

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

TOWN OF FAIRMOUNT

GRANT COUNTY, INDIANA

January 1, 2022 to December 31, 2022



**FILED**

09/12/2023



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jo Ann Treon	01-01-22 to 12-31-23
President of the Town Council	Jane Sickman Steve Hedrick	01-01-22 to 05-08-22 05-09-22 to 12-31-23



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO: THE OFFICIALS OF THE TOWN OF FAIRMOUNT, GRANT COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the Town of Fairmount (Town), for the year ended December 31, 2022, and the related notes to the financial statement, which collectively comprise the Town's financial statement and have issued our report thereon dated August 29, 2023, wherein we noted the Town followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

***Report on Internal Control over Financial Reporting***

In planning and performing our audit of the financial statement, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency, as described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001, to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency, as described in the accompanying Schedule of Findings and Questioned Costs as item 2022-002, to be a significant deficiency.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*  
(Continued)

***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Town's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002.

***Town of Fairmount's Response to Findings***

*Government Auditing Standards* requires the auditor to perform limited procedures on the Town's response to findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Town's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statement, and, accordingly, we express no opinion on it.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth Kelley, CPA, CFE  
Deputy State Examiner

August 29, 2023



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

TO: THE OFFICIALS OF THE TOWN OF FAIRMOUNT, GRANT COUNTY, INDIANA

**Report on Compliance for the Major Federal Program**

***Qualified Opinion***

We have audited the Town of Fairmount's (Town) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2022. The Town's major federal program is identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings and Questioned Costs.

***Qualified Opinion on Water and Waste Disposal Systems for Rural Communities***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* section of our report, the Town complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Water and Waste Disposal Systems for Rural Communities for the year ended December 31, 2022.

**Basis for Qualified Opinion**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Town's compliance with the compliance requirements referred to above.

***Matter Giving Rise to Qualified Opinion on Water and Waste Disposal Systems for Rural Communities***

As described in the accompanying Schedule of Findings and Questioned Costs, the Town did not comply with requirements regarding 10.760 Water and Waste Disposal Systems for Rural Communities, as described in item 2022-003 for Reporting. Compliance with such requirement is necessary, in our opinion, for the Town to comply with the requirements applicable to that program.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE  
(Continued)

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Town's federal programs.

***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Town's compliance based on our audit. Reasonable assurance is a high level of assurance, but is not absolute assurance, and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Town's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Town's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Town's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

***Other Matters***

*Government Auditing Standards* requires the auditor to perform limited procedures on the Town's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The Town's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE  
(Continued)

**Report on Internal Control over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2022-003, to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* require the auditor to perform limited procedures on the Town's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The Town's response was not subjected to the other auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE  
(Continued)

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statement of the Town, as of and for the year ended December 31, 2022, and the related notes to the financial statement. We issued our report thereon dated August 29, 2023, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with accounting principles generally accepted in the United States of America, and an unmodified opinion was issued regarding the presentation in accordance with the regulatory basis of accounting. Our audit was performed for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.



Beth Kelley, CPA, CFE  
Deputy State Examiner

August 29, 2023

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the Town. The schedule and notes are presented as intended by the Town.

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TOWN OF FAIRMOUNT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2022

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Department of Agriculture</u>					
Water and Waste Disposal Systems for Rural Communities Wastewater Collection System Improvements	Direct Grant	10.760	CY2020	\$ -	\$ 1,107,672
Total - Department of Agriculture				-	1,107,672
<u>Department of the Treasury</u>					
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds American Rescue Plan (ARP)	Direct Grant	21.027	CY2021	-	183,169
Total - Department of the Treasury				-	183,169
Total federal awards expended				\$ -	\$ 1,290,841

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF FAIRMOUNT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Note 1. Summary of Significant Accounting Policies**

*A. Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the Town under programs of the federal government for the year ended December 31, 2022. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the Town, it is not intended to and does not present the financial position of the Town.

*B. Other Significant Accounting Policies*

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

**Note 2. Indirect Cost Rate**

The Town has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

TOWN OF FAIRMOUNT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I - Summary of Auditor's Results**

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	yes
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Program and type of auditor's report issued on compliance for it:

Assistance Listings Number	Name of Federal Program or Cluster	Opinion Issued
10.760	Water and Waste Disposal Systems for Rural Communities	Qualified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? no

**Section II - Financial Statement Findings**

**FINDING 2022-001**

Subject: Preparation of the Schedule of Expenditures of Federal Awards  
Audit Findings: Material Weakness, Noncompliance

*Repeat Finding*

This is a repeat finding from the immediately prior report. The prior audit finding number was 2021-002.

*Condition and Context*

The Town had not established effective internal controls over the federal award information entered in the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Town's Schedule of Expenditures of Federal Awards (SEFA).

TOWN OF FAIRMOUNT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The Town failed to properly review the federal grant information prepared and submitted in Gateway. Although the Clerk-Treasurer prepared the federal award information outside of Gateway, the Deputy Clerk-Treasurer reviewed and entered the information into Gateway, and finally, the Clerk-Treasurer reviewed the uploaded information in Gateway, the internal control was not effective and did not detect and allow correction of errors prior to submission.

Due to the lack of effective internal controls, the SEFA presented for audit included the following errors:

1. The Water and Waste Disposal Systems for Rural Communities (ALN 10.760) grant expenditures were overstated by \$131,666.
2. Other errors included incorrect program names and identification as a pass-through award instead of a direct grant.

Audit adjustments were proposed, accepted by the Town, and made to the SEFA presented in this report.

*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. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity 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](#)."

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control . . ."

TOWN OF FAIRMOUNT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

2 CFR 200.1 states in part:

". . . *Internal controls* for non-Federal entities means:

- (1) Processes designed and implemented by non-Federal entities to provide reasonable assurance regarding the achievement of objectives in the following categories:
  - (i) Effectiveness and efficiency of operations;
  - (ii) Reliability of reporting for internal and external use; . . ."

2 CFR 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. . . ."

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. 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 Federal each Federal award year separately. At a minimum, the schedule must:

- (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 Assistance Listings Number or other identifying number when the Assistance Listings 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(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 that 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."

TOWN OF FAIRMOUNT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Cause*

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

*Effect*

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

*Views of Responsible Officials*

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

**FINDING 2022-002**

Subject: Financial Transactions and Reporting - Utility Billing Errors  
Audit Findings: Significant Deficiency, Noncompliance

*Condition and Context*

The Town did not have adequate internal controls over the utility billings. The utility billings for two multi-unit customers were not billed properly due to manual adjustments in consumption usage and the billed amount. As such, these two customers were significantly underbilled for the period of October 2021 to October 2022. The issue was identified by the Town and corrected with the November 2022 billing. However, the Town did not retroactively bill or collect amounts due from these two customers for the amounts underbilled during October 2021 to October 2022. We were unable to determine the actual amount of revenue lost.

*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. . . ."

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TOWN OF FAIRMOUNT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

*Cause*

Management of the Town had not established a proper system of internal controls over manual utility adjustments. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the Town's management statements of what should be done to effect internal controls, and procedures consist of actions that would implement these policies.

*Effect*

Without the proper design or implementation of the components of a system of internal controls, including policies and procedures that provide segregation of duties and additional oversight as needed, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material misstatements. As such, misstatements or irregularities in utility billings occurred and remained undetected over a substantial period of time. In addition, the Town sustained an unidentified loss of revenue.

*Views of Responsible Officials*

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

**Section III - Federal Award Findings and Questioned Costs**

**FINDING 2022-003**

Subject: Water and Waste Disposal Systems for Rural Communities - Reporting  
Federal Agency: Department of Agriculture  
Federal Program: Water and Waste Disposal Systems for Rural Communities  
Assistance Listings Number: 10.760  
Federal Award Number and Year (or Other Identifying Number): CY 2020  
Compliance Requirement: Reporting  
Audit Findings: Material Weakness, Modified Opinion

*Repeat Finding*

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2021-004.

*Condition and Context*

The Town had not designed or implemented adequate internal controls and procedures to ensure that reports were prepared, accurate, and submitted in accordance with the applicable compliance requirements for the federal grant. The United States Department of Agriculture (USDA) requires the following two financial reports be submitted annually:

1. Statement of Budget, Income and Equity, (Form RD 442-2)
2. Balance Sheet (Form RD 442-3)

TOWN OF FAIRMOUNT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The Form RD 442-2 covers financial operations relating to the borrower's water or waste disposal project. The Form RD 442-3 presents the financial status of the borrower's water or waste disposal project. In both instances, a borrower may submit the financial data on other forms, provided the forms are in a similar format and signed and dated by the organization's official to certify the correctness of the information. Alternatively, an annual audit may be submitted in lieu of the forms.

The Town was required to file each report, as noted above, during the audit period. Both reports were selected for testing. Per inquiry with the Town and review of its records, the Town attempted to prepare Form RD 442-2; however, the report was never completed, nor was it filed with the appropriate authorities. Additionally, the Town did not file or even attempt to prepare Form RD 442-3. Neither alternative reports nor a financial statement were submitted to the USDA in lieu of the forms.

The lack of internal controls and noncompliance were systemic issues, which occurred throughout the audit period.

*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). . . ."

2 CFR 200.302(b) states in part:

"The financial management system of each non-Federal entity must provide for the following . . .

- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.328 and 200.329. . . ."

7 CFR 1780.47 states in part:

**"Borrower accounting methods, management reporting and audits. . . .**

(e) *Borrowers exempt from audits.* All borrowers who are exempt from audits, will, within 60 days following the end of each fiscal year, furnish the RUS with annual financial statements, consisting of a verification of the organization's balance sheet and statement of income and expense by an appropriate official of the organization. Forms RD 442-2, 'Statement of Budget, Income and Equity,' and 442-3 may be used.

TOWN OF FAIRMOUNT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

(f) *Management reports.* These reports will furnish management with a means of evaluating prior decisions and serve as a basis for planning future operations and financial strategies. In those cases where revenues from multiple sources are pledged as security for an RUS loan, two reports will be required; one for the project being financed by RUS and one combining the entire operation of the borrower. In those cases where RUS loans are secured by general obligation bonds or assessments and the borrower combines revenues from all sources, one management report combining all such revenues is acceptable. The following management data will be submitted by the borrower to the processing office. These reports at a minimum will include a balance sheet and income and expense statement. . . .

(2) *Annual management reports.* Prior to the beginning of each fiscal year the following will be submitted to the processing office. (If Form RD 442-2 is used as the annual management report, enter data in column three only of Schedule 1, and complete all of Schedule 2.)

(i) Two copies of the management reports and proposed 'Annual Budget.'

(ii) Financial information may be reported on Form RD 442-2 which includes Schedule 1, 'Statement of Budget, Income and Equity' and Schedule 2, 'Projected Cash Flow' or information in similar format.

(iii) A copy of the rate schedule in effect at the time of submission.

(g) *Substitute for management reports.* When RUS loans are secured by the general obligation of the public body or tax assessments which total 100 percent of the debt service requirements, the State program official may authorize an annual audit to substitute for other management reports if the audit is received within nine months after the end of the audit period."

*Cause*

A proper system of internal controls was not designed by management of the Town. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the Town's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

*Effect*

Without the proper implementation of an effectively designed system of internal controls, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. As a result, required reports were not filed with the USDA.

Noncompliance with the provisions of federal statutes, regulations, and the terms and conditions of the federal award could result in the loss of future federal funding to the Town.

*Questioned Costs*

There were no questioned costs identified.

TOWN OF FAIRMOUNT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Recommendation*

We recommended that management of the Town establish a proper system of internal controls and develop policies and procedures to ensure required reports, or allowable alternatives are completed and filed with the USDA.

*Views of Responsible Officials*

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

#### AUDITEE-PREPARED DOCUMENTS

The subsequent documents were provided by management of the Town. The documents are presented as intended by the Town.

***Town of Fairmount  
214 West Washington Street  
Fairmount, Indiana 46928***

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING – 2021-001

Fiscal year which the finding initially occurred: 2020

Status of Audit Finding: Corrected

The Clerk-Treasurer and Deputy Clerk-Treasurer signed the documents we run and review for the 2022 Annual Report on Gateway.

Jo Ann Treon  
Clerk-Treasurer  
Town of Fairmount

June 25, 2023

***Town of Fairmount  
214 West Washington Street  
Fairmount, Indiana 46928***

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING – 2021-002

Fiscal year which the finding initially occurred: 2020

Status of Audit Finding: Partially Corrected

The Clerk-Treasurer and Deputy Clerk-Treasurer checked the SEFA for errors. However, material errors were still present on the SEFA. The recurrence was due to simply incorrectly designating the grants as reimbursement or advance basis. We will monitor the designation of the grant basis more closely.

Jo Ann Treon  
Clerk-Treasurer  
Town of Fairmount

June 25, 2023

***Town of Fairmount  
214 West Washington Street  
Fairmount, Indiana 46928***

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING – 2021-003

Fiscal year which the finding initially occurred: 2020

Status of Audit Finding: Partially Corrected

The Town will ensure compliance with requirements related to the grant agreement on the next project. The recurrence was due to the fact there is still no procurement policy because we were unsure of how to develop the policy. We will get further guidance and develop a written procurement policy.

Jo Ann Treon  
Clerk-Treasurer  
Town of Fairmount

June 25, 2023

***Town of Fairmount  
214 West Washington Street  
Fairmount, Indiana 46928***

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING – 2021-004

Fiscal year which the finding initially occurred: 2021

Status of Audit Finding: Not Corrected

The 2021 reports were reviewed for error and submitted to the USDA Rural Development for approval. The 2022 reports were not submitted to the USDA Rural Development. The reports were not filed because we had difficulty gathering the proper information to prepare the reports. We plan to get further direction and file the reports as soon as possible.

Jo Ann Treon  
Clerk-Treasurer  
Town of Fairmount

June 25, 2023

***Town of Fairmount  
214 West Washington Street  
Fairmount, Indiana 46928***

CORRECTIVE ACTION PLAN

FINDING 2022-001

Contact Person: Jo Ann Treon  
Phone Number (765)948-4632

Views of Responsible Official: We concur with the findings.

Description of Corrective Action Plan: The SEFA will be reviewed by second person for errors.

Anticipated Completion Date: Immediately

***Town of Fairmount  
214 West Washington Street  
Fairmount, Indiana 46928***

CORRECTIVE ACTION PLAN

FINDING 2022-002

Subject: Financial Transactions and Reporting – Utility Billing Errors

Audit Findings: Significant Deficiency, Noncompliance

Contact Person: Jo Ann Treon  
Phone Number (765)948-4632

Views of Responsible Official: Agreed with findings

Description of Corrective Action Plan: The billing is being reviewed by a second person to eliminate any error in billing.

Anticipated Completion Date: Immediately

***Town of Fairmount  
214 West Washington Street  
Fairmount, Indiana 46928***

CORRECTIVE ACTION PLAN

FINDING 2022-003

Contact Person: Jo Ann Treon  
Phone Number (765)948-4632

Views of Responsible Official: We concur with the findings.

Description of Corrective Action Plan: Forms RD 442-2 & RD Form 442-3 will be completed in August 2023.

Anticipated Completion Date: Immediately

## OTHER REPORTS

In addition to this report, other reports may have been issued for the Town. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.