

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF WARSAW

KOSCIUSKO COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED
05/19/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Lynne A. Christiansen	01-01-12 to 12-31-19
Mayor	Dr. Joseph M. Thallemer	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Dr. Joseph M. Thallemer	01-01-12 to 12-31-19
President Pro Tempore of the Common Council	Diane L. Quance Michael J. Klondaris	01-01-13 to 12-31-15 01-01-16 to 12-31-17
Superintendent of Utilities	Brian J. Davison	01-01-15 to 12-31-17
Utility Office Manager	Mary Lou Plummer	01-01-15 to 04-28-17
Utility Office Supervisor	Rebecca Jenkins	05-01-17 to 12-31-17
Airport Manager	Nicholas D. King	01-01-15 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE CITY OF WARSAW, KOSCIUSKO COUNTY, INDIANA

This report is supplemental to our audit report of the City of Warsaw (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

March 29, 2017

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CLERK-TREASURER
CITY OF WARSAW

CLERK-TREASURER
CITY OF WARSAW
FEDERAL FINDING

FINDING 2015-001 - 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: The City had not separated incompatible activities related to cash, receipt processing, the preparation of the Annual Financial Report (AFR), or preparation of the Schedule of Expenditures of Federal Awards (SEFA).
 - (a) One employee was responsible for performing monthly bank reconciliations. There was no written evidence that a second employee reviewed the monthly bank reconciliations.
 - (b) There were multiple employees involved in the receipt and deposit process. There was no written evidence that a second employee was performing oversight of the process.
 - (c) One employee was responsible for preparing and submitting financial information into the Indiana Gateway for Government Units financial system, the source of the Annual Financial Report and the SEFA. There was no evidence that supporting documentation was reviewed and approved prior to submission.
2. Monitoring of Controls: The City had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the City to monitor and assess the quality of the system of internal control.

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.

CLERK-TREASURER
CITY OF WARSAW
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. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

Cause

Management of the City had not established a proper system of internal control over financial transactions and reporting.

Effect

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the 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, material 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.



CITY OF WARSAW

Office of the Clerk-Treasurer

www.warsaw.in.gov • 102 S. Buffalo Street, Warsaw, IN 46580 • Phone: (574) 372-9545 • Fax: (574) 372-9504

CORRECTIVE ACTION PLAN

FINDING 2015-001

March 29, 2017

Contact Person Responsible for Corrective Action: Lynne A. Christiansen

Contact Phone Number 574-372-9545

Description of Corrective Action Plan:

1. **Segregation of Duties:** The City concurs with the conditions, criteria, cause and effect of finding 2015-001. The City will immediately separate incompatible activities related to cash, receipt processing, the preparation of the Annual Financial Report, and the Schedule of Expenditures of Federal Awards (SEFA).

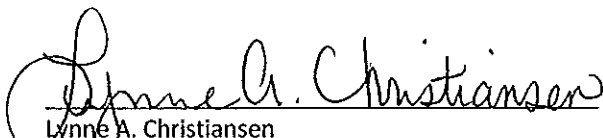
a). Monthly bank statements/reconciliations will be reviewed and checked by a second employee by either initialing or marking the monthly bank reconciliations.

b). Oversight had been preformed; however it was not memorialized or documented by initials or checkmarks. The city will require written evidence that a second employee is performing oversight by initialing or marking deposit slips after a second review has been performed to check the balance of the paperwork with checks and cash for daily deposit.

c). Review of information submitted into Gateway had been performed; however it was not memorialized or documented by initials or checkmarks. Review of information prepared for the SEFA had been performed but not memorialized or documented as well. The city will require written evidence that a second employee has reviewed the information to be submitted into Gateway and SEFA with initials or checkmarks.

2. **Monitoring of Controls:** The City will continue to develop a process to identify and communicate corrective actions to improve controls.

Anticipated Completion Date: Internal Controls are an ongoing process with no definite completion date. The items addressed above will take effect immediately.


Lynne A. Christiansen
Clerk-Treasurer, City of Warsaw

CLERK-TREASURER
CITY OF WARSAW
EXIT CONFERENCE

The contents of this report were discussed on March 29, 2017, with Dr. Joseph M. Thallemer, Mayor; Lynne A. Christiansen, Clerk-Treasurer; Nicholas D. King, Airport Manager; Michael J. Klondaris, President Pro Tempore of the Common Council; William G. Frush, Common Council member; Cindy A. Dobbins, Common Council member; and Kelly Geiger, Deputy Clerk-Treasurer.

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DEPARTMENT OF AVIATION
CITY OF WARSAW

DEPARTMENT OF AVIATION
CITY OF WARSAW
FEDERAL FINDING

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

Federal Agency: Department of Transportation
Federal Program: Airport Improvement Program
CFDA Number: 20.106
Federal Award Number and Year: AIP-3-18-0085-013-2014

Condition

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Special Tests and Provisions - Wage Rate Requirements.

The City did not have a control in place to ensure compliance with the Special Tests and Provisions - Wage Rate Requirements. The City hired an Engineer to oversee compliance with the Special Tests and Provisions - Wage Rate Requirements; however, the City did not design or implement procedures to ensure that the Engineer adequately verified compliance.

Context

This related only to this program during the audit period.

Criteria

2 CFR 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). . . ."

DEPARTMENT OF AVIATION
CITY OF WARSAW
FEDERAL FINDING
(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 the compliance requirement 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 the Special Tests and Provisions - Wage Rate Requirements.

Views of Responsible Officials

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



Warsaw Municipal Airport City of Warsaw Board of Aviation Commissioners

CORRECTIVE ACTION PLAN

FINDING 2015 - 002 - INTERNAL CONTROLS OVER THE AIRPORT IMPROVEMENT PROGRAM

Contact Person Responsible for Corrective Action: Nicholas D. King
Contact Phone Number: 574.372.9541

Views of Responsible Official: The BOAC concurs with this finding and proposes this corrective action plan.

Description of Corrective Action Plan:

General

The City of Warsaw Board of Aviation Commissioners (BOAC) and airport management have created a written document entitled "Internal Controls Supplement". This document will be considered a living document and will be updated, and added to, on an ongoing basis. This document shall include, but not be limited to, individual sections to address specific tasks to ensure that the BOAC maintains the specific controls required by all governing bodies.

Detailed

Finding 2015 - 002 has one specific area of concern being there is no process documented that neither explains the roles, assignments, nor steps, that are being utilized to monitor the Davis Bacon Act by the BOAC and airport management.

The corrective action is as follows:

Davis Bacon Act: Matching; Period of Availability

A policy and procedure will be created for the implementation, review, and document control for the Davis Bacon Act; related to certified payroll review and verification procedures. This procedure identifies the roles of the individuals responsible for completing these tasks. With this implementation a schedule for completing the process on an ongoing basis will be created. This will include a document that accurately records the actions taken.

Anticipated Completion Date:

It is anticipated that the creation and implementation of these policies and procedures, along with the review by the BOAC and the Clerk Treasurer will take up to two regular meetings to finalize and adopt. The target date for the final approval adoption by the BOAC will be May 9, 2017.

Nicholas D. King (Signature: Nicholas D. King)

Airport Manager (Title: Airport Manager)

3/29/17 (Date)

DEPARTMENT OF AVIATION
CITY OF WARSAW
EXIT CONFERENCE

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