

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF LAPORTE

LAPORTE COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED
03/30/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Teresa L. Ludlow	01-01-12 to 12-31-19
Mayor	Blair E. Milo	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Blair E. Milo	01-01-12 to 12-31-19
President Pro Tempore of the Common Council	Joseph A. Mrozinske	01-01-15 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF LAPORTE, LAPORTE COUNTY, INDIANA

This report is supplemental to our audit report of the City of LaPorte (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 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 Result and Comment 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 Result and Comment contained herein describes 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 Result and Comment, incorporated within this report, were not verified for accuracy.

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

February 21, 2017

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CLERK-TREASURER
CITY OF LAPORTE

CLERK-TREASURER
CITY OF LAPORTE
FEDERAL FINDING

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

Condition

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

1. Lack of Segregation of Duties:

Annual Financial Report

The City had not separated incompatible activities related to preparation of the Annual Financial Report (AFR). There was no evidence to indicate that the AFR was reviewed prior to submission.

Receipts

Several departments of the City collect funds and submit them to the Clerk-Treasurer for depositing and recording. There was no evidence to verify the transfer of custodianship of funds from the departments to the Clerk-Treasurer's office.

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

Due to the lack of oversight on the AFR, which was used to generate the financial statement, the following errors occurred on the financial statement:

1. The cash and investments balances for the Water Meter and Water Operating funds did not agree to the records. The Water Meter fund was overstated by \$2,586; conversely, the Water Operating fund was understated by \$2,586.
2. Transactions related to the City of LaPorte Redevelopment Authority Lease Rental Revenue Bonds 2015 A Debt Reserve Fund and Sinking Fund were not included in the City's records and were not reported in financial statement.

Transactions related to the City of LaPorte Redevelopment Authority Lease Rental Revenue Bonds 2015 B Debt Reserve Fund and Sinking Fund were not included in the City's records and were not reported in the financial statement.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

CLERK-TREASURER
CITY OF LAPORTE
FEDERAL FINDING
(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. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

All financial transactions pertaining to the unit must be recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Cause

Management of the City had not established a proper system of internal control. Management had not conducted a risk assessment related to the City's financial reporting and transactions.

Effect

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

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 – 001 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact Person for Correction Action: Teresa Ludlow, Clerk-Treasurer

Contact Phone Number (219) 362-9512

The purpose of this communication is to provide a response for a corrective action plan for the City of LaPorte Finding 001.

1. **Lack of Segregation of Duties:** The Audit Report for year 2015 indicates a lack of segregation of duties on the Annual Financial Report stating the City had not separated incompatible activities related to preparation of the Annual Financial Report (AFR). There was no evidence to indicate that the AFR was reviewed prior to submission.

RESPONSE from the City of LaPorte is annually the AFR is reviewed by the Clerk-Treasurer and Chief Deputy Clerk-Treasurer to support a checks and balances system. That information is then entered into the Gateway system for final submission. That software contains a signature line for only one individual. When that AFR is submitted the Clerk-Treasurer has verified her review. In addition, the Clerk-Treasurer and Chief Deputy Clerk-Treasurer will initial a hard copy of the AFR that they have reviewed.

2. **Monitoring Controls:** The Finding indicates that the City has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the City to monitor and assess the quality of the system of internal control.

RESPONSE from the City of LaPorte is that the City adopted Internal Control Policies to address specific concerns regarding corrective actions.

The cash and investment balances for the Water Meter and Water Operating funds did not agree to the records.

RESPONSE from the City of LaPorte is that 2016 funds have been corrected based on entering the stated fund balance.

Transactions related to the City of LaPorte Redevelopment Authority Lease Rental Revenue Bonds 2015 A and B Debt Reserve Fund and Sinking Fund were not included in the City's records and were not reported in the financial statement.

RESPONSE from the City of LaPorte is that a reporting procedure was put in place while auditors were present to support proper reporting in 2016.

Anticipated Completion Date: Already Completed or Immediately.

Jessica L. Ludlow

(Signature)

Chief Treasurer

(Title)

2-27-17

(Date)

CLERK-TREASURER
CITY OF LAPORTE
AUDIT RESULT AND COMMENT

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the adjusted bank balance did not agree with the fund balances reported in the financial statement at year end. The difference of \$20,719 was due to interest earned on investments that had not been recorded as of December 31, 2015.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

Interest on investments should not be added automatically to the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
CITY OF LAPORTE
EXIT CONFERENCE

The contents of this report were discussed on February 21, 2017, with Teresa L. Ludlow, Clerk-Treasurer; Blair E. Milo, Mayor; Joseph A. Mrozinske, President Pro Tempore of the Common Council; Beth Shrader, Director of Community Development and Planning; Joanne K. Layman, Chief Deputy Clerk-Treasurer; and Rebecca McCuaig, City Attorney.

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COMMUNITY DEVELOPMENT AND PLANNING
CITY OF LAPORTE

COMMUNITY DEVELOPMENT AND PLANNING
CITY OF LAPORTE
FEDERAL FINDING

FINDING 2015-002 - SUSPENSION AND DEBARMENT

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants
CFDA Number: 14.218
Federal Award Numbers and Years (or Other Identifying Numbers): B-12-MC-18-0021,
B-13-MC-18-0021

Condition

An effective internal control system was not in place at the City in order to ensure compliance with Suspension and Debarment requirements related to the grant agreement. There were no controls in place to ensure that the City verified that their sub-recipients were not suspended or debarred from participation in federal programs.

The City did not verify whether their subrecipients were suspended or debarred from participation in federal programs.

Context

Each program year, the City signed agreements with the same subrecipients. Searches in the Debarred list (SAMS) or HUD's limited Denial List were not performed for any of the subrecipients in 2015.

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. . . ."

COMMUNITY DEVELOPMENT AND PLANNING
CITY OF LAPORTE
FEDERAL FINDING
(Continued)

2 CFR 180.300 states:

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

- (a) Checking the SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

Cause

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

Effect

The failure to establish an effective internal control system 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 to ensure compliance and to comply with the Suspension and Debarment requirements of the program.

Views of Responsible Officials

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

City of LaPorte
INDIANA



OFFICE OF COMMUNITY DEVELOPMENT AND PLANNING
801 MICHIGAN AVENUE
LA PORTE, INDIANA 46350
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CORRECTIVE ACTION PLAN

FINDING 2015-002 SUSPENSION AND DEBARMENT

Contact Person Responsible for Corrective Action: Beth Shrader, Director of Community Development & Planning

Contact Phone Number: (219) 362-8260

The purpose of this communication is to provide a response for a corrective action plan for the City of LaPorte, Indiana Community Development Block Grant (CDBG). The Audit Report for year 2015 indicates a lack of internal control procedures to ensure compliance with Suspension and Debarment requirements related to the grant agreement.

The CDBG staff will continue to check the Excluded Parties List System (EPLS) (SAM Website) before entering into covered transactions with contractors. In the future, CDBG staff will also check the EPLS for sub-recipients (public service grantees) to verify that that sub-recipient with whom we intend to do business is not excluded or disqualified. Additionally, staff will print out documentation from the EPLS for the sub-recipients' and homeowners' files.

Anticipated Completion Date: Immediately.

A handwritten signature in cursive script, appearing to read "Beth Shrader".

(Signature)

Director of Community Development & Planning
(Title)

February 24, 2017
(Date)

COMMUNITY DEVELOPMENT AND PLANNING
CITY OF LAPORTE
EXIT CONFERENCE

The contents of this report were discussed on February 21, 2017, with Teresa L. Ludlow, Clerk-Treasurer; Blair E. Milo, Mayor; Joseph Mrozinske, President Pro Tempore of the Common Council; Beth Shrader, Director of Community Development and Planning; Joanne K. Layman, Chief Deputy Clerk-Treasurer; and Rebecca McCuaig, City Attorney.