

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF WATERLOO

DEKALB COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
01/06/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Renata Ford	01-01-12 to 12-31-19
President of the Town Council	Candice Surber William Hubartt David Bolton	01-01-12 to 05-13-14 05-14-14 to 12-31-14 01-01-15 to 12-31-16
Superintendent of Water Utility	James Rodman Chris Lalonde	01-01-12 to 03-31-14 04-01-14 to 12-31-16
Superintendent of Wastewater Utility	Chad Ritter (Vacant) Chris Lalonde	01-01-12 to 09-30-13 10-01-13 to 01-05-14 01-06-14 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF WATERLOO, DEKALB COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Waterloo (Town), for the period from January 1, 2012 to December 31, 2012. 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

December 5, 2016

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CLERK-TREASURER
TOWN OF WATERLOO

CLERK-TREASURER
TOWN OF WATERLOO
FEDERAL FINDINGS

FINDING 2012-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Condition

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).

Context

During the audit of the SEFA, there were the following errors: The Clerk-Treasurer reported the federal grant funds awarded during the audit period instead of the federal grant funds expended. This resulted in an overstatement of the total federal awards expended by \$3,020,432. Audit adjustments were proposed, accepted by the Town, and made to the SEFA.

Criteria

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:

"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.

CLERK-TREASURER
TOWN OF WATERLOO
FEDERAL FINDINGS
(Continued)

- (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."

Cause

Management had not established a system of internal control that would have ensured proper reporting of the SEFA.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained errors as identified in the *Context*.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2012-002 - FINANCIAL TRANSACTIONS AND REPORTING

Condition

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town did not have a proper system of internal control in place to prevent, or detect and correct, errors on the annual financial statement and the bank reconcilements.

Context

The financial statement did not include the financial transactions of several trust accounts. These accounts were used to pay the principal and interest due to bond holders of the Taxable Economic Development Revenue Bonds Series 2008 and the construction costs of the project being financed. The receipts were understated \$122,002, the disbursements were understated \$122,000 and the ending balance was understated \$14,402. Audit adjustments were proposed, accepted by the Town, and made to the financial statement.

CLERK-TREASURER
TOWN OF WATERLOO
FEDERAL FINDINGS
(Continued)

The Town is required to perform monthly reconciliations, however, the reconciliation at December 31, 2012, contained numerous errors. The Clerk-Treasurer identified \$16,420 in errors, which left an unreconciled balance of \$21.

Criteria

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)

Cause

Management of the Town had not established a proper system of internal control that would have ensured accuracy of financial transactions and reporting.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the financial statement remained undetected. The financial statement contained errors as identified in the *Context*.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



*Renata Ford
Clerk/Treasurer
Town of Waterloo
280 S Wayne St
PO Box 96
Waterloo, IN 46793*

*Phone: 260-837-7428
Fax: 260-837-3605
email: rford@waterlooin.gov*

CORRECTIVE ACTION PLAN

RE: FINDING 2012 – 001

PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

View of Responsible Official:
Renata Ford, Clerk/Treasurer:
(260) 837-7428

I agree with Finding 2012 - 001

Corrective Action Plan:

I will use exact federal grant fund expenditures when filing my Annual Financial Report to the State Board of Accounts not the funds that were awarded.

Anticipated Completion Date:

Immediately upon completion of my 2016 Annual Report and thereafter my first deputy will review and then it will go to the Town Manager and Town Council for errors and questions.

Renata Ford
Waterloo Clerk/Treasurer
November 16, 2016



*Renata Ford
Clerk/Treasurer
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PO Box 96
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Fax: 260-837-3605
email: rford@waterlooin.gov*

CORRECTIVE ACTION PLAN

RE: FINDING 2012 – 002

FINANCIAL TRANSACTIONS AND REPORTING

View of Responsible Official:
Renata Ford, Clerk/Treasurer:
(260) 837-7428

I agree with Finding 2012 – 002

Corrective Action Plan:

I will be combining my financial software (Komputrol) with my deputy clerks' software (Keystone) and have been given council approval to upgrade this software. This should eliminate most of the manual entry. My first deputy and I will be learning this software together therefore, we can review our work together. For now I have been training my first deputy to do reconciling so we will both be able to review the others work.

Anticipated Completion Date:

Immediately



Renata Ford
Waterloo Clerk/Treasurer
November 16, 2016

CLERK-TREASURER
TOWN OF WATERLOO
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

A depository reconciliation of the funds ledger to the bank account balances was conducted; however, the reconciliation presented for audit at December 31, 2012, did not balance by \$16,399. Further review by the Clerk-Treasurer identified \$16,420, which left an unreconciled balance of \$21.

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."

ANNUAL FINANCIAL REPORT

The Annual Financial Report (AFR) for 2012 contained numerous errors and did not match the Town's records. The financial statement did not include the financial transactions of several trust accounts. These accounts were used to pay the principal and interest due to bond holders of the Taxable Economic Development Revenue Bonds Series 2008 and the construction costs of the project being financed. In addition, the supplemental Debt Schedule contained numerous errors which caused the amount due to be overstated by \$44,960. Adjustments were proposed and accepted by the Clerk-Treasurer and made to the AFR and Debt Schedule as presented in the Financial Statement and Single Audit Report for 2012. Also, the Schedule of Accounts Payables and Receivables and the Schedule of Capital Assets were not materially correct and are not presented as Supplementary Information in the Financial Statement and Single Audit Report for 2012.

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."

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)

OFFICIAL BOND

The Clerk-Treasurer's Surety Bond during the audit period was insufficient per the Indiana Code. The actual amount of coverage during the audit period was \$25,000 and should have been \$120,000 based on total receipts of over \$3.8 million.

Indiana Code 5-4-1-18 states in part:

"(a) Except as provided in subsection (b), the following . . . town . . . officers and employees shall file an individual surety bond: . . .

(2) Town judges and clerk-treasurers. . . .

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

(c) Except as provided in subsections (h) and (i), the fiscal bodies of the respective units shall fix the amount of the bond of . . . town clerk-treasurers . . . as follows:

- (1) The amount must equal thirty thousand dollars (\$30,000) for each one million dollars (\$1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2).
- (2) The amount may not be less than thirty thousand dollars (\$30,000) nor more than three hundred thousand dollars (\$300,000) unless the fiscal body approves a greater amount for the officer or employee. . . ."

LOANS BETWEEN FUNDS

The Town passed Resolution 10-05 concerning temporary loans the Water Utility received from the Cumulative Fire fund (\$24,700) and the Co Economic Development Income Tax fund (\$29,740) which were to be paid back by December 31, 2011. The Water Utility still owed \$4,000 to the Cumulative Fire fund and \$29,740 to the Co Economic Development Income Tax fund as these amounts were still unpaid as of December 31, 2012.

In 2010, a total of \$26,750 was disbursed from the Rainy Day fund for water tower painting, which included \$10,000 noted in Resolution 10-05. In 2011, \$20,000 was paid back to the Rainy Day fund leaving a balance of \$6,750. This amount was still unpaid as of December 31, 2012.

A similar comment appeared in prior Report B41306.

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)

Indiana Code 36-1-8-4 concerning temporary loans states in part:

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs; (4) The amount transferred must be returned to the other fund at the end of the prescribed period . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.

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

- (2) Immediately forwards the ordinance or resolution to the state board of accounts and department of local government finance."

CUSTOMER DEPOSIT REGISTER

The detailed customer deposit register (Meter Deposit Report) did not reconcile with the customer deposit cash amount recorded on the Fund Report. Also, the difference between the Meter Deposit Report and the Fund Report has not remained constant from year to year.

A similar comment appeared in prior Report B41306.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS

The Town did not maintain capital asset records.

A similar comment appeared in prior Report B41306.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CLERK-TREASURER
TOWN OF WATERLOO
EXIT CONFERENCE

The contents of this report were discussed on December 5, 2016, with Renata Ford, Clerk-Treasurer, and William Hubartt, Town Council member.

TOWN COUNCIL
TOWN OF WATERLOO

TOWN COUNCIL
TOWN OF WATERLOO
FEDERAL FINDING

FINDING 2012-003 - 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 Numbers and Years (or Other Identifying Numbers): A192-12-PL-11-022,
A192-11-CF-07-503

Pass-Through Entity: Indiana Office of Community and Rural Affairs

Condition

Management of the Town had not established an effective internal control system related to the grant agreement and the following compliance requirement: Davis-Bacon Act. The Town paid an independent contractor to provide grant administration services for the Wastewater Collection System Improvements Grant.

Context

The Town relied solely on communications with the Grant Administrator to determine compliance with the Davis-Bacon Act.

Criteria

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. . . ."

Effect

The failure to establish internal controls could 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 Town.

Recommendation

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

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



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CORRECTIVE ACTION PLAN

RE: FINDING 2012 - 003

DAVIS-BACON ACT

View of Responsible Officer:
David Bolton, Council President
908-3250

I agree with Finding 2012 – 003

Description of Corrective Action Plan:

Compliance with the Davis-Bacon Act will always require a hired consultant from our standpoint, because of our small staff, but now we will have the Town Manager assume responsibility of reviewing all our hired consultant's grant paperwork.

Anticipated Completion Date:

Immediately



David Bolton
Waterloo Council President

TOWN COUNCIL
TOWN OF WATERLOO
AUDIT RESULT AND COMMENT

OFFICIAL BOND

The amount of the Clerk-Treasurer's Surety Bond fixed by the Town Council during the audit period was insufficient per the Indiana Code. The actual amount of coverage during the audit period was \$25,000 and should have been \$120,000 based on total receipts of over \$3.8 million.

Indiana Code 5-4-1-18 states in part:

"(a) Except as provided in subsection (b), the following . . . town . . . officers and employees shall file an individual surety bond: . . .

(2) Town judges and clerk-treasurers. . . .

(c) Except as provided in subsections (h) and (i), the fiscal bodies of the respective units shall fix the amount of the bond of . . . town clerk-treasurers . . . as follows:

- (1) The amount must equal thirty thousand dollars (\$30,000) for each one million dollars (\$1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2).
- (2) The amount may not be less than thirty thousand dollars (\$30,000) nor more than three hundred thousand dollars (\$300,000) unless the fiscal body approves a greater amount for the officer or employee. . . ."

TOWN COUNCIL
TOWN OF WATERLOO
EXIT CONFERENCE

The contents of this report were discussed on December 5, 2016, with William Hubartt, Town Council member.