

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF CULVER

MARSHALL COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
04/04/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Karen Heim	01-01-12 to 12-31-19
President of the Town Council	Virginia B. Munroe	01-01-14 to 12-31-17



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TO: THE OFFICIALS OF THE TOWN OF CULVER, MARSHALL COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Culver (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 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/.

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 15, 2017

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CLERK-TREASURER
TOWN OF CULVER

CLERK-TREASURER
TOWN OF CULVER
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 of the Annual Financial Report (AFR) and the financial statement. The Town had not separated incompatible activities and did not implement sufficient oversight or approval related to the following:

1. Cash and Investments - One person reconciled the bank balances to the record balances, and completed the AFR.
2. Receipts - One person collected money, issued receipts, recorded receipts, completed deposit tickets, and took the deposits to the bank.
3. Disbursements - One person prepared payroll, vendor disbursements, claims, and the claim docket and recorded all disbursements in the accounting software.

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). One individual gathered the information to prepare the SEFA, reported the information in the Gateway financial reporting system, and certified the SEFA.

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. 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 action. Separating the ability to record, authorize, and approve the transactions along with the handling of the related asset reduces the risk of error or fraudulent actions. It also reduces the risk of management override.

In very small governmental units, such segregation may not be practical. In this case, compensating activities should be implemented which may include additional levels of review for key operational processes, random and/or periodic review of selected transactions. These additional levels of review may take the form of managerial review of reports of detailed

CLERK-TREASURER
TOWN OF CULVER
FEDERAL FINDINGS
(Continued)

transactions, periodic review of performance of reconciliations, and periodic counts of assets and comparison to records. Certain situations may require management to go outside of the office or department for help in implementing controls and these reviews might be performed by governing boards or other elected officials.

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. Clear documentation should be maintained for continuity as well as ease of communication to outside parties. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities. . . .

- Accurate and timely recording of transactions . . ."

Cause

Management of the Town had not established a proper system of internal controls.

Effect

The failure to establish 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 2014-002 - SUSPENSION AND DEBARMENT

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's program and
Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number and Year (or Other Identifying Number): DR2-09-234
Pass-Through Entity: Indiana Office of Community and Rural Affairs

Condition

An effective internal control system was not in place at the Town in order to ensure compliance with the Suspension and Debarment requirement related to the grant agreement. As part of the Storm Drainage Improvement Project, the Town contracted with an engineering firm and a grant administration firm to oversee the project. The Town failed to verify that either firm selected by the Town was not suspended or debarred from participation in federal programs.

Context

The Town entered into three contracts related to the Storm Drainage Improvement Project. The Town did not perform procedures to determine if two of the three contractors were suspended or debarred from participation in federal programs.

CLERK-TREASURER
TOWN OF CULVER
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. . . ."

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 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 to ensure compliance with Suspension and Debarment requirements.

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 Town.

Recommendation

We recommended that the Town'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.

FINDING 2014-003 - CASH MANAGEMENT AND DAVIS-BACON ACT

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grant/State's program and
Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number and Year (or Other Identifying Number): DR2-09-234
Pass-Through Entity: Indiana Office of Community and Rural Affairs

CLERK-TREASURER
TOWN OF CULVER
FEDERAL FINDINGS
(Continued)

Condition

An effective internal control system was not in place at the Town in order to ensure compliance with requirements related to the grant agreement and the Cash Management and Davis-Bacon Act compliance requirements.

Cash Management

There were no controls to ensure that the Town had disbursed grant funds within five days after receiving them.

Davis-Bacon Act

There were no controls to ensure that the contractors submitted the certified payroll information weekly during the construction project.

Context

The lack of controls was a systemic problem. There were no controls to ensure compliance with Cash Management and the Davis-Bacon Act for the 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. . . ."

Indiana CDBG Handbook states:

"Grantees must be alert to the receipt of federal funds and be prepared to issue payments to their contractors within five business days of the deposit.

Cause

Management had not developed a system of internal controls to ensure compliance with Suspension and Debarment requirements.

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.

Questioned Costs

There were no questioned costs identified.

CLERK-TREASURER
TOWN OF CULVER
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the Town's management establish controls 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.



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CORRECTIVE ACTION PLAN

FINDING 2014-001 – Internal Controls Over Financial Transactions and Reporting

Contact Person Responsible for Corrective Action: Karen Heim

Contact Phone Number: 574.842.3140

Views of Responsible Official: We concur with this finding for 2014.

Description of Corrective Action Plan:

Since 2015, when the audit of 2012 and 2013 was completed, additional internal controls have been put into place.

1. Cash and Investments – Due to limited staff, the Clerk-Treasurer reconciles the bank balances to the record balances and completes the AFR. When reconciliation is complete, the bank statements, cash balance report and monthly financial statement is reviewed and the monthly financial statement signed by a council member charged with that task. The monthly financial statement, is also provided to council and formally approved at a council meeting and recorded in the minutes.

The Clerk-Treasurer provides a monthly financial report to the Culver Redevelopment Commission which is approved at their monthly meeting and recorded in the minutes.

Finally, monthly reports of the Park Fund, Water Fund and Sewer Fund, and appropriation reports and quarterly cash flow report for major funds are distributed to the council, town manager and department heads.

For the Annual Financial Report, a copy of the Cash and Investment Combined Statement, the December Financial Report and ending cash balances are provided to council for review and approval before publication in the newspaper. The motion to approve is recorded in the minutes. A copy of the full report is provided to council before submission and the motion to approve recorded in the minutes.

2. Receipts – Again, due to limited the staff, the same person collects money, issues receipts, records receipts, completes deposit tickets and records disbursements in the accounting software. After the 2015 audit, the deputy clerk now has either the Town Manager or the Clerk-Treasurer reviews the deposit tickets against the cash and checks for accuracy and to make sure the deposit is intact and initials the deposit ticket. For the utility bills, a payment report from the billing system is provided and compared to the deposit ticket for the daily deposit. They also initial the payment report. The Clerk-Treasurer also checks for correct accounts during the reconciliation process.

For ACH payments, the Deputy Clerk-Treasurer enters the account and payment amounts. The Clerk-Treasurer approves the payments before they are pulled.

3. Disbursements- Since the 2015 audit, the Deputy Clerk-Treasurer prepares the claims and the Clerk-Treasurer reviews the claims, enters them into the accounting software and prints the checks. The claims are returned to the Deputy Clerk-Treasurer along with the checks.

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Tammy Shaffer
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Jonathan Leist
Clerk-Treasurer
Karen Heim

The Deputy Clerk-Treasurer records the check numbers on the claim, reviews the checks against the claims for accuracy and initials the claim form. The Clerk-Treasurer prepares the claim docket and provides a copy along with department breakdowns to council for approval.

For payroll, with the exception of the Park Department during 2016, departments heads gather and calculate time sheets. The Clerk-Treasurer reviews the time sheets and double checks for accuracy. If differences are found, the Clerk-Treasurer reviews the issue with the department head for clarification. The Clerk-Treasurer then enters payroll, double checks entry and prints the checks. Once the payroll is finalized (meaning changes cannot be made without voiding a check), a time report and time sheets are given to the Deputy Clerk-Treasurer or Town Manager to review for accuracy. If correct, they initial the time report. If there are mistakes, they are corrected and a new finalized time report is provided to the Deputy Clerk-Treasurer or Town Manager for review. For direct deposit, the Clerk-Treasurer enters the accounts and payments and the Deputy Clerk-Treasurer must approve before payment is made.

Anticipated Completion Date: 12.31.2015

Rose Gies
(Signature)

Clerk-Treasurer
(Title)

2.15.2017
(Date)

CORRECTIVE ACTION PLAN

Town of
Culver

FINDING 2014-002 - SUSPENSION AND DEBARMENT

Contact Person Responsible for Corrective Action: Karen Heim
Contact Phone Number: 574.842.3140

Views of Responsible Official:

With the assistance of the grant administrator, the Town of Culver did check to see that all the construction contractors were not debarred on the federal sams.gov register prior to executing any of said contracts as per the requirement of the federal funding agency.

Description of Corrective Action Plan:

Given the town was also utilizing local funds the Town of Culver did not realize it was necessary to check to see if the engineer and grant administrator were in good standing with sams.gov prior to the execution of their contracts. However, the community will note this as a general requirement in the future and subsequently check all professional service providers / contractors prior to the execution of any contractual agreements.

Anticipated Completion Date: Immediately

Karen Heim
(Signature)

Clerk-Treasurer
(Title)

2.15.2014
(Date)

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CORRECTIVE ACTION PLAN

FINDING 2014-003 - Cash Management and Davis Bacon Act

Contact Person Responsible for Corrective Action: Karen Heim

Contact Phone Number: 574.842.3140

Views of Responsible Official:

After a review of the audit and a conversation with our grant administrator; we do believe that there were some internal controls in respect to the federal grant administration on our federally funded storm drainage project were in place. We also understand there could be additional controls put in place.

Description of Corrective Action Plan:

Specific to the financial management and the expenditure of federal funds within the allotted five business days, our internal control system entailed the following checks and balances:

- Project invoices were submitted to the project engineer (sub-consultant) to review and approve;
- Said invoices were then presented to the Town Council by the project engineer (sub-consultant) at regularly scheduled Town Council meetings for review and approval;
- Once invoices were approved by the Town Council, the Clerk-Treasurer would email the approved invoices to the grant administrator (sub-consultant) for review and the grant administrator (sub-consultant) would prepare the federal drawdown vouchers;
- Said federal drawdown vouchers were then emailed to the Clerk-Treasurer for signature and submission to federal agencies;
- Upon receipt of federal funds, the Clerk-Treasurer would email a copy of the federal fund deposit and checks written to grant administrator (sub-consultant) for posting. In the event, the received federal funds were not disbursed within the allotted five (5) day period, the grant administrator (sub-consultant) would work with the Clerk-Treasurer to calculate interest earned, resolve the issues and work to ensure that the mishap did not re-occur in the future.

Going forward, we will ask that the grant administrator copy the deputy clerk and council president on e-mails to the Clerk-Treasurer concerning the drawdown vouchers so they also are aware of when funds are expected.

Specific to the Davis Bacon labor management of the federal funded project, the following internal control procedures were established:

- Prior to the initiation of construction, a pre-construction meeting was conducted that included representation from the Town of Culver, engineering firm (sub-consultant), grant administrator (sub-consultant), and applicable contractors. At this meeting the applicable federal wage decision and the example payroll report was reviewed. The contractors were informed that weekly payroll reports were to be electronically submitted on a weekly basis to the grant administrator (sub-consultant) for review. In the event the contractor failed to submit weekly payroll reports, the Town of Culver would suspend payment until such time as documentation was received, reviewed and approved by the grant administrator (sub-consultant);

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- Once construction work began, these weekly payroll reports were submitted to the grant administrator (sub-consultant) for review. As stated at the pre-construction meeting, if there was a problem, it was the grant administrator's (sub-consultant's) responsibility to report the issues to the Town of Culver thus suspending the approval of said contractor invoices until such time as the problem was resolved;
- If no problems were detected, the grant administrator (sub-consultant) would provide a copy of said certified payroll reports and summary to the Town of Culver on a quarterly basis as requested by the Culver Town Council and Clerk-Treasurer's office for record-keeping purposes;
- At the end of the project, all of the certified payroll reports for each contractor and sub-contractor were reviewed by the federal funding agency and in the event of a problem, the Town of Culver would be notified and charged with the task of resolving the problem via the assistance of their grant administrator (sub-consultant).

Going forward, we will ask that the grant administrator copy the town manager on e-mails sent to the contractor in the event that the contractor does not provide payroll reports in a timely manner.

Anticipated Completion Date: 2.28.17

Raunder
(Signature)

Clerk-Treasurer
(Title)

2.15.2017
(Date)

CLERK-TREASURER
TOWN OF CULVER
EXIT CONFERENCE

The contents of this report were discussed on February 15, 2017, with Karen Heim, Clerk-Treasurer, and Virginia B. Munroe, President of the Town Council.