

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF WALKERTON

ST. JOSEPH COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
05/01/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Theresa Buckmaster	01-01-12 to 12-31-19
President of the Town Council	Karol S. Jackson	01-01-14 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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TO: THE OFFICIALS OF THE TOWN OF WALKERTON, ST. JOSEPH COUNTY, INDIANA

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

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

February 23, 2017

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CLERK-TREASURER
TOWN OF WALKERTON

CLERK-TREASURER
TOWN OF WALKERTON
FEDERAL FINDINGS

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

Condition

The Town failed to establish or properly implement effective internal controls over cash and investments, receipts, vendor and payroll disbursements, and the Schedule of Expenditures of Federal Awards (SEFA).

Cash and Investments

The Town failed to document an oversight or review process over the monthly bank reconcilements.

Receipts and Vendor Disbursements

The Town had controls for ensuring the accurate recording and processing of receipts and vendor disbursements. However, the controls were not properly implemented. The Town failed to document a review process over receipts that were entered into the financial software and over vendor disbursements that were generated by the financial software.

Payroll Disbursements

The Town paid its employees on various pay schedules. Town employees were paid bi-weekly, quarterly, bi-monthly, or monthly. The Town did not properly document a review process over payroll transactions.

SEFA

One employee prepared, submitted, and certified the SEFA without a review or approval process. There were no controls to ensure accurate reporting of federal awards.

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. . . ."

CLERK-TREASURER
TOWN OF WALKERTON
FEDERAL FINDINGS
(Continued)

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:

- (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 of the Town had not established a proper system of internal controls. An evaluation of the Town's system of internal control had not been conducted and management had not conducted a risk assessment related to the Town's financial reporting and transactions.

Effect

The failure to establish or properly implement 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 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.

CLERK-TREASURER
TOWN OF WALKERTON
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 - FINANCIAL CLOSE AND REPORTING

Condition

The Town did not have effective internal controls over the financial close and reporting process and over cash and investments, receipts, and disbursements of the Town Court. There were no controls to ensure that all financial transactions of the Town were reported in the Annual Financial Report which was used to generate the financial statement. In addition, the Town did not document a review or approval process related to the cash reconciliation, and the receipts and disbursements transactions of the Town Court.

The Town failed to report the financial transactions of the Town Court. This resulted in material misstatements of the cash and investment balances, receipts, and disbursements. The beginning cash and investments balance, receipts, disbursements, and ending cash and investment balance were underreported by \$58,198; \$705,148; \$711,356; and \$51,990, respectively.

Adjustments were proposed, accepted, and made to 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:

"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."

CLERK-TREASURER
TOWN OF WALKERTON
FEDERAL FINDINGS
(Continued)

Cause

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

Effect

The failure to establish or properly implement controls 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 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.

FINDING 2014-003 - SUSPENSION AND DEBARMENT

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities

CFDA Number: 10.760

Federal Award Numbers and Years (or Other Identifying Numbers): 92-04, 92-05

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 Suspension and Debarment compliance requirement.

The Town failed to comply with the Suspension and Debarment requirements. As part of the Wastewater Project, the Town contracted with an engineering firm to oversee the project. The Town failed to verify that the engineering firm selected by the Town was not suspended or debarred from participation if federal programs.

Context

This is considered an isolated incident because it only happened one time.

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. . . ."

CLERK-TREASURER
TOWN OF WALKERTON
FEDERAL FINDINGS
(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 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 the Suspension and Debarment requirements.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the Town.

Questioned Costs

There were no questioned costs identified.

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 2014-004 - INTERNAL CONTROL OVER WATER AND WASTE PROGRAM CLUSTER

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities

CFDA Number: 10.760

Federal Award Numbers and Years (or Other Identifying Numbers): 92-04, 92-05

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 following compliance requirements: Cash Management, Davis-Bacon Act, Equipment and Real Property Management, and Reporting.

CLERK-TREASURER
TOWN OF WALKERTON
FEDERAL FINDINGS
(Continued)

Cash Management

The Town had not established effective internal controls to minimize the time lapse between incurring a cost, issuing the related payment, and requesting the associated reimbursement.

Davis-Bacon Act

The Town had not established effective internal controls to ensure that contractors paid prevailing wage rates.

Equipment and Real Property Management

The Town had not established effective internal controls to ensure equipment and real property acquired with federal dollars were properly identified and accounted for in the Town's records.

Reporting

The Town had not established effective internal controls to ensure compliance with Reporting requirements.

Context

The lack of controls was a systemic problem. There were no documented controls over Cash Management, Davis-Bacon Act, Equipment and Real Property Management, or Reporting during 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. . . ."

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 also have 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.

CLERK-TREASURER
TOWN OF WALKERTON
FEDERAL FINDINGS
(Continued)

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.

TOWN OF WALKERTON
301 Michigan St.
Walkerton, Indiana 46574

(574)586-3711 Office

Office of the Clerk Treasurer

(574)586-2248 Fax

CORRECTIVE ACTION PLAN

FINDING 2014-001

Contact Person Responsible for Corrective Action: Theresa Buckmaster
Contact Phone Number: 574-586-3711
Description of Corrective Action Plan:

I concur with the finding.

Description of Corrective Action Plan:

I will put internal controls in place to make sure there is a review process over monthly bank reconciliation, the receipts and vendor distributions, as well as the payroll disbursements.

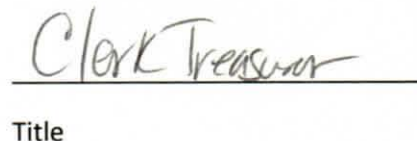
SEFA: If awarded a federal grant I will put internal controls in place for more than one person reviewing the reporting.

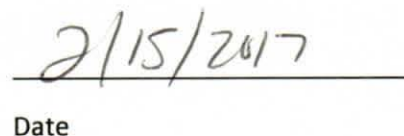
Anticipated Completion Date:

I will start with my January 2017 reconcilements and March 2017 for receipts, vendor and payroll transactions.

SEFA: As soon as we are awarded federal monies.


Signature


Title


Date

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CORRECTIVE ACTION PLAN

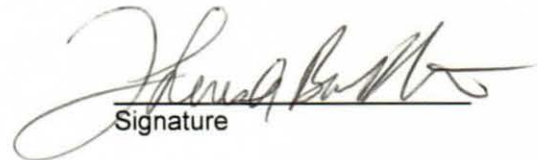
FINDING 2014-002

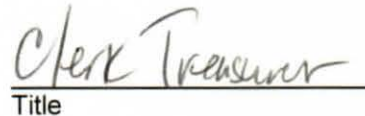
Contact Person Responsible for Corrective Action: Theresa Buckmaster
Contact Phone Number: 574-586-3711

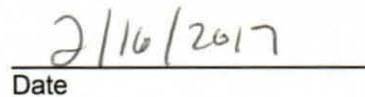
Description of Corrective Action Plan:

The courts financial data was entered in the 2014 annual report after the audit in 2017. I was not aware that the Town's Court financial data was to be reported in the Town's financial data for the AFR. I was never told in any prior audits that this was a requirement. I will work with the Court personnel and have an effective internal controls plan.

Anticipated Completion Date: Immediately


Signature


Title


Date

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CORRECTIVE ACTION PLAN

FINDING 2014-003

Contact Person Responsible for Corrective Action: Theresa Buckmaster
Contact Phone Number: 574-586-3711

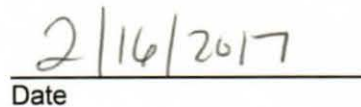
Description of Corrective Action Plan:

At the time of the agreements with the engineering firm the Town was not aware of the requirement for an engineering firm to be "verified of suspended or debarred from receiving federal funds". This requirement was fulfilled with the contractors on the project.

Anticipated Completion Date: Immediately. When contracting with engineering firm for a federal grant project we will ensure compliance.


Signature


Title


Date

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CORRECTIVE ACTION PLAN

FINDING 2014-004

Contact Person Responsible for Corrective Action: Theresa Buckmaster

Contact Phone Number: 574-586-3711

Description of Corrective Action Plan:

Description of Corrective Action Plan:

Cash Management:

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 Walkerton 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. All checks were written within the 5 day requirement of receiving the deposits in the bank account. In the future I will have over sight in place as suggested by the SBOA.

Davis Bacon: Act:

Prior to the initiation of construction, a pre-construction meeting was conducted that included representation from the Town of Walkerton, 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 Walkerton would suspend payment until such time as documentation was received, reviewed and approved by the grant administrator (sub-consultant);

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 Walkerton 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 Walkerton on a quarterly basis as requested by the Walkerton 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 Walkerton would be

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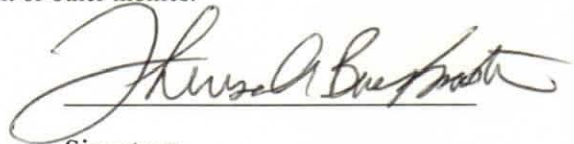
(574)586-2248 Fax

notified and charged with the task of resolving the problem via the assistance of their grant administrator (sub-consultant). In the future I will have over sight in place as suggested by the SBOA.

Equipment and Real Property Management: I will establish internal controls to ensure the equipment and real property are accounted for in the Town's records.

Reporting: I will implement better documentation of reporting to ensure compliance.

Anticipated Completion Date: At the time of being awarded a grant or other monies.



Signature



Title



Date

CLERK-TREASURER
TOWN OF WALKERTON
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliations did not balance. As of December 31, 2014, the ledger balance exceeded the reconciled bank balance by \$1,845.

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."

OVERDRAWN CASH BALANCES

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2014. The Park District Bond Non Exempt 2011 and Park District Bond funds were overdrawn by \$235 and \$2,513, respectively.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ERRORS ON CLAIMS

Twenty percent of claims tested were not approved by the Fiscal Officer. Neither the accounts payable vouchers nor the claim dockets were signed by the Fiscal Officer.

Indiana Code 5-11-10-1.6 states in part:

" . . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . .

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

- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and . . ."

FUND SOURCES AND USES

Court collections for February 2014 were not receipted into the proper funds. The total was receipted into the General fund and it should have been allocated between several funds.

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CAPITAL ASSET RECORDS

The Town failed to identify the percentage of federal participation in the cost of equipment purchased in whole, or in part, with federal funds which were identified on the Town's Capital Asset records.

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF WALKERTON
EXIT CONFERENCE

The contents of this report were discussed on February 23, 2017, with Theresa Buckmaster, Clerk-Treasurer; Karol S. Jackson, President of the Town Council; and Kathryn T. Chrapliwy, Council member.

TOWN COURT
TOWN OF WALKERTON

TOWN COURT
TOWN OF WALKERTON
FEDERAL FINDING

FINDING 2014-002 - FINANCIAL CLOSE AND REPORTING

Condition

The Town did not have effective internal controls over the financial close and reporting process and over cash and investments, receipts, and disbursements of the Town Court. There were no controls to ensure that all financial transactions of the Town were reported in the Annual Financial Report which was used to generate the financial statement. In addition, the Town did not document a review or approval process related to the cash reconciliation, and the receipts and disbursements transactions of the Town Court.

The Town failed to report the financial transactions of the Town Court. This resulted in material misstatements of the cash and investment balances, receipts, and disbursements. The beginning cash and investments balance, receipts, disbursements, and ending cash and investment balance were underreported by \$58,198; \$705,148; \$711,356; and \$51,990, respectively.

Adjustments were proposed, accepted, and made to 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:

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TOWN COURT
TOWN OF WALKERTON
FEDERAL FINDING
(Continued)

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:

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Cause

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

Effect

The failure to establish or properly implement controls 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 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

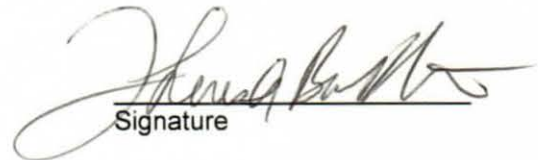
FINDING 2014-002

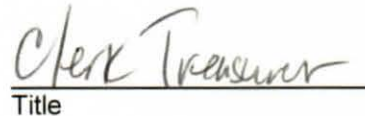
Contact Person Responsible for Corrective Action: Theresa Buckmaster
Contact Phone Number: 574-586-3711

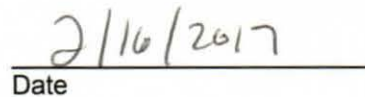
Description of Corrective Action Plan:

The courts financial data was entered in the 2014 annual report after the audit in 2017. I was not aware that the Town's Court financial data was to be reported in the Town's financial data for the AFR. I was never told in any prior audits that this was a requirement. I will work with the Court personnel and have an effective internal controls plan.

Anticipated Completion Date: Immediately


Signature


Title


Date

TOWN COURT
TOWN OF WALKERTON
AUDIT RESULT AND COMMENT

COURT FEES

The Town Court assessed a \$1 copy fee to individuals who failed to appear in court or pay their ticket on time. The fee assessed was not an actual copy fee, but was charged to offset the cost of mailing letters to those individuals who had not appeared or paid their ticket timely.

Indiana Code 33-37-5-3 states: "Notwithstanding IC 5-14-3, the clerk shall collect a document fee of one dollar (\$1) for each certificate under seal attached in authentication of a copy of any record, paper, or transcript."

TOWN COURT
TOWN OF WALKERTON
EXIT CONFERENCE

The contents of this report were discussed on February 23, 2017, with Theresa Buckmaster, Clerk-Treasurer; Karol S. Jackson, President of the Town Council; and Kathryn T. Chrapliwy, Council member.