

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF SPRINGPORT

HENRY COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED
06/30/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Velma Kay Canaday Belinda Jo Crabtree	01-01-12 to 12-31-16 01-01-17 to 12-31-19
President of the Town Council	Timothy Tuhey	01-01-12 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF SPRINGPORT, HENRY COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Springport (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

April 20, 2017

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CLERK-TREASURER
TOWN OF SPRINGPORT

CLERK-TREASURER
TOWN OF SPRINGPORT
FEDERAL FINDINGS

FINDING 2015-001 - FINANCIAL TRANSACTIONS AND REPORTING

Condition

Internal Control System - The Town had not separated incompatible activities related to cash, receipts, payroll disbursements, and financial close and reporting. The Town had not established a proper internal control structure and lacked a process for assessing risks of inaccurate financial reporting, a process for communicating information related to proper financial reporting, and a process for monitoring of financial processes and transactions.

Monthly Reconcilements - The Clerk-Treasurer prepared bank reconcilements each month and the Town Council reviewed them; however, no documentation was provided for audit to verify the Town Council's review of the reconcilements.

Financial Activities - The Town issued a Bond Anticipation Note (BAN) in 2013 and received funding from a federal grant in 2014 and 2015. These activities were reported in the ledger of the Town and the monies were deposited in separate bank accounts. The Town performed a monthly reconciliation of the ledger balances with the Town's bank accounts. This reconciliation did not include the financial activity related to the BAN or the federal grant. Additionally, the financial activities of the BAN and federal grant were not properly reported by the Town in their Annual Financial Report (AFR) for 2015. The 2015 financial statement of the Town was compiled from information within the AFR for 2015. As a result, the financial activities of the BAN and federal grant were not reported in the Town's financial statement as presented for audit. Audit adjustments were proposed, approved by the Town, 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:

"The control environment is the basic commonality for all and comprises the integrity and ethical values of the political subdivision established by the oversight body and management. The standards, processes, and structures which form the control environment pervasively impact the overall system of internal control. The oversight body and management convey leadership expectations, and overall tone which are reinforced by all officials and management throughout the various offices and departments. The control environment also contains the overall accountability structure for all employees through performance and reward measures. Within this structure, leadership demonstrates commitment to the political subdivision by having a process for attracting, developing, and retaining competent individuals. This component is static in that its underpinnings do not generally change with a given objective."

"Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. Each identified risk is evaluated in terms of its impact and likelihood of occurrence. Overall, risk assessment is the basis for determining how risk will be managed. . . ."

CLERK-TREASURER
TOWN OF SPRINGPORT
FEDERAL FINDINGS
(Continued)

Management identifies risks to the achievement of the political subdivision's objectives across the unit as a whole and within each office or department. Analysis of risk through determination of objective measures and variance tolerance is the basis for determining how the risks should be managed. The response to risk is selected: acceptance, avoidance, reduction, or sharing.
. . .

Internal control is a process, and part of that process is the responsibility for management to be continually aware of changes, both external and internal, that could affect the achievement of the political subdivision's objectives. Those changes should be analyzed for both their immediate effect and for any future impact. Management would then determine any modifications needed in the internal control process to adapt to these changes."

"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. . . ."

"Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information. Internal communication enables personnel to receive a clear message that control responsibilities are taken seriously by the organization. External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties."

"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. . . ."

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."

CLERK-TREASURER
TOWN OF SPRINGPORT
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.

Effect

The failure to establish 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, 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.

**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 amount reported on the SEFA for CFDA #10.760, Water and Waste Disposal Systems for Rural Communities, was overstated by \$6,057,753. Audit adjustments were proposed, accepted by the Town, and made to 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.

CLERK-TREASURER
TOWN OF SPRINGPORT
FEDERAL FINDINGS
(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. . . ."

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 § 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 a 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.
- (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 that 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."

CLERK-TREASURER
TOWN OF SPRINGPORT
FEDERAL FINDINGS
(Continued)

Cause

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

Effect

Because a proper system of internal control was not in place, material misstatements of the SEFA remained undetected.

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 CONTROL 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): 92-02

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 Cost/Cost Principles, Cash Management, Period of Performance, Procurement and Suspension and Debarment, and Reporting.

The Town had not established proper segregation of duties to ensure compliance with the compliance requirements listed above. One individual was responsible for handling all activities of the grant. There were no control procedures in place to ensure that amounts expended from grant funds were for allowable activities or allowable costs, or were obligated within the period of performance. Additionally, there were no control procedures in place to ensure that funds received were used within a reasonable amount of time, that all requirements related to securing a contractor for the project were met, that the Town did not contract with parties that were suspended or debarred, or that reports were filed as required and were accurate.

Context

The lack of controls was a systemic problem during the period audited and affected each of the compliance requirements listed above.

CLERK-TREASURER
TOWN OF SPRINGPORT
FEDERAL FINDINGS
(Continued)

Criteria

2 CFR 200.300 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. . . ."

Cause

Management had not developed a system of internal controls to ensure compliance with the compliance requirements listed above.

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 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.

FINDING 2015-004 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

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): 92-02

Condition

Management of the Town had not established an effective internal control system related to the grant agreement and the Equipment and Real Property Management compliance requirement. As a result, noncompliance with the Equipment and Real Property Management compliance requirement remained undetected. The Town did not maintain a record of equipment purchased with grant funds.

CLERK-TREASURER
TOWN OF SPRINGPORT
FEDERAL FINDINGS
(Continued)

Context

The lack of controls and noncompliance was a systemic problem during the period audited.

Criteria

2 CFR 200.313(d) states in part:

"*Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. . . ."

2 CFR 200.300 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. . . ."

Cause

Management had not developed an effective system of internal controls to ensure that all requirements related to managing equipment purchased through the grant were met.

Effect

The failure to establish an effective internal control system resulted in the Town's noncompliance with the grant agreement and the Equipment and Real Property compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Town's management establish controls related to the grant agreement and requirements related to equipment purchase to ensure compliance with those requirements.

Views of Responsible Officials

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

Town of Springport
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765-755-3355

CORRECTIVE ACTION PLAN

FINDING 2015-001

Contact Person Responsible for Corrective Action: Belinda Jo Crabtree
Contact Phone Number: 765-755-3355

Views of the Responsible Official: "We concur with the finding."

Description of Corrective Action Plan:

The Town of Springport has implemented a control plan where the board will review all cash receipts and disbursements. The clerk will add this review to the minutes of the monthly meeting. The salary ordinance will accompany the yearly checks of board members for accuracy. There is no Federal Loan balance at this time. The town will implemented a control plan for future Federal Loans.

Anticipated Completion Date: May 9, 2017

Belinda Jo Crabtree
(Signature)

Clerk-treasurer
(Title)

4/20/2017
(Date)

Town of Springport
PO BOX 313
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765-755-3355

CORRECTIVE ACTION PLAN

FINDING 2015-002

Contact Person Responsible for Corrective Action: Belinda Jo Crabtree
Contact Phone Number:

Views of the Responsible Official: "We concur with the finding"

Description of Corrective Action Plan:

There are no outstanding Federal Loan balances at this time.
The board will implement an internal control for Federal Funding
In the future. The clerk-treasurer, President and board members
will have a system established to ensure proper reporting.

Anticipated Completion Date: May 9,2017

Belinda Jo Crabtree
(Signature)

Clerk-treasurer
(Title)

4/20/2017
(Date)

Town of Springport
PO BOX 313
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765-755-3355

CORRECTIVE ACTION PLAN

FINDING 2015-003

Contact Person Responsible for Corrective Action: Belinda Jo Crabtree
Contact Phone Number: 765-755-3355

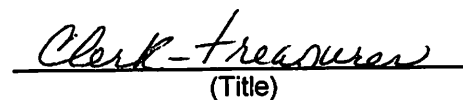
Views of the Responsible Official: "We concur with the findings"

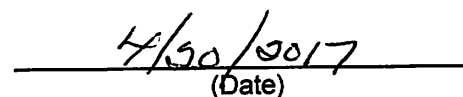
Description of Corrective Action Plan:

There are no outstanding Federal Loan Balances at this time.
The town will establish an internal control system, with segregation of
Duties for any future Federal funding the town may obtain.

Anticipated Completion Date: May 9,2017


(Signature)


(Title)


(Date)

Town of Springport
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765-755-3355

CORRECTIVE ACTION PLAN

FINDING 2015-004

Contact Person Responsible for Corrective Action: Belinda Jo Crabtree
Contact Phone Number: 765-755-3355

Views of Responsible Official: "We concur with the finding"

Description of Corrective Action Plan:

There are no outstanding Federal Loan Balances at this time.
The town will establish an internal control system for any future Federal funding.
The clerk-treasurer will purchase a capital asset ledger, the waste water utility infrastructure will be entered and any future assets the Town of Springport may obtain.


Anticipated Completion Date: May 9, 2017



(Signature)



(Title)



(Date)

CLERK-TREASURER
TOWN OF SPRINGPORT
EXIT CONFERENCE

The contents of this report were discussed on April 20, 2017, with Belinda Jo Crabtree, Clerk-Treasurer; Timothy Tuhey, President of the Town Council; and Velma Kay Canaday, former Clerk-Treasurer.