

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF BRAZIL

CLAY COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
08/26/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Karen McQueen	01-01-14 to 12-31-19
Mayor	Brian Wyndham	01-01-14 to 12-31-19
President of the Board of Public Works and Safety	Brian Wyndham	01-01-14 to 12-31-16
President Pro Tempore of the Common Council	Tyler W. Hutcheson P. Brad Deal	01-01-14 to 12-31-14 01-01-15 to 12-31-16
Superintendent of Water Utility	Jacob D. Raubach Shawnette Szekely	01-01-14 to 12-31-14 01-01-15 to 12-31-16
Superintendent of Wastewater Utility	William Goodrich	01-01-14 to 12-31-16
Utility Office Manager	Delores M. Elder	01-01-14 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF BRAZIL, CLAY COUNTY, INDIANA

This report is supplemental to our audit report of the City of Brazil (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

July 6, 2016

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CLERK-TREASURER
CITY OF BRAZIL

CLERK-TREASURER
CITY OF BRAZIL
FEDERAL FINDINGS

***FINDING 2014-001 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING***

Several deficiencies were identified in the internal control system of the City related to financial transactions and reporting.

1. Lack of Segregation of Duties: The City had not separated incompatible activities related to receipts, disbursements, including payroll, and cash. The City had a control in place for receipts, however, the Clerk-Treasurer did not document that she reviewed the Daily Cash Collection Register to the deposit ticket which was completed by the Deputy Clerk-Treasurer.

One employee in the Clerk-Treasurer's Office solely processed the payroll transactions and prepared the bank reconciliations. There was no oversight, review, or approval process for the payroll transactions or the bank reconciliations. The failure to establish these controls would have enabled material misstatements or irregularities to remain undetected.

2. Monitoring of Controls: An evaluation of the City's system of internal control had not been conducted. The failure to monitor the internal control system would have placed the City at risk that controls may not have been either designed properly or operating effectively to provide reasonable assurance that controls would prevent, or detect and correct, material misstatements in a timely manner. Additionally, the City had no process to identify or communicate corrective actions to improve controls.
3. The financial information entered into the Annual Financial Report on Gateway was used to compile the financial statement. During the audit of the financial statement, it was identified that the receipts and disbursements were inaccurate for the payroll fund. Audit adjustments in the amounts of \$3,484,916 for receipts and \$3,484,915 for disbursements were recommended, accepted by the Officials, and made to the financial statement presented in this report.
4. Preparation of the Schedule of Expenditures of Federal Awards (SEFA): The City did not have a proper system of internal control in place to prevent or detect errors on the SEFA. The following errors were identified:
 - The Highway Planning and Construction grant and the Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii expenditures of \$61,096 and \$81,481, respectively, were not reported on the SEFA.
 - The Hazard Mitigation Grant expenditures were overstated by \$74,689.

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.

CLERK-TREASURER
CITY OF BRAZIL
FEDERAL FINDINGS
(Continued)

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)

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."

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
CITY OF BRAZIL
FEDERAL FINDINGS
(Continued)

FINDING 2014-002 - INTERNAL CONTROLS OVER HAZARD MITIGATION GRANT

Federal Agency: Department of Homeland Security
Federal Program: Hazard Mitigation Grant
CFDA Number: 97.039
Federal Award Numbers and Years (or Other Identifying Numbers): C44P-4-511B, C44P-4-512B
Pass-Through Entity: Indiana Department of Homeland Security

Management of the City had not established an effective internal control system, which would have included segregation of duties, related to the grant agreement and the following compliance requirements: Cash Management, Matching, Period of Availability, and Reporting.

Reporting and Cash Management

The Request for Expenditures were prepared by the Grant Administrator and submitted to the grantor agencies via email. The Grant Administrator also submitted the Quarterly Performance Reports. There was no segregation of duties, such as an oversight, review, or approval process to ensure information was submitted and correctly reported. The City had no controls in place to minimize the time elapsing between the transfer of funds from the pass-through entity and the disbursement by the City.

Matching and Period of Availability

The City contracted with a third-party to administer the grants. The City had no controls in place to ensure allowable costs were incurred during the period authorized by the Federal awarding agency and to ensure the matching requirements were met.

The failure to establish an effective internal control system placed 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 would have also allowed noncompliance with the compliance requirements and allowed 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 have been designed and operated 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
CITY OF BRAZIL
FEDERAL FINDINGS
(Continued)

The failure to establish internal controls would have enabled material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could have resulted in the loss of federal funds to the City.

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



CITY OF BRAZIL

Karen McQueen, Clerk-Treasurer

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Brazil, Indiana 47834
Phone: (812) 448-8403
Fax: (812) 446-0337
www.brazil.in.gov

CORRECTIVE ACTION PLAN

FINDING 2014-001

Contact Person Responsible for Corrective Action: Karen McQueen
Contact Phone Number: 812-448-8403

Views of Responsible Official:
I concur with the findings.

Description of Corrective Action Plan:

The City of Brazil continues to correct Internal Control errors. The City of Brazil has plans to host an Internal Controls training class here at City Hall in the 2016 year, in hopes of limiting Internal Control errors. The City of Brazil also continues to try and understand the Incode system and its financial reporting. The City is currently looking into other options in the reporting of the cities financials. Finally the City of Brazil will now keep a folder with all of the SEFA information that will be accessible for the annual reporting into Gateway and for State Board of Accounts upon annual audits.

FINDING 2014-002

Contact Person Responsible for Corrective Action: Karen McQueen
Pass-Through Entity: Department of Homeland Security
Contact Phone Number: 812-448-8403

Views of Responsible Official:
I concur with the findings.

Description of Corrective Action Plan:

The City of Brazil also continues to correct Internal Control errors with the grant noted above. The City of Brazil has plans to host an Internal Controls training class here at City Hall in the 2016 year, in hopes of limiting Internal Control errors. Also the City of Brazil conducts monthly meetings concerning all active grants with the Clerk-Treasurer, City Attorney, Utilities Financial Officer, Grant Administrator and the Planning and Zoning Administrator. Monthly meetings are intended to help inform, answer questions and catch or correct errors that may arise during grant process.

Anticipated Completion Date: December 31, 2016

Karen McQueen
(Signature)

Clerk - Treasurer
(Title)

6-27-16
(Date)

CLERK-TREASURER
CITY OF BRAZIL
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCES

The financial statement presented for audit included the following funds with overdrawn cash balances at December 31, 2014:

<u>Fund</u>	<u>Amount Overdrawn</u>
Cumulative Drainage Fund	\$ 1,601
Emergency Response Team	2,306
Traffic Safety	5,495
Payroll Fund	15,381
Pogues Run Grant	233,461

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)

CLERK-TREASURER
CITY OF BRAZIL
EXIT CONFERENCE

The contents of this report were discussed on July 6, 2016, with Karen McQueen, Clerk-Treasurer; Brian Wyndham, Mayor; Shane Litz, City Council member; and Sheryl Hill, Utility Assistant Office Manager.

CITY COUNCIL
CITY OF BRAZIL

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FEDERAL FINDING

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CITY COUNCIL
CITY OF BRAZIL
FEDERAL FINDING
(Continued)

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CITY OF BRAZIL

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CORRECTIVE ACTION PLAN

FINDING 2014-001

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FINDING 2014-002

Contact Person Responsible for Corrective Action: Karen McQueen
Pass-Through Entity: Department of Homeland Security
Contact Phone Number: 812-448-8403

Views of Responsible Official:
I concur with the findings.

Description of Corrective Action Plan:

The City of Brazil also continues to correct Internal Control errors with the grant noted above. The City of Brazil has plans to host an Internal Controls training class here at City Hall in the 2016 year, in hopes of limiting Internal Control errors. Also the City of Brazil conducts monthly meetings concerning all active grants with the Clerk-Treasurer, City Attorney, Utilities Financial Officer, Grant Administrator and the Planning and Zoning Administrator. Monthly meetings are intended to help inform, answer questions and catch or correct errors that may arise during grant process.

Anticipated Completion Date: December 31, 2016

Karen McQueen
(Signature)

Clerk - Treasurer
(Title)

6-27-16
(Date)

CITY COUNCIL
CITY OF BRAZIL
EXIT CONFERENCE

The contents of this report were discussed on July 6, 2016, with Shane Litz, City Council member; Karen McQueen, Clerk-Treasurer; Brian Wyndham, Mayor; and Sheryl Hill, Utility Assistant Office Manager.

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BOARD OF PUBLIC WORKS AND SAFETY
CITY OF BRAZIL

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF BRAZIL
AUDIT RESULT AND COMMENT

TRAVEL POLICY

The City reimbursed employees for travel expenses without an approved travel policy.

Each governmental unit should adopt a written travel policy in conformity with applicable statutes.

Reimbursement for lodging and meals should be based upon actual receipts for amounts paid unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF BRAZIL
EXIT CONFERENCE

The contents of this report were discussed on July 6, 2016, with Brian Wyndham, Mayor; Karen McQueen, Clerk-Treasurer; Shane Litz, City Council member; and Sheryl Hill, Utility Assistant Office Manager.

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GOLF DEPARTMENT
CITY OF BRAZIL

GOLF DEPARTMENT
CITY OF BRAZIL
AUDIT RESULT AND COMMENT

PUBLIC RECORDS RETENTION

The cash register receipt tapes for the snack bar at the City golf course, used to verify the collections for each day, were not retained and available for audit.

Indiana Code 5-15-6-3(f), concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

GOLF DEPARTMENT
CITY OF BRAZIL
EXIT CONFERENCE

The contents of this report were discussed on July 6, 2016, with Karen McQueen, Clerk-Treasurer; Brian Wyndham, Mayor; Shane Litz, City Council member; and Sheryl Hill, Utility Assistant Office Manager.