

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF PINE VILLAGE

WARREN COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED

05/23/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Nancy C. Kochell	01-01-12 to 12-31-19
President of the Town Council	Donny R. Hensley	01-01-15 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF PINE VILLAGE, WARREN COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Pine Village (Town), 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 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

March 16, 2017

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CLERK-TREASURER
TOWN OF PINE VILLAGE

CLERK-TREASURER
TOWN OF PINE VILLAGE
FEDERAL FINDINGS

FINDING 2015-001 - FINANCIAL TRANSACTIONS AND REPORTING

Condition

There were the following deficiencies in the internal control system of the Town related to financial transactions and reporting:

1. Lack of Segregation of Duties: The Town had not separated incompatible activities related to financial close and reporting.

The Clerk-Treasurer entered the Town's financial information into the Gateway reporting system, which was used to compile the Annual Financial Report (AFR). No evidence of a control, such as an oversight, review, or approval process was identified.

The AFR presented for audit omitted the WCLED Grant, OCRA Grant, and RD Grant funds which understated receipts, disbursements, and cash and investment balances as follows:

Audit adjustments were proposed, accepted by the Town, and made to the AFR.

Fund	Cash and Investments 01-01-15	Receipts	Disbursements	Cash and Investments 12-31-15
WCLED Grant	\$ -	\$ 36,898	\$ 36,898	\$ -
OCRA Grant	-	403,263	403,263	-
RD Grant	-	2,879,422	2,859,177	20,245

2. Monitoring of Controls: The Town had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the Town 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.

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 PINE VILLAGE
FEDERAL FINDINGS
(Continued)

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."

Cause

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

Effect

The failure to establish controls enabled material misstatements 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, material misstatements in a timely manner. The financial statement contained the errors identified in the *Condition*.

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 - PREPARATION OF THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS**

Condition

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). The Clerk-Treasurer entered the Town's financial data into the Gateway reporting system, which was used to compile the SEFA. No evidence of a control, such as an oversight, review, or approval process was identified.

The SEFA presented for audit contained the following errors:

1. The Water and Waste Disposal Systems for Rural Communities grant expenditures were overstated \$1,947,786.
2. The Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii was omitted from the schedule, which understated federal expenditures \$403,263.

Audit adjustments were proposed, accepted by the Town, and made to the SEFA.

CLERK-TREASURER
TOWN OF PINE VILLAGE
FEDERAL FINDINGS
(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. . . ."

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with section 200.510 financial statements. . . ."

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards*. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. 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 Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal 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 must 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. For a cluster of programs also provide the total for the cluster.

CLERK-TREASURER
TOWN OF PINE VILLAGE
FEDERAL FINDINGS
(Continued)

- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe the significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

Cause

Management had not established a system of internal control that would have ensured proper reporting of the SEFA.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Condition*.

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 - INTERNAL CONTROLS OVER WATER AND
WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES**

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities

CFDA Number: 10.760

Federal Award Number and Year (or Other Identifying Number): 15-086-467250585

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: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; and Procurement and Suspension and Debarment.

The Town relied on a Grant Administrator to perform all of the activities related to grant compliance requirements. No evidence of a control, such as an oversight, review, or approval process was identified.

Context

The lack of internal controls over compliance activities performed by the Grant Administrator was pervasive throughout the entire grant period.

CLERK-TREASURER
TOWN OF PINE VILLAGE
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. . . ."

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 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 Town's management establish controls, including segregation of duties, related to the grant agreement and the 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.



THE TOWN OF PINE VILLAGE
Donny Hensley, President
Nancy Kochell, Clerk/Treasurer
P.O. Box 11, 206 South Main St.
Pine Village, In 47975

Phone: 765-585-9941

E-Mail:
pinevillageclerk@hotmail.com

CORRECTIVE ACTION PLAN

FINDING 2015-001

Contact Person Responsible for Corrective Action: Nancy Kochell
Contact Phone Number: 765-585-9941

Views of Responsible Official: We concur with the findings.

Description of Corrective Action Plan: Control activities will be in place to reduce the risk of error in financial reporting. Donny Hensley, our Council President, will be the person along with Nancy Kochell, Clerk checking the input to the Gateway system.

Anticipated Completion Date: April 1, 2017

FINDING 2015-002

Contact Person Responsible for Corrective Action: Nancy Kochell
Contact Phone Number: 765-585-9941

Views of Responsible Official: We concur with the findings.

Description of Corrective Action Plan: The town will have a proper system of internal controls in place to prevent errors. Donny Hensley, our Council President, will be the person along with Nancy Kochell, Clerk both checking the input to the Gateway system.

Anticipated Completion Date: April 1, 2017

FINDING 2015-003

Contact Person Responsible for Corrective Action: Nancy Kochell
Contact Phone Number: 765-585-9941

Views of Responsible Official: We concur with the findings.

Description of Corrective Action Plan: An effective internal control system which would include segregation of duties will be in place at the Town in order to secure compliance with requirements related to grant agreement and the compliance requirements.

Anticipated Completion Date: April 1, 2017

Nancy C Kochell
(Signature)

Clerk/Treasurer
(Title)

March 8, 2017
(Date)

CLERK-TREASURER
TOWN OF PINE VILLAGE
EXIT CONFERENCE

The contents of this report were discussed on March 16, 2017, with Nancy C. Kochell, Clerk-Treasurer, and Donny R. Hensley, President of the Town Council.