

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF LAPAZ

MARSHALL COUNTY, INDIANA

January 1, 2012 to December 31, 2013



FILED
11/24/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Susan Albert	01-01-12 to 12-31-15
President of the Town Council	Roger Ecker	01-01-12 to 12-31-12
	Lorraine Dove	01-01-13 to 12-31-13
	David Albert	01-01-14 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF LAPAZ, MARSHALL COUNTY, INDIANA

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

September 24, 2015

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CLERK-TREASURER
TOWN OF LAPAZ

CLERK-TREASURER
TOWN OF LAPAZ
FEDERAL FINDINGS

FINDING 2013-001- FINANCIAL TRANSACTIONS AND REPORTING

We noted the following deficiencies in the internal control system of the Town and errors related to financial transactions and reporting:

1. **Lack of Segregation of Duties:** The Town has not separated incompatible activities related to receipts, disbursements, and financial close and reporting. The Clerk-Treasurer performs all aspects of the receipts, disbursements, and financial close and reporting processes without oversight. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.
2. **Monitoring of Controls:** An evaluation of the Town's system of internal control has not been conducted. The failure to monitor the internal control system places the Town at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the Town to monitor and assess the quality of the system of internal control.
3. **Preparation of the Financial Statement and Recordkeeping:** The Town should have proper controls in place over the preparation of the financial statement to ensure accurate, complete, and reliable reporting of the Town's financial activity. 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.

The Town did not provide detailed history reports of receipts and disbursements transactions for 2013. In addition, reconcilements of the record balances to the bank account balances were not performed during the audit period. This allowed numerous recording errors to remain undetected and uncorrected and resulted in a financial statement that is unreliable and not reflective of the activity of the Town. The results of our efforts to reconcile the Town's record balances to the bank balances at December 31, 2012 and 2013, indicated that the record balances were \$147,153 and \$403,996 less than the bank balances; respectively.

Due to the lack of complete financial records for 2013 and the errors noted above, the records presented did not provide sufficient information to substantiate the receipts, disbursements, and ending cash and investment balances of the Town.

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)

CLERK-TREASURER
TOWN OF LAPAZ
FEDERAL FINDINGS
(Continued)

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

FINDING 2013-002 - ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES AND 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: DR2-09-103
Pass-Through Entity: Indiana Office of Community and Rural Affairs

Management of the Town has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and the Davis-Bacon Act.

Activities Allowed or Unallowed, Allowable Costs/Cost Principles

During the grant construction period, the Town Council approved accounts payable voucher register summary pages that did not include a list of each accounts payable voucher and therefore did not have the detailed information necessary to monitor compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles requirements.

Davis-Bacon Act

The Town relied on a paid consultant to monitor compliance with the Davis-Bacon Act requirements. During the grant construction period, the Town received no payroll data or other data to allow for proper monitoring of the Grant Administrator's Davis-Bacon Act compliance procedures.

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.

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.

CLERK-TREASURER
TOWN OF LAPAZ
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 could result in the loss of federal funds to the Town.

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

TOWN OF LAPAZ
108 RANDOLPH ST.
P.O. BOX 820
LAPAZ, IN
46537

CORRECTIVE ACTION PLAN

FINDING 2013-001

Contact Person Responsible for Corrective Action: Susan Albert
Contact Phone Number: 574-784-3491

Description of Corrective Action Plan:

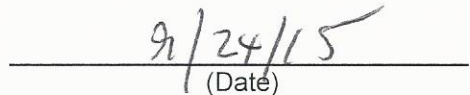
Because many of the issues with my work as Clerk Treasurer I have enlisted the services of a consultant that has helped many clerks in my situation to improve their following standards and practices. With this consultant on board the Clerks office will be better informed and trained on their duties.

My recommendation to the Council will be to hire a part time deputy to be a utility clerk.

Anticipated Completion Date: 12/31/2015


(Signature)

Clerk Treasurer
(Title)


(Date)

TOWN OF LAPAZ
108 RANDOLPH ST.
P.O. BOX 820
LAPAZ, IN
46537

CORRECTIVE ACTION PLAN

FINDING 2013-002

Contact Person Responsible for Corrective Action: Susan Albert
Contact Phone Number: 574-784-3491

Description of Corrective Action Plan:

Will inform the Council that even if they retain grant administrators in the future, the town still needs to have on file payroll documentation for the Davis-Bacon Act.

Monitoring compliance; segregation of duties

There was documentation that the Town Council did start approving a list of vouchers as of 02/14/13. This practice will continue.

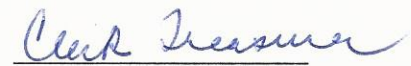
The Clerk is working with a consultant to better understand and use the financial software. This consultant is helping to change procedures in the office that will enable the Clerk Treasurer for the Town to better achieve the changes that need to be made.


It will be suggested to the Council that when there is an active project, grant or otherwise, there should be a person designated to oversee all activities and make certain all requirements are being met.

The Town Council will approve a purchasing procedure manual that all employees that can purchase must follow.

Anticipated Completion Date: immediate
Manual final deadline 1/1/2016


Susan Albert


Title


Date

CLERK-TREASURER
TOWN OF LAPAZ
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS

Financial records presented for audit were incomplete and not reflective of the activity of the Town. The records presented did not provide sufficient information to audit or establish beginning cash and investment balances, receipts, disbursements, ending cash and investment balances, or the accuracy or correctness of the transactions as follows:

Records Not Provided

No receipts or disbursements history reports for 2013 were provided for our audit.

Receipts

Several Auditor of State distributions and some distributions from the County Auditor were deposited into the Town's bank account by electronic funds transfer, but were not recorded as receipts in the Town's financial records. We were also unable to trace wastewater fees collected on April 28, 2012, and April 29, 2012, of \$258 and \$97, respectively, as shown on the billing system to the financial records. In addition, one of the twelve monthly transfers from the Sewer Utility Operation fund to the Sant Bond & Interest fund was not recorded as a receipt in the Sant Bond & Interest fund.

Disbursements

The February 29, 2012 debt payment of \$39,640 that was electronically paid from the Town's bank account was not recorded in the financial ledger. Also, during 2012 and 2013 numerous Payroll fund net payroll disbursements were recorded twice which created a negative Payroll fund cash balance. A \$2,000 transfer from the Sewer Utility Operation fund made October 17, 2012, was deposited but not recorded as a receipt in the Depreciation fund.

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)

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COMPENSATION AND BENEFITS

Compensation and benefits paid to two police officers and the Fire Chief were not included in the salary ordinance. The total wages paid to these employees was \$3,900 for the Fire Chief in 2012 and \$3,575, \$1,600, and \$1,450, for the two police officers and Fire Chief respectively, in 2013.

The salary ordinance stated that the Fire Chief and Police Officer's compensation amounts were according to contracts. No contracts for the Fire Chief or Police Officers were provided for audit.

CLERK-TREASURER
TOWN OF LAPAZ
AUDIT RESULTS AND COMMENTS

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)

OVERDRAWN CASH BALANCES

The financial statement presented for the Town included the Payroll fund with overdrawn cash balances of \$23,236 and \$28,705 at December 31, 2012, and December 31, 2013, respectively. The Town's fund report shows the Payroll fund with a negative \$210,847 cash balance at December 31, 2013. The Clerk-Treasurer stated that this was corrected during 2014 but was unable to provide documentation for the correction.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ANNUAL FINANCIAL REPORT - FILING REQUIREMENTS

The Annual Financial Reports (AFR) for the audit period were not filed timely. The 2012 and 2013 AFR, due within 60 days after the close of the calendar year, were not filed electronically until July 17, 2013, and May 1, 2014, respectively. In addition, the 2014 AFR was not filed until May 14, 2015.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

ANNUAL FINANCIAL REPORT - ACCURACY

The Annual Financial Reports for 2012 and 2013, which are used to generate the financial statement, contained a number of errors and did not properly reflect the financial activity of the Town. In addition, the 2012 Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances included large amounts of other receipts and other disbursements that should have been classified in more detail.

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CLERK-TREASURER
TOWN OF LAPAZ
AUDIT RESULTS AND COMMENTS
(Continued)

APPROPRIATIONS

The records presented for audit indicated that the Rainy Day Fund expenditures were in excess of budgeted appropriations by \$35,569 for 2013.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

PENALTIES, INTEREST, AND OTHER CHARGES

The Town paid \$40 in penalties, interest, and other charges to the Indiana Department of Revenue during 2012 and 2013 because the Town did not remit payments on a timely basis. Additional late payment penalties of \$2,164 were incurred for tax periods ending March 31, 2013 and October 31, 2013, but were paid personally by the Clerk-Treasurer. A late payment penalty of \$60 for the tax period ending August 31, 2012, was also paid, but it was not clear whether this was paid from Town funds.

The Clerk-Treasurer also agreed to an installment payment plan with the Internal Revenue Service in 2015 to repay \$5,013 in late payment penalties for periods ending March 31, 2014, and June 30, 2014. The Clerk-Treasurer explained she will repay these penalties from her personal funds.

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)

CLERK-TREASURER
TOWN OF LAPAZ
EXIT CONFERENCE

The contents of this report were discussed on September 24, 2015, with Susan Albert, Clerk-Treasurer, and David Albert, President of the Town Council.

TOWN COUNCIL
TOWN OF LAPAZ

TOWN COUNCIL
TOWN OF LAPAZ
AUDIT RESULTS AND COMMENTS

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TOWN COUNCIL
TOWN OF LAPAZ
EXIT CONFERENCE

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