

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

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

TOWN OF LAFONTAINE

WABASH COUNTY, INDIANA

January 1, 2023 to December 31, 2023



FILED

01/21/2025

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Diana Heath	01-01-23 to 04-17-23
	(Vacant)	04-18-23 to 05-07-23
	Teresa Snyder (interim)	05-08-23 to 05-15-23
	Pamela Whitener	05-16-23 to 12-31-24
President of the Town Council	Jay Gillespie	01-01-23 to 05-30-24
	(Vacant)	05-31-24 to 06-09-24
	John Krhin	06-10-24 to 12-31-24



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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 LAFONTAINE, WABASH 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 LaFontaine (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 December 12, 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.

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.

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)

Town of LaFontaine'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

December 12, 2024



Paul D. Joyce, CPA
State Examiner

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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 LAFONTAINE, WABASH COUNTY, INDIANA

Report on Compliance for the Major Federal Program

Qualified Opinion

We have audited the Town of LaFontaine'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.

Qualified Opinion on Water and Waste Disposal Systems for Rural Communities

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinions* 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, 2023.

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 2023-004 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

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2023-003. Our opinion on the major federal program is not modified with respect to these matters.

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)

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 and 2023-004, 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 December 12, 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

December 12, 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.



TOWN OF LAFONTAINE
 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	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Department of Agriculture</u>					
Water and Waste Disposal Systems for Rural Communities USDA	Direct Grant	10.760	CY 2023	\$ -	\$ 2,367,125
Total - Department of Agriculture				-	2,367,125
<u>Department of the Treasury</u>					
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds ARPA	INDIANA FINANCE AUTHORITY	21.027	FY 2023	-	9,005
Total - Department of the Treasury				-	9,005
Total federal awards expended				\$ -	\$ 2,376,130

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

TOWN OF LAFONTAINE
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 award 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. Loan Outstanding

The Town had a Water and Waste Disposal Systems for Rural Communities loan balance outstanding in the amount of \$1,476,000 as of December 31, 2023. The value of federal financial assistance expended for these loans is also included in the federal expenditures presented on the SEFA.

TOWN OF LAFONTAINE
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:

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 2023-001

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

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not properly designed or implemented internal controls over disbursements and financial close and reporting to ensure the accuracy and completeness of the financial statement.

The financial information was filed as prescribed. The Town entered its financial information into the Annual Financial Report via the Indiana Gateway for Government Units financial reporting system, which is the source of the Town's financial statement.

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

However, internal controls over the recording and reporting of the financial transactions of the Town were deficient. As a result of the internal control deficiencies, material errors occurred and remained undetected.

Disbursements

The Town had not designed or implemented effective internal controls over payroll disbursements. Payroll disbursements were processed by the Clerk-Treasurer and reviewed and approved by the Town Council; however, there was no evidence of oversight and review of employee payroll detail reports during the audit period. In addition, the Town was unable to provide evidence that all time cards were approved by a supervisor or department head. There were two of three time cards sampled that did not have evidence of review by a supervisor or department head.

Financial Close and Reporting

The Town reported a bank transfer which overstated the receipts and disbursements of the American Rescue Plan Act fund by \$120,000. Audit adjustments were proposed, accepted by the Town, and made to the financial statement presented in the Financial Statement Audit Report of the Town.

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 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 a proper system of internal controls over financial transactions and reporting that would have ensured proper financial reporting of the financial statement.

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

Effect

The failure to establish an effective system of internal controls enabled misstatements or irregularities to remain undetected in the financial statement. The financial statement contained 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 2023-002

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

Condition and Context

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 Expenditures of Federal Awards (SEFA). The federal grant award information was entered into Gateway and submitted by the Clerk-Treasurer without an oversight or review process in place to prevent, or detect and correct, errors on the SEFA.

Due to the lack of internal controls, the SEFA presented for audit was inaccurate and not reflective of the federal activity of the Town's underlying records. The SEFA presented for audit included the following error:

- The Water and Waste Disposal for Rural Communities expenditures were understated on the SEFA by \$2,367,125.

An audit adjustment was 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:

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

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

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](#)."

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.

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

- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity 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."

Cause

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

Effect

The failure to establish an effective system of internal controls enabled misstatements or irregularities to remain 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.

Section III - Federal Award Findings and Questioned Costs

FINDING 2023-003

Subject: Water and Waste Disposal System for Rural Communities - Equipment
Federal Agency: Department of Agriculture
Federal Program: Water and Waste Disposal System for Rural Communities
Assistance Listings Number: 10.760
Federal Award Number and Year (or Other Identifying Number): CY 2023
Compliance Requirement: Equipment and Real Property Management
Audit Findings: Material Weakness, Other Matters

Condition and Context

The Town had not designed or implemented adequate internal controls and procedures to ensure that equipment purchased from the grant was included in the Town's capital asset listing. A physical inventory of equipment was not performed at least once within the last two years.

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

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

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 200.313(d) states in part:

"Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated. . . ."

Cause

The Town was not aware of the compliance requirement.

Effect

Without the proper implementation of an effectively designed system of internal controls, the Town cannot ensure the required assets are included in the capital asset listing. Furthermore, 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 LAFONTAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Recommendation

We recommended that management of the Town design and implement a proper system of internal controls, including policies and procedures that would provide segregation of duties, to ensure capital assets purchased from the grant are included in the Town's capital asset ledger and that a physical inventory is performed every two years.

Views of Responsible Officials

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

FINDING 2023-004

Subject: Water and Waste Disposal System for Rural Communities - Reporting
Federal Agency: Department of Agriculture
Federal Program: Water and Waste Disposal System for Rural Communities
Assistance Listings Number: 10.760
Federal Award Number and Year (or Other Identifying Number): CY 2023
Compliance Requirement: Reporting
Audit Findings: Material Weakness, Modified Opinion

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 reports be submitted annually:

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

The Form RD 442-2 covers financial operations relating to the Town's water main replacement project and the Form RD 442-3 presents the financial status of the 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; however, the reports were not filed.

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:

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

(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.

(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.

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(Continued)

(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

The Town incorrectly assumed that the reports were filed by the engineering firm coordinating the grant.

Effect

Without the proper implementation of an effectively designed system of internal controls, the Town cannot ensure the required reports are filed with the awarding agency. As such, the USDA does not have accurate and current information to discern the financial status of the Town's project. Furthermore, 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 the Town's management design and implement a system of internal controls to ensure that all required reports are filed.

Views of Responsible Officials

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



AUDITEE-PREPARED DOCUMENT

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

*Town of LaFontaine
13 W. Branson St
PO Box 207
LaFontaine, In. 46940*

CORRECTIVE ACTION PLAN

FINDING 2023 - 001

Finding Subject: Financial Transactions and Reporting
Summary of Finding: Material Weakness, Noncompliance

Contact Person Responsible for Corrective Action: Pamela Whitener
Contact Phone Number and Email Address: 765-981-4591 clerk@lafontaine.in.gov

Views of Responsible Officials: We concur with the finding.

Description of Corrective Action Plan:

Yearend reports will be reviewed by the Clerk & Deputy Clerk. The Council will also review and sign off on the report. The Clerk is more aware of how to complete year end reports.

Anticipated Completion Date:

January 2025

*Town of LaFontaine
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CORRECTIVE ACTION PLAN

FINDING 2023 - 002

Finding Subject: Preparation of the Schedule of Expenditures of Federal Awards

Summary of Finding: Material Weakness, Noncompliance

Contact Person Responsible for Corrective Action: Pamela Whitener

Contact Phone Number and Email Address: 765-981-4591 clerk@lafontaine.in.gov

Views of Responsible Officials: We concur with the finding.

Description of Corrective Action Plan: We were of the understanding that Commonwealth submitted the reports. Going forward, the Clerk will compile the report, and it will be reviewed by the Deputy Clerk and Town Council before being submitted.

Anticipated Completion Date:

January 2025

*Town of LaFontaine
13 W. Branson St
PO Box 207
LaFontaine, In. 46940*

CORRECTIVE ACTION PLAN

FINDING 2023 - 003

Finding Subject: Water and Waste Disposal System for Rural Communities - Equipment
Summary of Finding: Material Weakness, Other Matters

Contact Person Responsible for Corrective Action: Pamela Whitener
Contact Phone Number and Email Address: 765-981-4591 clerk@lafontaine.in.gov

Views of Responsible Officials: We concur with the finding.

Description of Corrective Action Plan:

We have purchased the Silversmith Program to track Capital Assets. All equipment purchased with federal money will be listed in the program and reviewed yearly.

Anticipated Completion Date:

January 2025

*Town of LaFontaine
13 W. Branson St
PO Box 207
LaFontaine, In. 46940*

CORRECTIVE ACTION PLAN

FINDING 2023 - 004

Finding Subject: Water and Waste Disposal System for Rural Communities - Reporting
Summary of Finding: Material Weakness, Modified Opinion

Contact Person Responsible for Corrective Action: Pamela Whitener
Contact Phone Number and Email Address: 765-981-4591 clerk@lafontaine.in.gov

Views of Responsible Officials: We concur with the finding.

Description of Corrective Action Plan:

We were of the understanding that Commonwealth filed these reports. Going forward the Clerk will submit the reports after review by the Deputy-Clerk and the Town Council.

Anticipated Completion Date:

January 2025

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/>.