINDINGS
(Continued)

FINDING 2014-002 - DAVIS-BACON ACT

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: DR2SC-012-002
Pass-Through Entity: Indiana Housing & Community Development Authority and Office of Community Rural
Affairs

The City designed an internal control system to verify compliance with the Davis-Bacon Act requirements, although all aspects of these controls were not properly implemented. The failure to properly implement their internal controls places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of proper implementation of the internal controls 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 contracted with a third-party to administer and manage services in connection with the grant project. The contract requires the Grant Administrator to verify the contractor's compliance with the requirements of the Davis-Bacon Act. The contractors send detailed payroll to the Grant Administrator each pay period for the compliance review. Upon completion of the review, the Grant Administrator compiles a detailed list of certified payroll reports (CPR) in a document referred to as "Labor Standards Review and Approval Report." This report is sent quarterly to the City through an email which also requests that the City select 3 payroll dates for review and return the report to the Grant Administrator. Upon receipt of the report, the Grant Administrator would gather the selected CPR's for the City to review and verify compliance with the Davis-Bacon Act requirements. The City failed to follow through with these procedures; they did not respond to all of the email requests. Therefore, the City did not properly monitor compliance with the Davis-Bacon Act requirements.

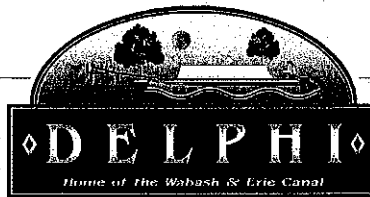
An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. 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 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 or implement proper internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management properly implement controls, including segregation of duties, related to the grant agreement and the Davis-Bacon Act compliance requirements.



CORRECTIVE ACTION PLAN

Contact Person Responsible for Corrective Action: Leanne Aldrich, Clerk Treasurer
Contact Phone Number: 765-564-2097

FINDING 2014-001

The Clerk Treasurer will contact SBOA for federal fund report before the financial report must be submitted. The Clerk and the Deputy Clerk will check internal reports to verify the correct balance in our software system equals the federal and state amounts on the report received by SBOA. Effort will be made to receive better financial information from the consultant/engineers working on the grants with federal funds.

FINDING 2014-002

The Clerk Treasurer will implement and follow the internal control system to verify compliance with Davis-Bacon requirements. The forms provided by the third-party grant administrator will be used as planned in order to verify all contractors are following the wage scale requirements. This plan will ensure compliance as the grant administrator will be verifying the pay scales and followed by the Clerk Treasurer's examination of the payroll records. These procedures are being followed immediately after the audit by the State Board of Accounts.

Leanne Aldrich
8-11-2015

CLERK-TREASURER
CITY OF DELPHI
AUDIT RESULTS AND COMMENTS

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

A similar comment was made in prior Report B44028.

Indiana Code 36-9-23-33 states in part:

"(c) Except as provided in subsection (m), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:

- (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.

- (B) A description of the premises, as shown by the records of the county auditor.

- (C) The amount of the delinquent fees, together with the penalty.

- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

(d) The officer shall record a copy of each list or each individual instrument with the county recorder . . .

(f) . . . Using the lists and instruments prepared under subsection (c) and recorded under subsection (d), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (d), certify to the county auditor a list of the unpaid liens for collection with the next May installment of property taxes."

PENALTIES, INTEREST, AND OTHER CHARGES

The City paid penalties, interest, and other charges to Internal Revenue Service (IRS) in the amount of \$5,462 as the City did not remit payments on a timely basis. The amount paid included delinquent taxes of \$4,985, penalties of \$197, and interest of \$280.

CLERK-TREASURER
CITY OF DELPHI
AUDIT RESULTS AND COMMENTS
(Continued)

During our audit, we also discovered that the City underpaid the Indiana Department of Revenue by \$1,884. Penalties and interest due to this underpayment have not yet been determined, assessed, or paid.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. 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)

The City of Delphi did not pay hydrant rental to the Water Utility as required by Rate Ordinance 2013-1, approved by the City Council on September 23, 2013. The City owes the Water Utility \$105,032 for 2014.

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)

DAILY DEPOSITS

The Clerk-Treasurer's Office deposits all funds received by the City and its departments, including the City Court. In March 2014, the City received a check from the County for \$469 which was not deposited as of May 20, 2015. One Aviation Department receipt was held over two weeks before it was deposited. In addition, 43 percent of City Court receipts tested were deposited later than the next business day.

Indiana Code 5-13-6-1(c) states in part:

" . . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . . "



**CORRECTIVE ACTION PLAN
FOR AUDIT RESULTS AND COMMENTS**

DELINQUENT WASTEWATER ACCOUNTS:

A correct and proper report will be received from the billing clerk and at that time the liens can be placed on the properties per Indiana Code 36-9-23-33.

PENALTIES, INTEREST, AND OTHER CHARGES:

The penalties, interest to Internal Revenue Service covered years prior to the present Clerk Treasurer as well as one quarter during the present Clerk's service. Effort will be made to ensure these reports are processed by the Clerk and confirmed for accuracy by the Deputy Clerk.

HYDRANT RENTAL RECEIVABLE (PAYABLE):

The approved budget for 2014 did not include funds for the City of Delphi to pay the Water Utility hydrant rental. This issue will be brought to the attention of the Common Council and will be corrected.

DAILY DEPOSITS:

A check in the amount of \$469 from the county was addressed. Reports of receipts will be done by the billing clerk and the payroll clerk and will be initialed after verified by the Clerk. The court clerk will follow the same procedures.

Leanne Aldrich
8-11-2015

CLERK-TREASURER
CITY OF DELPHI
EXIT CONFERENCE

The contents of this report were discussed on August 11, 2015, with Leanne Aldrich, Clerk-Treasurer, and Richard Traeger, President Pro Tempore of the City Council.