

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF WESTVILLE

LAPORTE COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
01/06/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Carol Rotzien Lori Mercer	01-01-12 to 12-31-15 01-01-16 to 12-31-19
President of the Town Council	Michael Albert	01-01-14 to 12-31-16
Superintendent of Utilities	Bart Frank Dan Anderson (acting) Dan Anderson (appointed)	01-01-14 to 11-15-15 11-16-15 to 03-09-16 03-10-16 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF WESTVILLE, LAPORTE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Westville (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 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 Result and Comment 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 Result and Comment contained herein describes 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 Responses to the Audit Result and Comment, incorporated within this report, were not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

September 22, 2016

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CLERK-TREASURER
TOWN OF WESTVILLE

CLERK-TREASURER
TOWN OF WESTVILLE
FEDERAL FINDINGS

FINDING 2014-001 - THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Condition

The Town had no system of internal controls in place to prepare the Schedule of Expenditures of Federal Awards (SEFA) and to prevent, or detect and correct, errors on 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.
- (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.

CLERK-TREASURER
TOWN OF WESTVILLE
FEDERAL FINDINGS
(Continued)

- (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, the unit had not prepared a SEFA.

Views of Responsible Officials

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

FINDING 2014-002 - FINANCIAL TRANSACTIONS AND REPORTING

Condition

There were several deficiencies in the internal control system of the Town related to financial transactions and reporting that were considered material weaknesses.

1. Lack of Segregation of Duties: The Town had not separated incompatible activities related to cash and investments, receipts, and disbursements, including payroll. The Clerk-Treasurer had two employees; however, a proper segregation of duties between the employees had not been established.

The cash reconciliation was prepared by one employee; however, there was no evidence of a review by either another employee or the Board.

One employee was responsible for receiving money and preparing deposits. This employee also had access to the computer system to make adjustments.

One employee was responsible for collecting utility receipts and recording the receipts in the ledger. There was no review by an individual separate from the recording function to ensure that amounts recorded to the ledger were correct.

The Annual Financial Report (AFR), which included the financial activity of all funds and was the basis for the financial statement, was prepared by a Clerk-Treasurer. There was no evidence of adequate oversight or review before submission of the AFR.

2. Monitoring of Controls: The Town had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the Town to monitor and assess the quality of the system of internal control.

CLERK-TREASURER
TOWN OF WESTVILLE
FEDERAL FINDINGS
(Continued)

The Town Council approved accounts payable vouchers using the Accounts Payable Vouchers Register (Register). The accounts payable vouchers listed on the Register were approved at the following month's Town Council meeting. Checks were issued prior to Town Council's approval. The Town Council approved Ordinance 2008-2020, which allowed for the payment of certain claims prior to Board approval; however, all accounts payable vouchers were paid prior to Town Council approval.

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)

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Cause

Management of the Town had not established a proper system of internal control. Management had not conducted a risk assessment related to the Town's financial reporting and transactions.

Effect

The failure to establish controls enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the Town at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

CLERK-TREASURER
TOWN OF WESTVILLE
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

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

Auditor's Response

All employees of the Town have the ability to collect receipts and prepare the deposits for both the Town and Utility. Duties and responsibilities were not adequately segregated over the activities of the Town and Utility. The employees could collect money, prepare the deposit, record the receipts, and make adjustments to the ledger without proper oversight or review.

FINDING 2014-003 - DAVIS-BACON ACT AND REPORTING

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458
Federal Award Number and Year (or Other Identifying Number): WW13154601
Pass-Through Entity: Indiana Finance Authority

Condition

An effective internal control system, which would have included segregation of duties, was not in place at the Town in order to ensure compliance with requirements related to the grant agreement and the Davis-Bacon Act and Reporting compliance requirements.

Davis-Bacon Act

Management and the governing board did not review the quarterly Davis-Bacon Act compliance reports prepared by a consultant. There were no controls in place to ensure compliance with the Davis-Bacon Act requirements.

Reporting

Management and the governing board did not review the annual MBE/WBE (Minority Business Enterprise/Woman Business Enterprise) compliance reports prepared by a consultant. There were no controls in place to ensure compliance with the reporting requirements.

Context

The lack of adequate controls was prevalent throughout the audit period.

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. . . ."

CLERK-TREASURER
TOWN OF WESTVILLE
FEDERAL FINDINGS
(Continued)

Cause

Management had not developed a system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system placed 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 have also allowed noncompliance with 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.

Questioned Costs

There were no questioned costs identified.

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.

CORPORATE TOWN
Mailing Address:
P O Box 275
WESTVILLE INDIANA 46391

PHONE: (219) 785-2123
FAX: (219) 785-2607

FINDING 2014-001 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Lori Mercer, Clerk-Treasurer

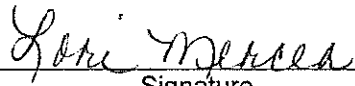
Contact Phone Number: 219-785-2123

Views of Responsible Official: Please be advised that I concur, in part, and disagree, in part, with this audit finding.

Description of Corrective Action Plan: The Town Council of the Town of Westville recently approved Ordinance No. 2016-11 establishing internal control standards for the Town. Town staff has already been trained on the internal control standards. The Town Council's adoption of Ordinance No. 2016-11 and the training of Town staff on internal control standards are the Town's corrective action plan in response to audit finding 2014-001.

I disagree with the finding that states, "*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.*" At the time of the loan closing, the Town was not advised that it was going to be required to implement the internal controls standards.

Anticipated Completion Date: Immediately



Signature
Clerk - Treasurer

Title
9-20-16

Date

CORPORATE TOWN
Mailing Address:
P O Box 275
WESTVILLE INDIANA 46391

PHONE: (219) 785-2123
FAX: (219) 785-2607

FINDING 2014-002 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Lori Mercer, Clerk-Treasurer

Contact Phone Number: 219-785-2123

Views of Responsible Official: Please be advised that I concur, in part, and disagree, in part, with this audit finding.

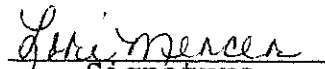
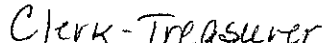
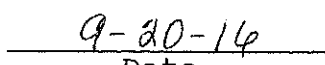
Description of Corrective Action Plan: The Town Council of the Town of Westville recently approved Ordinance No. 2016-11 establishing internal control standards for the Town. Town staff has already been trained on the internal control standards. The Town Council's adoption of Ordinance No. 2016-11 and the training of Town staff on internal control standards are the Town's corrective action plan in response to audit finding 2014-002.


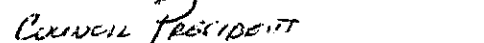
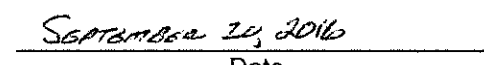
I disagree with the finding that states, "*One employee was responsible for receiving money and preparing deposits.*" In actuality, all Town staff has always been responsible for receiving money and preparing deposits.

I also disagree with the finding that states, "*One employee was responsible for collecting utility receipts and recording the receipts in the ledger.*" In actuality, all three (3) full time office staff collects utility receipts and posts them accordingly.

I disagree with the finding that states, "*The Gateway Annual Report, which included the financial activity of all funds and was the basis for the financial statement, was prepared by a clerk. There was no evidence of adequate oversight or review before submission of the annual report.*" In actuality, the 2014 Gateway Annual Report was prepared by two (2) clerks with review by the Clerk-Treasurer before it was submitted.

Anticipated Completion Date: Immediately


Signature

Title

Date


Signature

Title

Date

CORPORATE TOWN
Mailing Address:
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WESTVILLE INDIANA 46391

PHONE: (219) 785-2123
FAX: (219) 785-2607

FINDING 2014-003 Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Lori Mercer, Clerk-Treasurer

Contact Phone Number: 219-785-2123

Views of Responsible Official: Please be advised that I concur, in part, and disagree, in part, with this this audit finding.

Description of Corrective Action Plan: The Town Council of the Town of Westville recently approved Ordinance No. 2016-11 establishing internal control standards for the Town. Town staff has already been trained on the internal control standards. The Town Council's adoption of Ordinance No. 2016-11 and the training of Town staff on internal control standards are the Town's corrective action plan in response to audit finding 2014-003.

I disagree with the portion of finding 2014-003 that states "*Management and the governing board did not review the quarterly Davis-Bacon Act compliance reports prepared by a consultant. There were no controls in place to ensure compliance with the Davis-Bacon Act requirements.*" At the time of the loan closing, the Town was not informed of this requirement.

Anticipated Completion Date: Immediately

Lori Mercer
Signature
Clerk-Treasurer
Title
9-20-16
Date

CLERK-TREASURER
TOWN OF WESTVILLE
AUDIT RESULT AND COMMENT

COMPENSATION AND BENEFITS

Contributions were made to employee Individual Retirement Accounts (IRA), which were not included on the employee's Internal Revenue Service Wage and Tax Statements Form W-2. The contributions were made based on Ordinance 1983-1, which authorized contributions of eight percent of employees' annual salary to their IRAs. The contributions were described as a simplified employee pension plan as defined by the Internal Revenue Service and Indiana Code 5-10-1.1-7.

A similar comment appeared in prior Report B44594.

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)

CLERK-TREASURER
TOWN OF WESTVILLE
EXIT CONFERENCE

The contents of this report were discussed on September 22, 2016, with Lori Mercer, Clerk-Treasurer, and Michael Albert, President of the Town Council.

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UTILITIES
TOWN OF WESTVILLE

UTILITIES
TOWN OF WESTVILLE
FEDERAL FINDING

FINDING 2014-003 - DAVIS-BACON ACT AND REPORTING

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458
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Condition

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Davis-Bacon Act

Management and the governing board did not review the quarterly Davis-Bacon Act compliance reports prepared by a consultant. There were no controls in place to ensure compliance with the Davis-Bacon Act requirements.

Reporting

Management and the governing board did not review the annual MBE/WBE (Minority Business Enterprise/Woman Business Enterprise) compliance reports prepared by a consultant. There were no controls in place to ensure compliance with the reporting requirements.

Context

The lack of adequate controls was prevalent throughout the audit period.

UTILITIES
TOWN OF WESTVILLE
FEDERAL FINDING
(Continued)

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. . . ."

Cause

Management had not developed a system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system placed 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 have also allowed noncompliance with 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.

Questioned Costs

There were no questioned costs identified.

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.

CORPORATE TOWN
Mailing Address:
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WESTVILLE INDIANA 46391

PHONE: (219) 785-2123
FAX: (219) 785-2607

FINDING 2014-003 Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Lori Mercer, Clerk-Treasurer

Contact Phone Number: 219-785-2123

Views of Responsible Official: Please be advised that I concur, in part, and disagree, in part, with this this audit finding.

Description of Corrective Action Plan: The Town Council of the Town of Westville recently approved Ordinance No. 2016-11 establishing internal control standards for the Town. Town staff has already been trained on the internal control standards. The Town Council's adoption of Ordinance No. 2016-11 and the training of Town staff on internal control standards are the Town's corrective action plan in response to audit finding 2014-003.

I disagree with the portion of finding 2014-003 that states "*Management and the governing board did not review the quarterly Davis-Bacon Act compliance reports prepared by a consultant. There were no controls in place to ensure compliance with the Davis-Bacon Act requirements.*" At the time of the loan closing, the Town was not informed of this requirement.

Anticipated Completion Date: Immediately

Lori Mercer
Signature
Clerk-Treasurer
Title
9-20-16
Date

UTILITIES
TOWN OF WESTVILLE
EXIT CONFERENCE

The contents of this report were discussed on September 22, 2016, with Lori Mercer, Clerk-Treasurer, and Michael Albert, President of the Town Council.