

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF DELPHI

CARROLL COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED
05/05/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Leanne Aldrich	01-01-12 to 12-31-19
Mayor	Randy Strasser Shane M. Evans	01-01-12 to 12-31-15 01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Randy Strasser Shane M. Evans	01-01-12 to 12-31-15 01-01-16 to 12-31-19
President of the Common Council	Richard Traeger Carolyn K. Pearson	01-01-15 to 12-31-15 01-01-16 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF DELPHI, CARROLL COUNTY, INDIANA

This report is supplemental to our audit report of the City of Delphi (City), for the period from January 1, 2015 to December 31, 2015. 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 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 Response to the Audit Result and Comment, incorporated within this report, were not verified for accuracy.

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

February 27, 2017

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CLERK-TREASURER
CITY OF DELPHI

CLERK-TREASURER
CITY OF DELPHI
FEDERAL FINDINGS

**FINDING 2015-001 - PREPARATION OF THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS**

Condition

The City 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 SEFA, prepared by the Clerk-Treasurer, was not reviewed by knowledgeable staff in order to detect and correct errors.

The federal expenditures reported in the SEFA presented for audit were understated by \$2,633,012. The Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii was understated by \$2,501,912 and the Highway Planning and Construction Cluster was understated by \$131,100. In addition, pass-through identifying numbers were not always correct.

Audit adjustments were proposed, accepted by the City, and made to the SEFA.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

2 CFR section 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. 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 Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

CLERK-TREASURER
CITY OF DELPHI
FEDERAL FINDINGS
(Continued)

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal 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 must 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. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe the significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

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 the errors identified in the *Condition*.

Views of Responsible Officials

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

CLERK-TREASURER
CITY OF DELPHI
FEDERAL FINDINGS
(Continued)

FINDING 2015-002 - REPORTING

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): 038-CDBG-11-SUB,
038-CDBG-12-SUB,
038-CDBG-13-SUB,
038-DR2-09-100X,
DR2SC-012-001,
DR2SC-012-002

Pass-Through Entity: Indiana Office of Community & Rural Affairs,
Indiana Housing & Community Development Authority

Condition

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Reporting compliance requirement.

The City relied upon the Grant Administrator to prepare and submit the Semi-Annual Reports. The City did not have controls in place to ensure that the reports were accurate prior to submission.

Context

None of the four reports examined during the audit period were reviewed by the City.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

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

Effect

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement and the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

CLERK-TREASURER
CITY OF DELPHI
FEDERAL FINDINGS
(Continued)

Questioned Costs

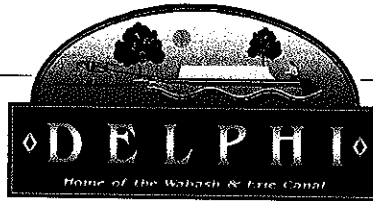
There were no questioned costs identified.

Recommendation

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

Views of Responsible Officials

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



CORRECTIVE ACTION PLAN

Contact Person Responsible for Corrective Action: Leanne Aldrich, Clerk Treasurer

Contact Phone Number: 765-564-2097

FINDING 2015-001

The Clerk Treasurer will work directly with the bookkeeper in the Clerk's office. All records will be checked by the bookkeeper for accuracy. All data will be confirmed by both individuals. These records would include expenditures, receipts, balances, federal and state payments as well as all identifying numbers and codes applying to each grant. An effort for better communication with grant administrators will be continued.

Anticipated Completion Date: Immediately

FINDING 2015-002

The Clerk Treasurer and bookkeeper as well as the Mayor will review the quarterly or semi-annual reports filed in our behalf by the Grant Administrator. Information in our grant binders as well as the information on our software program will be used to verify the accuracy of the reports. Each one of these reports will be initialed and dated.

Anticipated Completion Date: Immediately

Leanne Aldrich
02-27-2017

CLERK-TREASURER
CITY OF DELPHI
AUDIT RESULT AND COMMENT

LATE FEES AND PENALTIES

The City paid late fees of \$284 to a bank because the City did not remit two Airport hangar loan payments on time during 2015. In addition, the City paid a 10 percent penalty of \$422 to the Indiana Department of Revenue because the City was three days late remitting their October 2015 state and local tax withholdings.

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 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 unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
CITY OF DELPHI
EXIT CONFERENCE

The contents of this report were discussed on February 27, 2017, with Leanne Aldrich, Clerk-Treasurer; Shane M. Evans, Mayor; and Carolyn K. Pearson, President of the Common Council.