

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF MONTEZUMA

PARKE COUNTY, INDIANA

January 1, 2014 to December 31, 2014



**FILED**  
12/08/2016



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Cathy L. Morgan	01-01-12 to 12-31-19
President of the Town Council	G. Allen Cobb	01-01-14 to 12-31-16
Superintendent of Utilities	Robert Allen Donald Cobb	01-01-14 to 05-18-14 05-19-14 to 12-31-16



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF MONTEZUMA, PARKE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Montezuma (Town), 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 Town. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Town, which provides our opinions on the Town's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://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 Plan 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

October 20, 2016

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CLERK-TREASURER  
TOWN OF MONTEZUMA

CLERK-TREASURER  
TOWN OF MONTEZUMA  
FEDERAL FINDINGS

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

*Condition*

There were several deficiencies in the internal control system of the Town related to financial transactions and reporting.

1. Lack of Segregation of Duties: The Town had not separated incompatible activities related to financial closing and reporting, receipts and disbursements. The Clerk-Treasurer input the Town's financial information into the Gateway system. No evidence of a control, such as an oversight, review or approval process by the Town, was identified.

The Utility Clerk performed all of the revenue postings for the month. At month end, the Clerk-Treasurer compared the revenue posting reports to the bank statements. There was no audit evidence presented to verify that this procedure was completed.

The payroll process was alternately performed by either the Utility Clerk or Deputy Clerk every other month. After the payroll was processed, the Clerk-Treasurer would compare the YTD Accumulations Detail report to the Payfile Totals Detail report to verify they agreed. The Clerk-Treasurer ran a tape of the manual checks net totals to compare the net amount on the Payfile Totals Detail report. There was no audit evidence presented to verify that this procedure was completed.

2. Monitoring of Controls: The Town had no process to identify or communicate corrective actions to improve controls. Effective internal control over financial reporting required the Town to monitor and assess the quality of the system of internal control.

*Criteria*

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)

*Cause*

An evaluation of the Town's system of internal control had not been conducted. Management had not conducted a risk assessment related to the Town's financial reporting and transactions.

*Effect*

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the Town at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

CLERK-TREASURER  
TOWN OF MONTEZUMA  
FEDERAL FINDINGS  
(Continued)

*Views of Responsible Officials*

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

**FINDING 2014-002 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

*Condition*

The Town did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The Clerk-Treasurer printed reports from the Keystone software program and used them to input the Town's financial data into the Gateway system. No evidence of a control, such as oversight, review, or approval process was identified.

The SEFA had the following errors: The Water and Waste Disposal Systems grant for \$72,899 was included on the schedule but did not have any activity for the audit period. The Hazard Mitigation Grant and the Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii (CDBG) were combined. The Hazard Mitigation Grant was listed as \$704,857, but should have been \$396,203. The remaining \$308,654 should have been shown as CDBG. The Hazard Mitigation Grant amount of \$396,203 was listed as a pass-through to subrecipients but there were no subrecipients. Audit adjustments were proposed, accepted by the Town, and made to the SEFA.

*Criteria*

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)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with section .310. . . ."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. 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 award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

CLERK-TREASURER  
TOWN OF MONTEZUMA  
FEDERAL FINDINGS  
(Continued)

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual 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 shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

*Cause*

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

*Effect*

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

*Views of Responsible Officials*

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

***FINDING 2014-003 - INTERNAL CONTROLS OVER HAZARD MITIGATION GRANT***

Federal Agency: Department of Homeland Security  
Federal Program: Hazard Mitigation Grant  
CFDA Number: 97.039  
Federal Award Number and Year (or Other Identifying Number): C44P-1-005A  
Pass-Through Entity: Indiana Department of Homeland Security

CLERK-TREASURER  
TOWN OF MONTEZUMA  
FEDERAL FINDINGS  
(Continued)

*Condition*

An effective internal control system, which would have included segregation of duties, was not in place at the Town in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Matching, Period of Availability, Real Property Acquisition and Relocation Assistance, and Reporting.

*Activities Allowed or Unallowed and Allowable Costs/Cost Principles*

Disbursements totaling \$635,316 were made by wire transfer to a separate bank account, which was under the control of the Town's attorney. The wire transfers were included on the claims docket which was approved by the Town Council, but there was no documentation of the detail of the payments made or what was purchased from the account at the time of the approval.

*Cash Management*

The drawdown requests were prepared independently by the Grant Administrator. No evidence of a control, such as an oversight, review or approval process by the Town, was identified.

*Matching*

The drawdown requests included the allocation of expenditures between the Hazard Mitigation Grant program and the Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii (CDBG) program; however, no evidence of a control, such as an oversight, review or approval process, was identified.

*Period of Availability*

The Grant Administrator filed an extension for the period of availability, but neither the Grant Administrator nor the Town had evidence of approval of the extension. The awarding agency had to be contacted during the audit to verify that the extension was approved.

*Real Property Acquisition and Relocation Assistance*

No controls were identified over real property acquisition and relocation assistance. There was no process in place to ensure that all the properties were included in the acquisition process. This process included the appraisal, the initial offer for purchase and the closing with settlement statement.

*Reporting*

The quarterly progress and performance reports were prepared independently by the Grant Administrator. No evidence of a control, such as an oversight, review or approval process by the Town, was identified.

*Context*

The Town hired a Grant Administrator to facilitate compliance with the grant. The Town Attorney also had a high level of participation in the property acquisition portion of the grant. There was no evidence of internal controls over compliance with grant requirements or the grant agreement. This was pervasive throughout the entire grant period and across all compliance requirements.

CLERK-TREASURER  
TOWN OF MONTEZUMA  
FEDERAL FINDINGS  
(Continued)

*Criteria*

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. . . ."

*Cause*

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

*Effect*

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

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

*Views of Responsible Officials*

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

## CORRECTIVE ACTION PLAN

### FINDING 2014-001

Contact Person Responsible for Corrective Action: Cathy L. Morgan  
Contact Phone Number: 765-245-2759

I concur with the finding. Although monthly reports, reconciliations, revenues and expenditures are reviewed by me I realize additional steps can be taken to ensure that there is audit evidence available.

Corrective Action Plan: A checklist spreadsheet will be developed to allow for me to check off and sign that I have reviewed and approved all weekly and month-end reports and balances.

In addition, it will be documented in the minutes of the Town Council meetings that each council receives a copy of the Annual Financial Report once completed each year.

### FINDING 2014-002

Contact Person Responsible for Corrective Action: Cathy L. Morgan  
Contact Phone Number: 765-245-2590

I concur with the finding.

Corrective Action Plan: Proper controls to be implemented when preparing the SEFA to ensure accurate reporting of Federal Funding. In addition, the report will be reviewed by council members before being submitted.

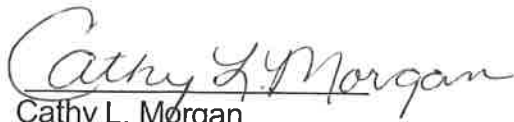
### Finding 2014-003

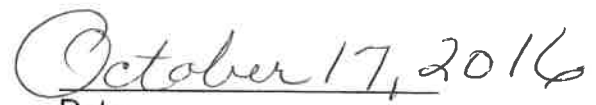
Contact Person Responsible for Corrective Action: Cathy L. Morgan  
Contact Phone Number: 765-245-2590

I concur with the finding.

Corrective Action Plan: Mitigation Grant closed out the end of September 2016. I will attempt to implement controls for future grants.

Anticipated Completion Date: Effective immediately

  
Cathy L. Morgan  
Clerk Treasurer/Utility Office Manager  
Town of Montezuma

  
Date

CLERK-TREASURER  
TOWN OF MONTEZUMA  
AUDIT RESULTS AND COMMENTS

**ORDINANCES AND RESOLUTIONS**

Three of the seven Town employees were not paid in accordance with the salary ordinance as follows:

- The Clerk-Treasurer was to be paid annually a gross amount of \$8,379 from the General Fund, \$2,549 from the MVH Fund, and \$1,046 from the Cemetery Fund. The Clerk-Treasurer was actually paid \$8,453 from the General Fund, \$2,536 from the MVH Fund, and \$985 from the Cemetery Fund. Overall, the Clerk-Treasurer was paid the correct amount, but it was not paid from the correct funds.
- The Housekeeper was paid \$10 per event held at the Community Center, which was not documented on the salary ordinance.
- The Deputy Clerk-Treasurer received an additional 10 percent for 4.41 hours on the payroll ending February 26, 2014, for performing Clerk-Treasurer duties. This was not provided for on the salary ordinance.

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)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**SUPPORTING DOCUMENTATION**

Documentation was not presented for audit to support five disbursements. Of these five disbursements, four were made on the Town's credit card. The Town's credit card policy stated that all receipts need to be remitted to the Clerk-Treasurer when the credit card is returned. Due to the lack of supporting information, we could not verify the purpose of the disbursement.

<u>Date</u>	<u>Payee</u>	<u>Amount</u>	<u>Description of Purchase (if any)</u>
09-18-14	First Financial Bank Credit Card	\$ 112	UEI Water Program
09-18-14	First Financial Bank Credit Card	30	Meal at Restaurant
11-19-14	First Financial Bank Credit Card	13	Meal at Restaurant
10-16-14	First Financial Bank Credit Card	16	Meal at Restaurant
09-18-14	Travis Helton	<u>32</u>	Meal at Restaurants
Total		<u>\$ 204</u>	

CLERK-TREASURER  
TOWN OF MONTEZUMA  
AUDIT RESULTS AND COMMENTS  
(Continued)

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)

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CLERK-TREASURER  
TOWN OF MONTEZUMA  
EXIT CONFERENCE

The contents of this report were discussed on October 20, 2016, with John Norris, Town Council member; Cathy L. Morgan, Clerk-Treasurer; and G. Allen Cobb, President of the Town Council.

POLICE DEPARTMENT  
TOWN OF MONTEZUMA

POLICE DEPARTMENT  
TOWN OF MONTEZUMA  
AUDIT RESULT AND COMMENT

***INTERNAL CONTROLS***

Internal controls over the receipting, disbursing, recording, and accounting for the financial activities of the Police Department were insufficient. The Police Department did not use prescribed receipts for gun permits and did not remit the receipts to the Clerk-Treasurer timely.

Indiana Code 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

POLICE DEPARTMENT  
TOWN OF MONTEZUMA  
EXIT CONFERENCE

The contents of this report were discussed on October 20, 2016, with John Norris, Town Council member; Cathy L. Morgan, Clerk-Treasurer; Robert Jackson, Town Marshal; and G. Allen Cobb, President of the Town Council.