

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, 2015 to December 31, 2015



FILED
03/06/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Patricia E. Persinger Sally J. Hattabaugh	01-01-12 to 12-31-15 01-01-16 to 12-31-19
Mayor	David L. Bower Troy Merry	01-01-12 to 12-31-15 01-01-16 to 12-31-19
President of the Board of Public Works and Safety	David L. Bower Troy Merry	01-01-15 to 12-31-15 01-01-16 to 12-31-17
President Pro Tempore of the Common Council	Justin T. Green Warren Jones Wally Terkhorn	01-01-15 to 12-31-15 01-01-16 to 12-31-16 01-01-17 to 12-31-17
Utility Office Manager	Carol Brough	01-01-15 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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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, 2015 to December 31, 2015. It has been provided as a separate report so that the reader may easily identify any Federal Findings 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.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

February 7, 2017

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CLERK-TREASURER
CITY OF SALEM

CLERK-TREASURER
CITY OF SALEM
FEDERAL FINDINGS

FINDING 2015-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

This is a repeat finding from the immediate prior year. The prior year finding number was 2014-001.

Condition

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

A lack of segregation of duties existed over financial statement receipts. The City had not separated incompatible activities related to Utility collections and vendor and payroll disbursements.

Utility Collections

One employee in the Utility office was responsible for collecting utility payments, balancing the collection drawer, posting utility payments and adjustments to the customers' accounts, filling out the utility deposit ticket, and remitting the deposit ticket with the collections to the Clerk-Treasurer's office. There was no evidence provided to indicate that the activities related to utility collections were being reviewed or verified by someone other than the employee performing the activities.

Vendor Disbursements

One employee in the Clerk-Treasurer's office was responsible for matching invoices with purchase requisition orders, recording invoice payments in the ledger, issuing checks, mailing checks, making bank electronic fund payments, had access to the check stock, and printing reports of disbursements activity for approval. The same employee prepared 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 was responsible for establishing new employees in the payroll computer system, entering pay rates, entering hours worked, recording leave time earned and used, calculating the wages, issuing checks, making direct deposit payments for wages, tax payments, and payroll deductions, printing reports of payroll disbursements for review and approval, and preparing 941 reports, retirement reports, and W-2's. Another employee was 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.

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:

CLERK-TREASURER
CITY OF SALEM
FEDERAL FINDINGS
(Continued)

"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. . . ."

Cause

Management had not developed an effective system of internal controls to ensure that the financial activity was reported properly relating to utility collections. Management had not properly implemented the internal control system relating to vendor and payroll disbursements.

Effect

The failure to establish and properly implement controls could have enabled material misstatements or irregularities to remain undetected.

Views of Responsible Officials

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

FINDING 2015-002 - REPORTING AND SPECIAL TESTS AND PROVISIONS - WAGE RATE REQUIREMENTS

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): AIP 3-18-0075-13-2013,
AIP 3-18-0075-15-2014,
AIP 3-18-0075-16-2015

This is a repeat finding from the immediate prior year. The prior year finding numbers were 2014-002 and 2014-003.

Condition

Reporting

Management of the City had not established an effective internal control system related to the grant agreement and the Reporting compliance requirement.

Procedures were not in place at the Airport to ensure that required financial reports were supported by the activities recorded in the grant funds maintained in the City's financial ledger. Financial reports were prepared from project files kept by the Grant Administrator. These project files were not reconciled to the City's financial ledger to ensure the amounts contained in the financial reports were correct

CLERK-TREASURER
CITY OF SALEM
FEDERAL FINDINGS
(Continued)

Special Tests and Provisions - Wage Rate Requirements

Management of the City had not properly implemented their internal control system, related to the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

Certified payrolls were submitted by the contractors to the Grant Administrator. The Grant Administrator would then check to determine if the prevailing wages were being properly paid. The Grant Administrator would then submit the certified payroll to the Clerk-Treasurer to review and verify the Grant Administrator properly performed their review. The Clerk-Treasurer would make tick marks on the payrolls to indicate a review was performed. Certified payrolls did not always contain the tick marks indicating the Clerk-Treasurer reviewed the certified payrolls.

Context

Reporting

There was no evidence presented during the entire audit period that the amounts reported in the financial reports were verified to the activities recorded in the grant funds maintained in the City's financial ledger.

Special Tests and Provisions - Wage Rate Requirements

The City presented twenty-six certified payrolls for the audit period pertaining to federal award number AIP 3-18-0075-15-2014. Twenty-one of the certified payrolls did not contain any tick marks to indicate a review was performed.

The City presented nineteen certified payrolls for the audit period pertaining to federal award number AIP 3-18-0075-13-2013. None of the certified payrolls contained any tick marks to indicate a review was performed.

Criteria

2 CFR section 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

Management had not developed an effective system of internal controls for Reporting. Management had not properly implemented the internal control system for Special Tests and Provisions - Wage Rate Requirements.

CLERK-TREASURER
CITY OF SALEM
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish and properly implement an effective internal control system placed 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 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 City'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.

FINDING 2015-003 - CASH MANAGEMENT

Federal Agency: Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Federal Award Number and Year (or Other Identifying Number): DES 0014640
Pass-Through Entity: Indiana Department of Transportation

Condition

Management of the City had not established an effective internal control system, related to the grant agreement and the Cash Management compliance requirement.

One person prepared and submitted the invoices for reimbursement. There was no evidence presented to indicate that anyone other than the preparer reviewed the reimbursement request to ensure that the invoices submitted had been paid prior to requesting reimbursement. There were instances in which amounts were submitted for reimbursement prior to the underlying invoices being paid.

Context

Two of the six reimbursement request tested contained invoices that had not been paid prior to requesting the reimbursement. Invoices on those two requests were paid 35 and 54 days after the date of the reimbursement request.

Criteria

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

CLERK-TREASURER
CITY OF SALEM
FEDERAL FINDINGS
(Continued)

"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. . . ."

2 CFR 200.305(b)(3) states:

"Reimbursement is the preferred method when the requirements in paragraph (b) cannot be met, when the Federal awarding agency sets a specific condition per § 200.207 Specific conditions, or when the non-Federal entity requests payment by reimbursement. This method may be used on any Federal award for construction, or if the major portion of the construction project is accomplished through private market financing or Federal loans, and the Federal award constitutes a minor portion of the project. When the reimbursement method is used, the Federal awarding agency or pass-through entity must make payment within 30 calendar days after receipt of the billing, unless the Federal awarding agency or pass-through entity reasonably believes the request to be improper."

Cause

Management had not developed an effective system of internal controls over Cash Management requirements.

Effect

The failure to establish internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to the City.

Questioned Costs

There were no questioned costs identified.

Recommendation

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

Views of Responsible Officials

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

FINDING 2015-004 - MATCHING

Federal Agency: Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Federal Award Number and Year (or Other Identifying Number): DES 0014640
Pass-Through Entity: Indiana Department of Transportation

CLERK-TREASURER
CITY OF SALEM
FEDERAL FINDINGS
(Continued)

Condition

Management of the City had not established an effective internal control system, related to the grant agreement and the Matching compliance requirement.

The Clerk-Treasurer prepared the reimbursement request which included the City's required match of funds. There was no evidence presented to indicate that anyone other than the Clerk-Treasurer reviewed the reimbursement request to ensure that the matching requirement was properly met.

Context

The lack of internal controls was prevalent during the entire audit period.

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 City at risk of noncompliance with the grant agreement and the compliance requirement. 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 City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirement listed above.

Views of Responsible Officials

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



Sally Hattabaugh, Clerk-Treasurer
201 E. Market Street, Suite 101
Salem, IN 47167
812-883-4264 (Office)
812-883-3634 (Fax)

CORRECTIVE ACTION PLAN

FINDING 2015-001

Contact Person Responsible for Corrective Action: Sally J. Hattabaugh, Clerk-Treasurer

Contact Phone Number: 812-883-4264

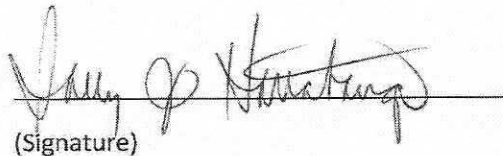
Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Vendor Disbursements – Two different employees match invoices with purchase requisition orders. All invoices are approved 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. A new computer program, KeyFund, was installed that posts in real time and no manual update is required. An employee issues checks but the Clerk-Treasurer reviews and signs them. We do not make bank electronic fund payments. Bank reconciliations are reviewed and signed by the Clerk-Treasurer.

Payroll Disbursements – Payroll receipts are reviewed and verified to the monthly Payroll Allowance Docket by the Clerk-Treasurer and the Payroll Allowance Docket is reviewed and signed by the Common Council. Payroll vouchers are signed off by the department heads. Clerk-Treasurer reviews the employee master file at the beginning of each year to confirm the wages match the salary ordinance. An employee has been cross-trained to do payroll functions on a regular basis.

Anticipated Completion Date: September 15, 2016


(Signature)



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CORRECTIVE ACTION PLAN

FINDING 2015-002

Contact Person Responsible for Corrective Action: Sally J. Hattabaugh, Clerk-Treasurer

Contact Phone Number: 812-883-4264

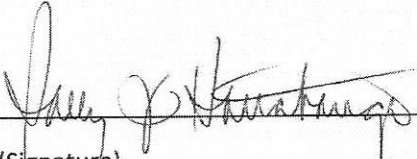
Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

A master spreadsheet which tracks all items that constitute the pay requests is sent by the grant administrator to the Clerk-Treasurer. The Clerk-Treasurer then verifies the amounts that the claims dockets are for that month.

Procedures are in place for the Clerk-Treasurer to tick mark the certified payrolls after they are reviewed.

Anticipated Completion Date: January 3, 2017



(Signature)

Clerk-Treasurer

(Title)

January 26, 2017

(Date)



Sally Hattabaugh, Clerk-Treasurer
201 E. Market Street, Suite 101
Salem, IN 47167
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812-883-3634 (Fax)

CORRECTIVE ACTION PLAN

FINDING 2015-003

Contact Person Responsible for Corrective Action: Troy Merry, Mayor and Sally J. Hattabaugh, Clerk-Treasurer

Contact Phone Number: 812-883-4265 and 812-883-4264

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan:

In the future we will handle any grant as directed by the grant agreement.

Anticipated Completion Date: January 3, 2017

(Signature)

Mayor

(Title)

(Signature)

Clerk-Treasurer

(Title)

January 26, 2017

(Date)



Sally Hattabaugh, Clerk-Treasurer
201 E. Market Street, Suite 101
Salem, IN 47167
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CORRECTIVE ACTION PLAN

FINDING 2015-004

Contact Person Responsible for Corrective Action: Sally J. Hattabaugh, Clerk-Treasurer and Troy Merry, Mayor

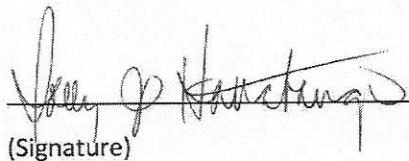
Contact Phone Number: 812-883-4264 and 812-883-4264

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Procedures have been put in place to ensure the reimbursement request is reviewed by a second person in the Clerk-Treasurer's office.

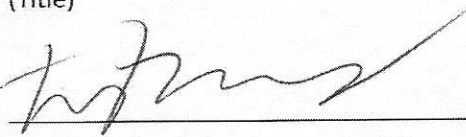
Anticipated Completion Date: January 3, 2017



(Signature)

Clerk-Treasurer

(Title)



(Signature)

Mayor

(Title)

January 26, 2017

(Date)

CLERK-TREASURER
CITY OF SALEM
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2017, with Sally J. Hattabaugh, Clerk-Treasurer; Troy Merry, Mayor; Wally Terkhorn, President Pro Tempore of the Common Council; and Warren Jones, Common Council member.

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BOARD OF PUBLIC WORKS AND SAFETY
CITY OF SALEM

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF SALEM
FEDERAL FINDINGS

FINDING 2015-003 - CASH MANAGEMENT

Federal Agency: Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Federal Award Number and Year (or Other Identifying Number): DES 0014640
Pass-Through Entity: Indiana Department of Transportation

Condition

Management of the City had not established an effective internal control system, related to the grant agreement and the Cash Management compliance requirement.

One person prepared and submitted the invoices for reimbursement. There was no evidence presented to indicate that anyone other than the preparer reviewed the reimbursement request to ensure that the invoices submitted had been paid prior to requesting reimbursement. There were instances in which amounts were submitted for reimbursement prior to the underlying invoices being paid.

Context

Two of the six reimbursement request tested contained invoices that had not been paid prior to requesting the reimbursement. Invoices on those two requests were paid 35 and 54 days after the date of the reimbursement request.

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. . . ."

2 CFR 200.305(b)(3) states:

"Reimbursement is the preferred method when the requirements in paragraph (b) cannot be met, when the Federal awarding agency sets a specific condition per § 200.207 Specific conditions, or when the non-Federal entity requests payment by reimbursement. This method may be used on any Federal award for construction, or if the major portion of the construction project is accomplished through private market financing or Federal loans, and the Federal award constitutes a minor portion of the project. When the reimbursement method is used, the Federal awarding agency or pass-through entity must make payment within 30 calendar days after receipt of the billing, unless the Federal awarding agency or pass-through entity reasonably believes the request to be improper."

Cause

Management had not developed an effective system of internal controls over Cash Management requirements.

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF SALEM
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to the City.

Questioned Costs

There were no questioned costs identified.

Recommendation

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

Views of Responsible Officials

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

FINDING 2015-004 - MATCHING

Federal Agency: Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Federal Award Number and Year (or Other Identifying Number): DES 0014640
Pass-Through Entity: Indiana Department of Transportation

Condition

Management of the City had not established an effective internal control system, related to the grant agreement and the Matching compliance requirement.

The Clerk-Treasurer prepared the reimbursement request which included the City's required match of funds. There was no evidence presented to indicate that anyone other than the Clerk-Treasurer reviewed the reimbursement request to ensure that the matching requirement was properly met.

Context

The lack of internal controls was prevalent during the entire audit period.

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. . . ."

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF SALEM
FEDERAL FINDINGS
(Continued)

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 City at risk of noncompliance with the grant agreement and the compliance requirement. 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 City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirement listed above.

Views of Responsible Officials

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



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CORRECTIVE ACTION PLAN

FINDING 2015-003

Contact Person Responsible for Corrective Action: Troy Merry, Mayor and Sally J. Hattabaugh, Clerk-Treasurer

Contact Phone Number: 812-883-4265 and 812-883-4264

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan:

In the future we will handle any grant as directed by the grant agreement.

Anticipated Completion Date: January 3, 2017

(Signature)

Mayor

(Title)

(Signature)

Clerk-Treasurer

(Title)

January 26, 2017

(Date)



Sally Hattabaugh, Clerk-Treasurer
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Salem, IN 47167
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812-883-3634 (Fax)

CORRECTIVE ACTION PLAN

FINDING 2015-004

Contact Person Responsible for Corrective Action: Sally J. Hattabaugh, Clerk-Treasurer and Troy Merry, Mayor

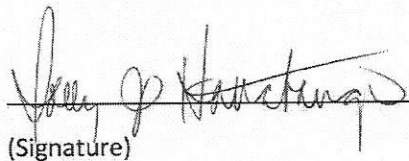
Contact Phone Number: 812-883-4264 and 812-883-4264

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Procedures have been put in place to ensure the reimbursement request is reviewed by a second person in the Clerk-Treasurer's office.

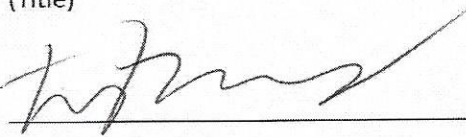
Anticipated Completion Date: January 3, 2017



(Signature)

Clerk-Treasurer

(Title)



(Signature)

Mayor

(Title)

January 26, 2017

(Date)

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF SALEM
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2017, with Sally J. Hattabaugh, Clerk-Treasurer; Troy Merry, Mayor; Wally Terkhorn, President Pro Tempore of the Common Council; and Warren Jones, Common Council member.

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UTILITIES
CITY OF SALEM

UTILITIES
CITY OF SALEM
FEDERAL FINDING

FINDING 2015-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

This is a repeat finding from the immediate prior year. The prior year finding number was 2014-001.

Condition

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

A lack of segregation of duties existed over financial statement receipts. The City had not separated incompatible activities related to Utility collections and vendor and payroll disbursements.

Utility Collections

One employee in the Utility office was responsible for collecting utility payments, balancing the collection drawer, posting utility payments and adjustments to the customers' accounts, filling out the utility deposit ticket, and remitting the deposit ticket with the collections to the Clerk-Treasurer's office. There was no evidence provided to indicate that the activities related to utility collections were being reviewed or verified by someone other than the employee performing the activities.

Vendor Disbursements

One employee in the Clerk-Treasurer's office was responsible for matching invoices with purchase requisition orders, recording invoice payments in the ledger, issuing checks, mailing checks, making bank electronic fund payments, had access to the check stock, and printing reports of disbursements activity for approval. The same employee prepared 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 was responsible for establishing new employees in the payroll computer system, entering pay rates, entering hours worked, recording leave time earned and used, calculating the wages, issuing checks, making direct deposit payments for wages, tax payments, and payroll deductions, printing reports of payroll disbursements for review and approval, and preparing 941 reports, retirement reports, and W-2's. Another employee was 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.

UTILITIES
CITY OF SALEM
FEDERAL FINDING
(Continued)

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. . . ."

Cause

Management had not developed an effective system of internal controls to ensure that the financial activity was reported properly relating to utility collections. Management had not properly implemented the internal control system relating to vendor and payroll disbursements.

Effect

The failure to establish and properly implement controls could have enabled material misstatements or irregularities to remain undetected.

Views of Responsible Officials

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

*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 2015-001

Contact Person Responsible for Corrective Action: Troy Merry, Mayor

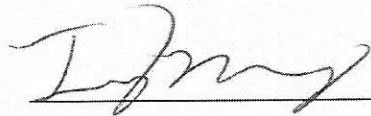
Contact Phone Number: 812-883-4265

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Utility Collections – Both Utility employees collect the payments, both figure adjustments and make adjustments. Every customer is given a receipt for payment verification. The deposit is verified by the second employee in the office. It is verified on a Cash Update Summary Report by both employees in the office and then turned into the Clerk-Treasurer's office where it is verified a third time.

Anticipated Completion Date: November 15, 2016



(Signature)

Mayor _____

(Title)

January 26, 2017 _____

(Date)

UTILITIES
CITY OF SALEM
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2017, with Sally J. Hattabaugh, Clerk-Treasurer; Troy Merry, Mayor; Wally Terkhorn, President Pro Tempore of the Common Council; and Warren Jones, Common Council member.

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BOARD OF AVIATION
CITY OF SALEM

BOARD OF AVIATION
CITY OF SALEM
FEDERAL FINDING

FINDING 2015-002 - REPORTING AND SPECIAL TESTS AND PROVISIONS - WAGE RATE REQUIREMENTS

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

Federal Award Numbers and Years (or Other Identifying Numbers): AIP 3-18-0075-13-2013,
AIP 3-18-0075-15-2014,
AIP 3-18-0075-16-2015

This is a repeat finding from the immediate prior year. The prior year finding numbers were 2014-002 and 2014-003.

Condition

Reporting

Management of the City had not established an effective internal control system related to the grant agreement and the Reporting compliance requirement.

Procedures were not in place at the Airport to ensure that required financial reports were supported by the activities recorded in the grant funds maintained in the City's financial ledger. Financial reports were prepared from project files kept by the Grant Administrator. These project files were not reconciled to the City's financial ledger to ensure the amounts contained in the financial reports were correct.

Special Tests and Provisions - Wage Rate Requirements

Management of the City had not properly implemented their internal control system, related to the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

Certified payrolls were submitted by the contractors to the Grant Administrator. The Grant Administrator would then check to determine if the prevailing wages were being properly paid. The Grant Administrator would then submit the certified payroll to the Clerk-Treasurer to review and verify the Grant Administrator properly performed their review. The Clerk-Treasurer would make tick marks on the payrolls to indicate a review was performed. Certified payrolls did not always contain the tick marks indicating the Clerk-Treasurer reviewed the certified payrolls.

Context

Reporting

There was no evidence presented during the entire audit period that the amounts reported in the financial reports were verified to the activities recorded in the grant funds maintained in the City's financial ledger.

Special Tests and Provisions - Wage Rate Requirements

The City presented twenty-six certified payrolls for the audit period pertaining to federal award number AIP 3-18-0075-15-2014. Twenty-one of the certified payrolls did not contain any tick marks to indicate a review was performed.

BOARD OF AVIATION
CITY OF SALEM
FEDERAL FINDING
(Continued)

The City presented nineteen certified payrolls for the audit period pertaining to federal award number AIP 3-18-0075-13-2013. None of the certified payrolls contained any tick marks to indicate a review was performed.

Criteria

2 CFR section 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

Management had not developed an effective system of internal controls for Reporting. Management had not properly implemented the internal control system for Special Tests and Provisions - Wage Rate Requirements.

Effect

The failure to establish and properly implement an effective internal control system placed 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 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 City'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.



*Salem Municipal Airport (183)
Salem Board of Aviation
Commissioners*

2593 W. Highway 56

Salem, IN 47167

FINDING 2015-002

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

Contact Phone Number: 812-404-6301

Views of Responsible Official: We concur with the finding.

During a recent State Board of Accounts Audit of the City of Salem, with the Salem Board of Aviation Commissioners as a subpart of that audit, received a notification that there were issues pertaining to the Federal aid projects.

Specifically, Finding 2015-002 of the SBA audit pertained to airport and federal funds.

Finding 2015-002 – Reporting and Special Tests and Provisions – Wage Rate Requirements

- **Under Finding 2015-002**, SBA claims that the City does not have an established effective internal control system with segregation of duties related to the grant agreement and reporting compliance which could place the City at risk of compliance with requirements.

Also, the City does not have an effective provision for Special Tests and Provisions for Wage Reports.

The airport and local community does have practice in place that provides for reporting compliance segregation of duties to ensure compliance to the FAA Grant Assurances.

The summary of the process is provided below:

1. The claims are collected and submitted by either the vender or aviation consultant to the airport for review/approval at the monthly BOAC meetings.
2. Claims are presented at a BOAC meeting via a progress report and pay request and reviewed and approved by the BOAC.
3. The pay request is taken by the airport attorney to the City Clerk Treasurer for processing and payment.
4. Upon submission of pay requests, the Clerk will assign duties for review, posting, and payment to different staff members.
5. The local community maintains separate accounts for each grant project to maintain a separation between the multiple projects that may be underway simultaneously.
6. Upon approval by the Council, the aviation consultant will incorporate the eligible costs onto a Pay Request and process through the FAA AIP Grant program.
7. The E-Invoicing system provides notification of payments to the Airport Consultant's Grant Administrator & City Clerk Treasurer. This notification provides both entities a notification that deposits have been made and allows for separation of duties as well as redundancy to ensure that payments are processed in a timely and efficient manner.
8. Monthly AR Reports are presented to the airport on a monthly basis.
9. City and grant administrators will semi-annually review and reconcile City financial ledgers with administrative project files.


10. Co-monitoring of the E-Invoicing system by the BF&S Grant Administrator assists the local community in timely processing and distribution of reimbursements to the appropriate account when multiple grants are open at any given time.
11. Electronic payment processing of reimbursements by the FAA has expedited local community receipt of funds which aids in cash management process.
12. FAA Electronic notification of reimbursement processing allows for a significant improvement to the claim processing and has significantly reduced any potential errors associated with receipt of FAA reimbursements.
13. Throughout the process, BOAC and Grant Administrator verify on site the activities for which reports are submitted.
14. City will adopt a system to assure all certified payrolls are manually reviewed and properly noted.

Anticipated Completion Date: November 18, 2015



(Signature)

Salem Municipal Airport BOAC President



(Date)

BOARD OF AVIATION
CITY OF SALEM
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2017, with Sally J. Hattabaugh, Clerk-Treasurer; Troy Merry, Mayor; Wally Terkhorn, President Pro Tempore of the Common Council; Warren Jones, Common Council member; and Ronnie Floyd, President of the Board of Aviation Commissioners.