

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF SALEM

WASHINGTON COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
03/11/2016

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|--|---|--|
| Clerk-Treasurer | Patricia E. Persinger | 01-01-12 to 12-31-15 |
| Mayor | David L. Bower | 01-01-12 to 12-31-15 |
| President of the Board of Public Works and Safety | David L. Bower | 01-01-14 to 12-31-15 |
| President Pro Tempore of the Common Council | Ronald C. Haendiges, Jr. Justin T. Green | 01-01-14 to 12-31-14 01-01-15 to 12-31-15 |
| Utility Office Manager | Carol Brough | 01-01-14 to 12-31-15 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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TO: THE OFFICIALS OF THE CITY OF SALEM, WASHINGTON COUNTY, INDIANA

This report is supplemental to our audit report of the City of Salem (City), for the period from January 1, 2014 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plans for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

December 15, 2015

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CLERK-TREASURER
CITY OF SALEM

CLERK-TREASURER
CITY OF SALEM
FEDERAL FINDINGS

FINDING 2014-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the City related to financial transactions and reporting. A lack of segregation of duties exists over financial statement receipts. The City has not separated incompatible activities related to City receipts and Utility collections.

City Receipts

One employee in the Clerk-Treasurer's Office is responsible for issuing receipts, balancing the collection drawer, and making the bank deposits. Another employee is responsible for posting the receipts to the ledger. The activities related to receipts were not always reviewed or verified by someone other than the employee performing the activities.

A comparison of the compositions of monies collected per the receipts was not made with the composition shown on the bank statements to ensure the monies collected were deposited in the same form as they were received.

Utility Collections

The Utility collections process is primarily handled by one person. The Utility Office Manager collects Utility payments, balances the collection drawer, posts Utility payments and adjustments to the customers' accounts, makes up the Utility deposit ticket, and remits the deposit ticket with the collections to the Clerk-Treasurer's Office. There is no evidence provided to indicate that the activities related to Utility collections were being reviewed or verified by someone other than the Utility Office Manager.

A lack of segregation of duties exists related to financial statement disbursements. The City has not separated incompatible activities related to vendor and payroll disbursements.

Vendor Disbursements

One employee in the Clerk-Treasurer's Office is responsible for matching invoices with purchase requisition orders; recording invoice payments in the ledger, issuing checks, mailing checks, making bank electronic fund payments, has access to the check stock, and prints reports of disbursements activity for approval. The same employee prepares the initial bank reconciliation and outstanding check list prior to its approval. The activities related to disbursements were not always reviewed or verified by someone other than the employee performing the activities.

Payroll Disbursements

One employee in the Clerk-Treasurer's Office is responsible for establishing new employees in the payroll computer system; entering employees' pay rates; entering employees' hours worked; recording leave time earned and used; calculating the employees' wages, issuing checks and or making direct deposit payments for wages, tax payments, and payroll deductions, printing reports of payroll disbursements for review and approval; preparing 941 reports, retirement reports, and W-2's. Another employee is responsible for recording the payroll payments, tax payments, and deduction payments to the ledger. The activities related to payroll were not always reviewed or verified by someone other than the employee performing the activities.

CLERK-TREASURER
CITY OF SALEM
FEDERAL FINDINGS
(Continued)

The failure to establish controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FINDING 2014-002 - CASH MANAGEMENT AND DAVIS-BACON

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0075-12-2012,
AIP 3-18-0075-13-2013,
AIP 3-18-0075-15-2014

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the compliance requirement pertaining to Cash Management and Davis-Bacon. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

No control was in place until September of 2014 to notify the Clerk-Treasurer when the drawdown request had been received so that she could timely disburse the federal funds.

The City hired a grant administrator to assist in overseeing the labor standards required by the Davis-Bacon Act. Certified payrolls were submitted by the contractors to the grant administrator who would then check to determine if the prevailing wages were being properly paid. The City did not have procedures in place to review and approve the work being performed by the grant administrator.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

CLERK-TREASURER
CITY OF SALEM
FEDERAL FINDINGS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish and implement controls, including segregation of duties, related to the grant agreement and the compliance requirements for Cash Management and Davis-Bacon.



City of Salem

Patricia E. Persinger, Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2014-001 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTION AND REPORTING

Contact Person Responsible for Corrective Action: Patricia E. Persinger, Clerk-Treasurer
Contact Phone Number: 812-883-4264

Description of Corrective Action Plan:

City Receipts – The City of Salem now has procedures in place to review and verify all receipts and deposits by the Clerk-Treasurer or in her absence by the 2nd Deputy Clerk-Treasurer. Procedures are also in place to verify that the cash and checks are deposited in the banks in the manner which were received.

Vendor Disbursements – All invoice are approve by the department head and Mayor or Clerk-Treasurer before processing. All vouchers are signed by the department head before going to Common Council or Board of Public Works and Safety. Only after approval are invoices paid. At the end of each month a Check/Accounts Payable Voucher Verification is reviewed and signed by the Clerk-Treasurer.

Payroll Disbursements – Payroll receipts are reviewed and matched to the Payroll Allowance Docket by the Clerk-Treasurer and the Payroll Allowance Docket is reviewed and signed by the Common Council and all payroll fund balances are zero at the end of each month.

Anticipated Completion Date: December 2, 2015


(Signature)

Clerk-Treasurer
(Title)

December 15, 2015

(Date)

Office: (812)883-4264

Fax: (812)883-3634

201 E. Market St., Suite 101
Salem, Indiana 47167

City of Salem Municipal Utilities
Water, Sewer, and Garbage
201 E. Market St. Ste. 106
Salem, Indiana 47167
(812) 883-3937

CORRECTIVE ACTION PLAN

**FINDING 2014-001- INTERNAL CONTROLS AND COMPLIANCE OVER
FINANCIAL TRANSACTIONS AND REPORTING**

Contact Person Responsible for Corrective Action: Mayor David Bower
Contact Phone Number: 812-883-4265

Description of Corrective Action Plan:

There have been proper policies and procedures that were immediately implemented that will ensure accuracy and integrity of the revenues by the employees of Salem Utilities for the City of Salem. Procedures and actions will be verified and received on a daily basis.

Please see attached an example of the Cash Update Summary Report that is turned into the clerk/treasurer's office with the daily deposit.

Anticipated Completion Date: October 15, 2014



Signature

Mayor

Title

12-15-15

Date

CLERK-TREASURER
CITY OF SALEM
AUDIT RESULTS AND COMMENTS

CREDIT CARD DOCUMENTATION

A review of two months of credit card claims identified six charges (including five charges for meals) totaling \$406 which did not contain adequate supporting documentation to identify the purchases made. For the five charges associated with meals, information was not provided indicating the name, nature and purpose of the business meeting requiring the payment of meals. Payments were based upon charge slips only without a receipt itemizing the purchases made.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All claims, invoices, receipts, accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DEPOSITS

A comparison of receipts issued to the corresponding bank deposits made identified four instances out of the ten deposits tested in which it could not be verified that collections were deposited intact. Although the overall total amount of the bank deposit agreed with the receipts issued, the composition of checks and cash as shown on the receipts issued did not agree with the individual cash and check amounts shown on the bank deposit ticket.

Public funds deposited should be deposited in the same form in which they were received. This simply means all daily receipts received by the political subdivision should be deposited intact. (Accounting and Uniforms Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CLERK-TREASURER
CITY OF SALEM
EXIT CONFERENCE

The contents of this report were discussed on December 15, 2015, with Patricia E. Persinger, Clerk-Treasurer; David L. Bower, Mayor and President of the Board of Public Works and Safety; and Justin T. Green, President Pro Tempore of the Common Council.

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF SALEM

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF SALEM
FEDERAL FINDING

FINDING 2014-004 - PROCUREMENT, SUSPENSION, AND DEBARMENT

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0075-12-2012,
AIP 3-18-0075-13-2013,
AIP 3-18-0075-15-2014

Management of the City has not established an effective internal control system related to the grant agreement and the compliance requirements pertaining to Procurement, Suspension, and Debarment. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. The lack of an internal control system could also allow non-compliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Written policies and procedures outlining responsibilities and duties for procurement have not been established to identify Procurement, Suspension and Debarment requirements in order to ensure staff is knowledgeable about the grant requirements and a process is in place to ensure adherence to the requirements. The City does not have a written code of ethical conduct.

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis.

49 CFR 18.36(b) states in part:

"Procurement standards. (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. . . .

(3) Grantees and subgrantees will maintain a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts. No employee, officer, or agent of the grantee or subgrantee shall participate in selection, or in the award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved. . . ."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish and implement controls related to the grant agreement and compliance requirements governing Procurement, Suspension and Debarment and adopt the proper purchasing policies in order to comply with those requirements.



CORRECTIVE ACTION PLAN


FINDING 2014-004 – PROCUREMENT, SUSPENSION AND DEBARMENT

Contact Person Responsible for Corrective Action: David L. Bower, Mayor
Contact Phone Number: 812-883-4265

Description of Corrective Action Plan:

The City of Salem is in the process of addressing this item. The City Attorney is drafting an ordinance setting this policy. The ordinance will be approved by both the Board of Public Works and Safety and the Common Council.

Anticipated Completion Date: June 30, 2016


(Signature)

Mayor
(Title)

12-15-15
(Date)



BOARD OF PUBLIC WORKS AND SAFETY
CITY OF SALEM
AUDIT RESULTS AND COMMENTS

TRAVEL POLICY

A review of 11 disbursements identified as travel expenditures indicated that the City was not following its travel policy and state guidelines. Requests for Permission to Travel as required by the City's travel policy were not being completed and approved. Guidelines for meal spending had not been approved as required by the City's travel policy. Expenditures for meal spending were made based upon meal receipts submitted without any guidelines as to a limit on the amount that can be spent. The expenditures related to travel did not contain information indicating the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable the governing body to authorize payment as required by state guidelines. Expenditures were paid on credit card statements without itemization. The Board of Public Works and Safety passed Resolution 2015-7 on September 14, 2015, establishing meal spending limits for employees when on City business.

City ordinance 1215 passed on February 14, 2006, states in part:

"(A) *Request for Permission to Travel.* The appropriate Request for Permission to Travel form (specified below) shall be completed by all persons traveling at the expense of the City. In relation to this procedure, the following shall apply:

(1) *Incidental Travel.*

(a) A Request for Permission for Incidental Travel shall be completed by the employee for all travel that does not require overnight accommodations.

(b) A Request for Permission for Incidental Travel must be approved by the department head prior to travel. Copies must be approved by the department head prior to travel. Copies of the approved form shall be maintained by each department. If a Request for Expense Reimbursement is filed after the travel has taken place, it is not necessary to attach the Request for Permission for Incidental Travel. However, the department head should ensure the travel was properly authorized.

(2) *Overnight Travel.*

(a) A Request for Permission to Travel Overnight form shall be completed by the employee prior to traveling when overnight accommodation will be required.

(b) A Request for Permission to Travel Overnight form must be approved by the department head and submitted to the Clerk-Treasurer's Office for approval. Approvals must be obtained prior to traveling. A copy of the approved form shall be returned to the employee, a copy shall be forwarded to the department head, and a copy shall be maintained by the Clerk-Treasurer's Office. . . .

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF SALEM
AUDIT RESULTS AND COMMENTS
(Continued)

(C) *Meals.*

Guidelines. Reimbursement guidelines for meals, including tips (not to exceed 20% of the bill), per person for business meetings shall be established by resolution from time to time by the Board of Public Works and Safety of the City of Salem, Indiana. The guidelines so established by the Board of Public Works and Safety of the City of Salem, Indiana may be exceeded if the charges are reasonable under the circumstances."

All claims, invoices, receipts, accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim, may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CREDIT CARD DOCUMENTATION

A review of two months of credit card claims identified six charges (including five charges for meals) totaling \$406 which did not contain adequate supporting documentation to identify the purchases made. For the five charges associated with meals, information was not provided indicating the name, nature and purpose of the business meeting requiring the payment of meals. Payments were based upon charge slips only without a receipt itemizing the purchases made.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All claims, invoices, receipts, accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF SALEM
EXIT CONFERENCE

The contents of this report were discussed on December 15, 2015, with David L. Bower, Mayor and President of the Board of Public Works and Safety; and Justin T. Green, President Pro Tempore of the Common Council.

UTILITIES
CITY OF SALEM

UTILITIES
CITY OF SALEM
FEDERAL FINDING

FINDING 2014-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the City related to financial transactions and reporting. A lack of segregation of duties exists over financial statement receipts. The City has not separated incompatible activities related to City receipts and Utility collections.

City Receipts

One employee in the Clerk-Treasurer's Office is responsible for issuing receipts, balancing the collection drawer, and making the bank deposits. Another employee is responsible for posting the receipts to the ledger. The activities related to receipts were not always reviewed or verified by someone other than the employee performing the activities.

A comparison of the compositions of monies collected per the receipts was not made with the composition shown on the bank statements to ensure the monies collected were deposited in the same form as they were received.

Utility Collections

The Utility collections process is primarily handled by one person. The Utility Office Manager collects Utility payments, balances the collection drawer, posts Utility payments and adjustments to the customers' accounts, makes up the Utility deposit ticket, and remits the deposit ticket with the collections to the Clerk-Treasurer's Office. There is no evidence provided to indicate that the activities related to Utility collections were being reviewed or verified by someone other than the Utility Office Manager.

A lack of segregation of duties exists related to financial statement disbursements. The City has not separated incompatible activities related to vendor and payroll disbursements.

Vendor Disbursements

One employee in the Clerk-Treasurer's Office is responsible for matching invoices with purchase requisition orders; recording invoice payments in the ledger, issuing checks, mailing checks, making bank electronic fund payments, has access to the check stock, and prints reports of disbursements activity for approval. The same employee prepares the initial bank reconciliation and outstanding check list prior to its approval. The activities related to disbursements were not always reviewed or verified by someone other than the employee performing the activities.

UTILITIES
CITY OF SALEM
FEDERAL FINDING
(Continued)

Payroll Disbursements

One employee in the Clerk-Treasurer's Office is responsible for establishing new employees in the payroll computer system; entering employees' pay rates; entering employees' hours worked; recording leave time earned and used; calculating the employees' wages, issuing checks and or making direct deposit payments for wages, tax payments, and payroll deductions, printing reports of payroll disbursements for review and approval; preparing 941 reports, retirement reports, and W-2's. Another employee is responsible for recording the payroll payments, tax payments, and deduction payments to the ledger. The activities related to payroll were not always reviewed or verified by someone other than the employee performing the activities.

The failure to establish controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)



City of Salem

Patricia E. Persinger, Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2014-001 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTION AND REPORTING

Contact Person Responsible for Corrective Action: Patricia E. Persinger, Clerk-Treasurer
Contact Phone Number: 812-883-4264

Description of Corrective Action Plan:

City Receipts – The City of Salem now has procedures in place to review and verify all receipts and deposits by the Clerk-Treasurer or in her absence by the 2nd Deputy Clerk-Treasurer. Procedures are also in place to verify that the cash and checks are deposited in the banks in the manner which were received.

Vendor Disbursements – All invoice are approve by the department head and Mayor or Clerk-Treasurer before processing. All vouchers are signed by the department head before going to Common Council or Board of Public Works and Safety. Only after approval are invoices paid. At the end of each month a Check/Accounts Payable Voucher Verification is reviewed and signed by the Clerk-Treasurer.

Payroll Disbursements – Payroll receipts are reviewed and matched to the Payroll Allowance Docket by the Clerk-Treasurer and the Payroll Allowance Docket is reviewed and signed by the Common Council and all payroll fund balances are zero at the end of each month.

Anticipated Completion Date: December 2, 2015


(Signature)

Clerk-Treasurer
(Title)

December 15, 2015

(Date)

Office: (812)883-4264

Fax: (812)883-3634

201 E. Market St., Suite 101
Salem, Indiana 47167

UTILITIES
CITY OF SALEM
AUDIT RESULT AND COMMENT

DISTRIBUTION OF GROSS REVENUES TO THE VARIOUS FUNDS

Gross revenues were not being distributed to the Wastewater Bond and Interest fund in accordance with Revenue Bond Ordinance 1132. At December 31, 2014, the Wastewater Bond and Interest fund was underfunded in the amount of \$37,008.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

UTILITIES
CITY OF SALEM
EXIT CONFERENCE

The contents of this report were discussed on December 15, 2015, with Carol Brough, Utility Office Manager; David L. Bower, Mayor and President of the Board of Public Works and Safety; and Justin T. Green, President Pro Tempore of the Common Council.

ANIMAL SHELTER
CITY OF SALEM

ANIMAL SHELTER
CITY OF SALEM
AUDIT RESULT AND COMMENT

FEES

The Animal Shelter collected a fee of \$275 for pet cremations that was not included or authorized on any fee ordinance.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ANIMAL SHELTER
CITY OF SALEM
EXIT CONFERENCE

The contents of this report were discussed on December 15, 2015, with David L. Bower, Mayor and President of the Board of Public Works and Safety; and Justin T. Green, President Pro Tempore of the Common Council.

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BOARD OF AVIATION
CITY OF SALEM

BOARD OF AVIATION
CITY OF SALEM
FEDERAL FINDING

FINDING 2014-003 - REPORTING

Federal Agency: Department of Transportation
Federal Program: Airport Improvement Program
CFDA Number: 20.106

Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0075-12-2012;
AIP 3-18-0075-13-2013;
AIP 3-18-0075-15-2014

Management of the City has not established an effective internal control system related to the grant agreement and compliance requirements pertaining to Reporting. Procedures are not in place to verify that the financial information contained in the grant project ledger from which the grant financial reports are prepared is in agreement with the underlying financial activity for grant funds maintained in the financial records of the City. Failure to verify that the information shown in the grant project ledger agrees with the actual financial activity that occurred per the City's financial records resulted in inaccurate grant reporting.

The amount reported on the Federal Financial Report (Report) for grant project AIP 3-18-0075-12-2012 filed on July 16, 2014, as "total recipient shared required" and "recipient share of expenditures" were incorrect. The Report showed the amount for both items as \$42,220. The actual amount that should have been reported was \$26,298. The same Report incorrectly reported \$236,673 as the "total federal program income earned" and "program income expended in accordance with the deduction alternative". The actual amounts that should have been reported related to program income in both instances were zero.

The amount reported on the Federal Financial Report for grant project AIP 03-18-0075-13-2013, submitted on November 19, 2014, as the "recipient share of expenditures" was incorrect. The amount reported was \$211,295 and the actual amount was \$281,727. The reporting period end date on the same report incorrectly identified the ending date as December 31, 2014; however, the amounts reported were as of the fiscal year ending date of September 30, 2014.

BOARD OF AVIATION
CITY OF SALEM
FEDERAL FINDING
(Continued)

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

49 CFR 18.20(b)(1) states:

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) Financial Reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish and implement internal controls has resulted in noncompliance. Non-compliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish and implement controls related to the grant agreement and the compliance requirements governing Reporting and ensure that accurate Federal Financial Reports will be submitted in the future.



Salem Municipal Airport (183)
Salem Board of Aviation
Commissioners

2593 W. Highway 56

Salem, IN 47167

CORRECTIVE ACTION PLAN

FINDING 2014-003 Reporting

Contact Person Responsible for Corrective Action: Ronny Floyd – BOAC President

Contact Phone Number: 817-620-4934

Description of Corrective Action Plan:


As of 11/18/15 additional reporting has been added to normal procedures and grant balances are updated at regular Board meetings.

Beginning with all 2015 reporting, all SF425 reporting has been corrected to show "Recipient Share" as the amount that the Federal portion does not cover. Previous reports only showed true local share not including State participation.

Report period end dates will reflect when the annual report is due (90 days after the end of the fiscal year) unless directed otherwise by FAA. Currently no Quarterly SF425 reporting is accomplished.


Anticipated Completion Date:

All changes have been fulfilled.



(Signature)

Salem Municipal Airport BOAC President



(Date)

BOARD OF AVIATION
CITY OF SALEM
EXIT CONFERENCE

The contents of this report were discussed on December 15, 2015, with Ronald Floyd, President of the Board of Aviation Commissioners; David L. Bower, Mayor and President of the Board of Public Works and Safety; and Justin T. Green, President Pro Tempore of the Common Council.