

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF AVON

HENDRICKS COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
01/26/2016

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Federal Findings:	
Finding 2014-001 - Internal Controls Over Financial Transactions and Reporting.....	6
Finding 2014-002 - Preparation of the Schedule of Expenditures of Federal Awards	6-7
Finding 2014-003 - Cash Management, Matching, and Reporting.....	8-9
Corrective Action Plan	10
Exit Conference	11
Town Court:	
Federal Finding:	
Finding 2014-001 - Internal Controls Over Financial Transactions and Reporting.....	14
Corrective Action Plan	15
Exit Conference	16

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sharon K. Howell	01-01-12 to 12-31-19
President of the Town Council	Marcus Turner	01-01-14 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF AVON, HENDRICKS COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Avon (Town), 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 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.

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

January 21, 2016

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CLERK-TREASURER
TOWN OF AVON

CLERK-TREASURER
TOWN OF AVON
FEDERAL FINDINGS

FINDING 2014-001 - 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.

1. The Town has not separated incompatible activities related to receipts and disbursements. Receipt issuance, deposit, and posting to the ledger, and disbursement of payroll were performed by one employee with no oversight or review of these activities. Additionally, all financial activities of the Town Court, including the receipt and disbursement of funds, posting of records, and reconciliation to the bank account, were performed by one employee with no oversight or review of these activities. 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. The Town's monthly reconciliation process was performed by a contracted consultant. Once the reconciliation was completed each month, the Clerk-Treasurer reviewed it for accuracy; however, no documentation was available to evidence this review.
3. 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 requires the Town to monitor and assess the quality of the system of internal control.

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) (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 4)

FINDING 2014-002 - 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: the Highway Planning and Construction was understated by \$193,635, the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program was omitted, and several errors were noted with reporting of program names, project names, identifying numbers, and CFDA numbers. Audit adjustments were proposed, accepted by the Town, and made to the SEFA presented in this report.

CLERK-TREASURER
TOWN OF AVON
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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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 AVON
FEDERAL FINDINGS
(Continued)

FINDING 2014-003 - CASH MANAGEMENT, MATCHING, AND REPORTING

Federal Agency: Department of Transportation

Federal Program: Highway Planning and Construction

CFDA Number: 20.205

Federal Award Number and Year (or Other Identifying Number): 1006094, 1172318, 1172483,
1172484, 1173287

Pass-Through Entity: Indiana Department of Transportation

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: Cash Management, Matching, and Reporting.

Cash Management and Matching

The Town is required to request reimbursement from the Indiana Department of Transportation (INDOT) using a form titled LPA Invoice - Voucher. This form lists the gross amount of the claim paid by the Town and calculates the percentage of federal share reimbursable. The Director of Public Works prepared this form and signed it. There were no procedures in place at the Town to ensure the accuracy of the form prior to submission to INDOT.

Reporting

The Town is required to submit a quarterly report to the Indianapolis Metropolitan Planning Organization. The report is submitted online. One person entered the data and submitted the quarterly report. There were no procedures in place at the Town to ensure the accuracy of the information prior to submission of the report.

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.

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."

CLERK-TREASURER
TOWN OF AVON
FEDERAL FINDINGS
(Continued)

The failure to establish internal controls could enable material noncompliance to go undetected. 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's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.



January 21, 2016

The Town of Avon (the "Town") appreciates the findings and comments related to the recent review of financial records through December 31, 2014. Accordingly, the Town hereby submits the following "corrective action plan" for your consideration.

FINDING 2014-001 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS

1. As recognized in the past, segregation of duties is not always practical in the Town due to the size of the entity. For this reason, the Town has always had an outside consultant prepare reconciliations, review transaction documentation and G/L system posting. In 2014, the Town transferred one person from the police department to serve as a full-time deputy clerk-treasurer. This relationship allows for additional segregation of duties relating to incompatible functions such as receipts and disbursements, as noted. In cases where basic segregation of duties remain impractical (such as the town court), the Town will implement outside compensating activities such as monthly reviews of the court's reconciliation process and the appropriate transactional documentation, with notation of review by the clerk-treasurer or designated person(s).
2. The clerk-treasurer has always carefully reviewed and maintained the monthly reconciliation process of the financial reporting system. In future periods, notation will be made on necessary documents to indicate completion of the review.
3. The Town will strive to implement an ongoing and comprehensive process to evaluate internal controls sufficient to meet the current acceptable standards, given the Town's limitations, and monitor control activities in order to meet Town objectives and minimize financial risks.

FINDING 2014-002 – PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Current policies are in place to mitigate future errors of omission. The clerk-treasurer shares a file with the public works director at the time of receipt, noting CFDA #, specific revenue lines, and other data outlined in Circular A-133 to facilitate accurate and complete SEFA preparation. The deputy clerk-treasurer is developing a similar process to track any DOJ agency grants, with the required elements for accurate reporting. The town will then monitor and amend procedures to verify sufficient controls are in place.

FINDING 2014-003 – CASH MANAGEMENT, MATCHING, AND REPORTING

As a proposed corrective action plan, the public works director will continue to process INDOT reimbursement requests; however, prior to filing the reimbursements, the clerk-treasurer (or designated employee) will review the LPA invoice-voucher prepared by the public works director for accuracy, with notations of review retained in the file. Similarly, a process of review will be implemented for quarterly reports to IMPO. Additionally, the Town will segregate some of the reporting duties utilizing the assistant public works director, or other designated employee.

Sharon Howell, Clerk Treasurer, 317-272-0948, will act as the contact person responsible for this corrective action plan.

CLERK-TREASURER
TOWN OF AVON
EXIT CONFERENCE

The contents of this report were discussed on January 21, 2016, with Sharon K. Howell, Clerk-Treasurer; Tom Klein, Town Manager; and Marcus Turner, President of the Town Council.

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TOWN COURT
TOWN OF AVON

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FEDERAL FINDING

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