

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

TOWN OF UPLAND

GRANT COUNTY, INDIANA

January 1, 2023 to December 31, 2023



FILED
09/27/2024

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
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 <i>Government Auditing Standards</i>	3-4
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	5-8
Schedule of Expenditures of Federal Awards and Accompanying Notes:	
Schedule of Expenditures of Federal Awards	11
Notes to Schedule of Expenditures of Federal Awards.....	12
Schedule of Findings and Questioned Costs.....	13-23
Auditee-Prepared Document:	
Corrective Action Plan	26-30
Other Reports.....	31

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Mary Fletcher	01-01-23 to 12-31-24
President of the Town Council	Ron Sutherland Shawn Sizemore	01-01-23 to 03-19-24 03-20-24 to 12-31-24



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 UPLAND, 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 Upland (Town), for the year ended December 31, 2023, and the related notes to the financial statement, which collectively comprise the Town's financial statement and have issued our report thereon dated September 18, 2024, 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.

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. A significant deficiency is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, as described in the accompanying Schedule of Findings and Questioned Costs as items 2023-001 and 2023-002, that we consider to be material weaknesses.

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 2023-001 and 2023-002.

Town of Upland'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

September 18, 2024



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 UPLAND, GRANT COUNTY, INDIANA

Report on Compliance for the Major Federal Program

Disclaimed Opinion

We were engaged to audit the Town of Upland'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, 2023. 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.

Disclaimed Opinion on COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

Because of the significance of the matters described in the *Basis for Disclaimed Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Town's compliance with the types of compliance requirements referred to above that could have a direct and material effect on the COVID-19 - Coronavirus State and Local Fiscal Recovery Funds for the year ended December 31, 2023.

Basis for Disclaimed 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.

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)

Matters Giving Rise to Disclaimed Opinion on COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

As described in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient appropriate audit evidence supporting the compliance of the Town with 21.027 COVID-19 - Coronavirus State and Local Fiscal Recovery Funds, as described in item 2023-003 for Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Performance and item 2023-004 for Procurement and Suspension and Debarment. Consequently, we were unable to determine whether the Town complied with those requirements applicable to that program.

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.

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)

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.

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 deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2023-003, 2023-004, and 2023-005, 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, 2023, and the related notes to the financial statement. We issued our report thereon dated September 18, 2024, 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

September 18, 2024

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.

(This page intentionally left blank.)

TOWN OF UPLAND
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2023

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	Total Federal Awards Expended
<u>Department of Transportation</u>				
Highway Planning and Construction FY23 RW State 100ST	Indiana Department of Transportation	20.205	Des 1800168	\$ <u>767</u>
Total - Highway Planning and Construction				<u>767</u>
Total - Department of Transportation				<u>767</u>
<u>Department of the Treasury</u>				
COVID-19- Coronavirus State and Local Fiscal Recovery Funds		21.027		
Coronavirus State and Local Fiscal Recovery Funds	Indiana Department of Transportation		Des 1800168	60,805
ARP Coronavirus Local Fiscal Recovery Fund	Direct grant		FY 2023	558,833
State Water Infrastructure Fund	Indiana Finance Authority		TRSW222627	<u>831,817</u>
Total - COVID-19 - Coronavirus State and Local Fiscal Recovery Funds				<u>1,451,455</u>
Total - Department of the Treasury				<u>1,451,455</u>
Total federal awards expended				<u>\$ 1,452,222</u>

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

TOWN OF UPLAND
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, 2023. 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.

Note 3. COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

The Town was awarded a State Water Infrastructure and Transportation & Storm Water Grant Programs (SWIF/TNSW) grant from the Indiana Finance Authority (IFA). The funding source for the SWIF/TNSW grant awards is the COVID-19 - Coronavirus State and Local Fiscal Recovery Funds (SLFRF). As the IFA maintained custody of the grant funds and disbursed them on the Town's behalf some of the activity for the SLFRF grant that is presented on the SEFA is not presented as receipts and disbursements in the financial statement of the Town.

TOWN OF UPLAND
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?	none reported
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:

<u>Assistance Listings Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
21.027	COVID-19 - Coronavirus State and Local Recovery Funds	Disclaimed

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 2023-001

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

Condition and Context

The Town is required to file reports after the close of each fiscal year. Reports are to be filed electronically as prescribed.

The Town filed its reports as prescribed; however, the Town had not established internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Town's Schedule of Expenditure of Federal Awards (SEFA). The Town did not have a proper system of internal controls in place to prevent, or detect and correct, errors on the SEFA.

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

Due to the lack of internal controls, the SEFA presented for audit omitted the COVID-19 - Coronavirus State and Local Fiscal Recovery Funds program, which understated expenditures by \$1,451,455. Other errors included incorrect grantor agencies, program titles, pass-through entities, and identifying numbers.

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

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

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 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.

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

- (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."

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 as set forth in the uniform compliance guidelines. 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](#)."

Cause

Management of the Town had not established an effective 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*.

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

Views of Responsible Officials

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

FINDING 2023-002

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Condition and Context

The Town Council established internal control standards by passing Ordinance 2016-006; however, the Town had not implemented the standards or assessed the quality of the established internal controls. As a result, there were deficiencies in the internal control system of the Town related to the following audit areas:

Receipts and Disbursements

Transactions related to the Bank of New York Construction Fund (BONY - Construction fund) were not recorded or reported properly, which understated both receipts and disbursements by \$731,680.

Financial Reporting

As a result of the unrecorded BONY - Construction fund transactions, the financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system was incorrect. The Annual Financial Report (AFR) financial information reported on Gateway is the source of the financial statement.

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. . . ."

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

Cause

The Town had not established a proper system of internal controls over debt proceed trust funds, receipts, and disbursements to ensure all financial transactions of the Town were posted at the time of the transaction. In addition, a system of internal controls was not designed or implemented overseeing the work of the consultant during the conversion from an accrual basis ledger to cash basis AFR, or prior to the submission of the AFR to ensure the accuracy and completeness of the AFR and financial statement.

Effect

Without a proper system of internal controls in place, the Town's financial statement did not properly reflect the receipts and disbursements of the debt proceed trust funds. In addition, the Town's financial statement could be incomplete and contain uncorrected misstatements, which may mislead end users of the Town's financial statement.

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 2023-003

Subject: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance

Federal Agency: Department of the Treasury

Federal Program: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

Assistance Listings Number: 21.027

Federal Award Number and Year (or Other Identifying Number): FY 2023

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance

Audit Findings: Material Weakness, Modified Opinion

Condition and Context

Prior to receipt of direct COVID-19 - Coronavirus State and Local Fiscal Recovery Funds (SLFRF) award funds, all eligible entities were required to execute a Financial Assistance Agreement (Agreement) which included the Award Terms and Conditions that recipients must comply with in carrying out the objectives of their award. Per the Agreement, the Town was responsible for the effective administration of the federal award as well as the application of sound management practices and administration of federal funds in a manner consistent with program objectives and terms and conditions of the award.

Recipients may use SLFRF funds for any eligible expenses subject to the restrictions set forth in sections 602 and 603 of the Social Security Act as added by section 9901 of the American Rescue Plan Act of 2021 and amended by the Consolidated Appropriations Act of 2023. The SLFRF program provides substantial flexibility for each recipient to meet local needs within seven separate eligible use categories. Recipients may use SLFRF funds to:

- Respond to the COVID-19 public health emergency and its negative economic impacts;
- Respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of eligible employers that have eligible workers who are performing essential work;

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

- Provide government services, to the extent COVID-19 caused a reduction in revenues collected in the most recent full fiscal year of the recipient;
- Make necessary investments in water, sewer, or broadband infrastructure.
- Provide emergency relief from natural disasters or their negative economic impacts.
- Fund eligible Surface Transportation projects; and
- Fund Title I projects that are eligible activities under the Community Development Block Grant and Indiana Community Development Block Grant programs.

As part of sound management of the federal award, the Town was responsible for implementing a system of internal controls that would ensure compliance with the applicable requirements. The Town had not properly designed or implemented such a system. There was no evidence of segregation of duties, such as an oversight, review, or approval process, that would have ensured that expenditures of award funds were made only for activities and costs that were allowable under the federal award and federal regulations and that were within the period of performance.

The Town completed five transfers totaling \$224,050 to the Town Utility funds. The amounts transferred to these Utility funds were commingled with other receipts; therefore, the expenditures that went with the SLFRF money, if any, could not be identified. Therefore, the \$224,050 could not be tested to ensure compliance with the Activities Allowed or Unallowed, the Allowable Costs/Cost Principles, and the Period of Performance compliance requirements.

The lack of internal controls and noncompliance were isolated to the transfers noted above.

Criteria

2 CFR 200.302 states in part:

"(a) Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. . . .

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

- (1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the Assistance Listings title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.
- (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. . . .

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

- (3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, financial obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.
- (4) Effective control over, and accountability for, all funds, property, and other assets. . . ."

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

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. Due to the lack of internal controls, the Town was unable to differentiate expenditures made from federal and nonfederal funds once it commingled nonfederal funds and federal grant awards.

Effect

Without the proper implementation of an effectively designed system of internal controls, the internal control system was not effective in preventing, or detecting and correcting, material noncompliance within the grant. The Town was unable to identify all the expenditures paid with federal funds and cannot ensure, nor can we determine, expenditures of the grant were allowable activity, within the proper period, and were an allowable cost.

Questioned Costs

We identified \$224,050 in known questioned costs as noted above in the *Condition and Context*.

Recommendation

We recommended that management of the Town establish a system of internal controls to ensure that grant award funds are accounted for and tracked in a designated grant fund. All activity of the grant should be in this fund with supporting documentation for each transaction.

Views of Responsible Officials

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

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

FINDING 2023-004

Subject: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Suspension and Debarment
Federal Agency: Department of the Treasury
Federal Program: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds
Assistance Listings Number: 21.027
Federal Award Number and Year (or Other Identifying Number): FY 2023
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Modified Opinion

Condition and Context

Prior to entering into subawards and covered transactions with COVID-19 - Coronavirus State and Local Fiscal Recovery Funds (SLFRF), recipients are required to verify that such contractors and subrecipients are not suspended, debarred, or otherwise excluded. "Covered transactions" include, but are not limited to, contracts for goods and services awarded under a nonprocurement transaction (i.e., grant agreement) that are expected to equal or exceed \$25,000. The verification is to be done by checking SAM.gov, collecting a certification from that person, or adding a clause or condition to the covered transaction with that person. Due to the U.S. Department of the Treasury's determination that the revenue loss eligible use category does not give rise to subawards, the Town was only required to comply with suspension and debarment requirements related to covered transactions.

The Town did not have a formal written policy covering the suspension and debarment requirements. The population of covered transactions for goods or services that equaled or exceeded \$25,000 paid from SLFRF funds during the audit period were identified. All vendors with covered transactions were selected for testing. Evidence was not provided that the Town verified the vendors' suspension and debarment status prior to entering into the covered transactions. The Town did not provide a formal policy or have procedures in place to verify that contractors engaged in covered transactions are neither suspended nor debarred or otherwise excluded or disqualified from participating in federal assistance programs or activities.

The lack of internal controls and noncompliance was systemic 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). . . ."

31 CFR 19.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you do business is not excluded or disqualified. You do this by:

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

- (a) Checking the *EPLS*; or
- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person."

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 of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies. At the time the Town entered into the contracts tested, the Town was unaware of the requirements for verifying whether or not vendors were suspended or debarred.

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, the suspension and debarment status of vendors paid \$25,000 or more was not verified. Payments to vendors that are suspended or debarred would be unallowable and could be recovered by the awarding agency.

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.

Recommendation

We recommended that management of the Town establish a proper system of internal controls and develop policies and procedures to ensure contractors and subrecipients, as appropriate, are not suspended, debarred, or otherwise excluded prior to entering into any contracts or subawards.

Views of Responsible Officials

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

FINDING 2023-005

Subject: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Reporting
Federal Agency: Department of the Treasury
Federal Program: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds
Assistance Listings Number: 21.027
Federal Award Number and Year (or Other Identifying Number): FY 2023
Compliance Requirement: Reporting
Audit Finding: Material Weakness

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

Condition and Context

Recipients are required to quarterly or annually submit Project and Expenditure (P&E) reports to the U.S. Department of the Treasury (Treasury). The reporting periods, as well as the respective due dates, are based upon type of recipient and its population, as well as the recipient's allocation amount. Information to be reported includes projects funded, expenditures, and contracts for the appropriate reporting period.

The Town was classified as a town with a population below 250,000 residents that received an allocation of less than \$10 million in COVID-19 - Coronavirus State and Local Fiscal Recovery Funds (SLFRF). As such, the initial P&E report, covering the period from March 3, 2022 to March 31, 2023, was required to be submitted to the Treasury by April 30, 2023. The subsequent annual reports are to cover one calendar year and must be submitted to the Treasury by April 30 each year.

The Town submitted one P&E report during the audit period; however, the report was submitted without a review or oversight process in place to prevent, or detect and correct, errors.

The lack of internal controls and noncompliance were systemic issues 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). . . ."

Coronavirus State and Local Fiscal Recovery Funds Compliance and Reporting Guidance, page 10, states in part:

". . . **10. Reporting.** All recipients of federal funds must complete financial, performance, and compliance reporting as required and outlined in Part 2 of this guidance. Expenditures may be reported on a cash or accrual basis, as long as the methodology is disclosed and consistently applied. Reporting must be consistent with the definition of expenditures pursuant to 2 CFR 200.1. Your organization should appropriately maintain accounting records for compiling and reporting accurate, compliant financial data, in accordance with appropriate accounting standards and principles. . . ."

31 CFR 35.4(c) states in part: "*Reporting and requests for other information.* During the period of performance, recipients shall provide to the Secretary periodic reports providing detailed accounting of the uses of funds, . . ."

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 of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

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

Effect

Without the proper implementation of an effectively designed 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 noncompliance.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that management of the Town strengthen its system of internal controls to provide for segregation of duties in the preparation and review of federal reports to ensure appropriate reviews, approvals, and oversight are taking place.

Views of Responsible Officials

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

(This page intentionally left blank.)

AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the Town. The document is presented as intended by the Town.

TOWN OF UPLAND

87 N. MAIN STREET
PO BOX 428
UPLAND, INDIANA 46989
(765) 998-7439



CORRECTIVE ACTION PLAN

FINDING 2023-001

**Finding Subject: Preparation of the Schedule of Expenditures of Federal Awards
Summary of Finding: Material Weakness, Noncompliance**

**Contact Person Responsible for Corrective Action: Mary Fletcher
Contact Phone Number and Email Address: (765) 998-7439, mfletcher@uplandindiana.com**

Views of Responsible Officials:
We concur with the finding.

Description of Corrective Action Plan:

We have corrected the reporting error on the AFR in Indiana Gateway and have a better understanding of how to determine what needs to be reported.

Anticipated Completion Date:

This was corrected on 09/17/2024.

FINDING 2023-002

Finding Subject: Financial Transactions and Reporting

Summary of Finding: Material Weakness, Noncompliance

Contact Person Responsible for Corrective Action: Mary Fletcher

Contact Phone Number and Email Address: (765) 998-7439, mletcher@uplandindiana.com

Views of Responsible Officials:

We concur with the finding.

Description of Corrective Action Plan:

Because of the way the Sewer Loan was set up with the Indiana Finance Authority, we were unaware that we were to report the Bank of New York Construction Fund on the AFR. This has been corrected in our funds accounting program and will be properly reports for the 2024 AFR.

Anticipated Completion Date:

This has been corrected in our accounting system and will be reported on the 2024 AFR

FINDING 2023-003

Finding Subject: COVID-19 Coronavirus State and Local Fiscal Recovery Funds- Activities Allowed and Unallowed.

Summary of Finding: Material Weakness, Modified Opinion

Contact Person Responsible for Corrective Action: Mary Fletcher

Contact Phone Number and Email Address: (765) 998-7439, mfletcher@uplandindiana.com

Views of Responsible Officials:

We concur with the finding

Description of Corrective Action Plan:

Although the funds were transferred to utilities and not paid directly from ARPA Funds, the funds were used to make necessary investments in utility infrastructure during 2023. We have been fully informed of the guidelines for the use of the ARPA funds since this transfer occurred and will use the remaining funds according to the ARPA guidelines. The Clerk-Treasurer has contacted the Department of the Treasury to get guidance on what can be done to rectify our misuse of the funds.

Anticipated Completion Date:

Unknown- When a resolution is reached with the Federal Government.

FINDING 2023-04

Finding Subject: COVID-19 Coronavirus State and Local Fiscal Recovery Funds- Suspension and Debarment

Summary of Finding: Material Weakness, Noncompliance

Contact Person Responsible for Corrective Action: Mary Fletcher

Contact Phone Number and Email Address: (765) 998-7439, mfletcher@uplandindiana.com

Views of Responsible Officials:

We concur with this finding

Description of Corrective Action Plan:

Although we do have a federal grant consultant that does check the suspension and debarment status of contractors, the Town of Upland will adopt a Suspension and Debarment policy to issue that no contractor being paid with Federal funds are Suspended or Debarred.

Anticipated Completion Date:

11/15/2024

FINDING 2023-005

**Finding Subject: COVID-19 Coronavirus State and Local Fiscal Recovery Funds- Reporting
Summary of Finding: Material Weakness**

Contact Person Responsible for Corrective Action: Mary Fletcher

Contact Phone Number and Email Address: (765) 998-7439, mfletcher@uplandindiana.com

Views of Responsible Officials:

We concur with the finding

Explanation and Reasons for Disagreement:

Description of Corrective Action Plan:

The Town of Upland will implement an oversight system to review the P&E Report before submission to the Federal Government.

Anticipated Completion Date:

Upon the submission of our next report due April 30, 2025

2 CFR § 200.511(a) – “The auditee is responsible for follow-up and corrective action on all audit findings. . .The auditee must also prepare a corrective action plan for current year audit findings. . . The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements which are required to be reported in accordance with GAGAS.”

2 CFR § 200.511(c) – “At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in § 200.516, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.

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/>.