

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF RIDGEVILLE

RANDOLPH COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED

08/16/2017

*Reissued on September 19, 2017,
to include changes to the findings.*

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Arlinda Hardwick	01-01-12 to 12-31-19
President of the Town Council	Tom Friend	01-01-12 to 12-31-17
Superintendent of Water Utility	Andy Croyle Scott Trausch	01-01-12 to 06-30-14 07-01-14 to 12-31-17
Superintendent of Wastewater Utility	Scott Trausch	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 RIDGEVILLE, RANDOLPH COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Ridgeville (Town), for the period from January 1, 2012 to December 31, 2012. 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

June 22, 2017

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CLERK-TREASURER
TOWN OF RIDGEVILLE

CLERK-TREASURER
TOWN OF RIDGEVILLE
FEDERAL FINDINGS

**FINDING 2012-001 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING**

Condition

There were several 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 receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances.
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. The Town Council had not performed either an ongoing or separate evaluation of their system of internal controls.
3. Preparing Financial Statement: Effective internal control over financial reporting involved the identification and analysis of the risks of material misstatement to the Town's audited financial statement and then determining how those identified risks should be managed. The Town had not identified risks to the preparation of a reliable financial statement and, as a result, did not design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements, including notes to the financial statement.
4. The Town had not established effective internal controls over the financial information entered into the Indiana Gateway for Government Units, which is a financial reporting system and the source of the Annual Financial Report (AFR) and the Schedule of Federal Expenditures (SEFA). The Town did not include expenditures of \$590,348 for the Water Grant funded by the Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii. 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:

"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. . . .

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. . . .

CLERK-TREASURER
TOWN OF RIDGEVILLE
FEDERAL FINDINGS
(Continued)

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. . . ."

"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. . . ."

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.

CLERK-TREASURER
TOWN OF RIDGEVILLE
FEDERAL FINDINGS
(Continued)

- (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 control.

Effect

The failure to establish controls enabled material misstatements or irregularities to remain undetected. The failure to monitor and assess the risk of the internal control system placed the Town at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, 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 2012-002 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

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 Numbers and Years (or Other Identifying Numbers): DR2-09-168
Pass-Through Entity: Indiana Office of Community and Rural Affairs

Condition

The Town did not have procedures or an internal control system in place to ensure compliance with requirements related to the grant agreement and the compliance requirement of Equipment and Real Property Management. The Town had not updated property records since 2009.

Context

The Town had multiple federal infrastructure projects since the property records were last updated. Due to the deficiency with the Town's property records, property records were not maintained related to the Equipment and Real Property Management requirements.

CLERK-TREASURER
TOWN OF RIDGEVILLE
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. . . ."

24 CFR 85.32(d) states in part:

"*Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, 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 property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. . . ."

Cause

Management had not developed an effective internal control system that would have ensured compliance with the requirements outlined above.

Effect

The failure to establish an effective internal control system resulted in the Town's noncompliance with the grant agreement and the 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 Equipment and Real Property Management compliance requirement. We also recommended that the Town maintain property records as required by the federal guidelines.

Views of Responsible Officials

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

Town of Ridgeville
106 S. Walnut St.
Ridgeville, Indiana 47380

CORRECTIVE ACTION PLAN

FINDING 2012-001

Contact Person Responsible for Corrective Action:
Contact Phone Number:

I agree with the findings, we will try to do the best we can.

Description of Corrective Action Plan:

Have the assistant or a council member review the information.

Anticipated Completion Date: 6-22-2017

Andrzej Wandurk
(Signature)

Clerk-Treasurer
(Title)

6/22/2017
(Date)

FINDING 2012-002

Contact Person Responsible for Corrective Action:
Contact Phone Number:

I agree with the findings.

Description of Corrective Action Plan:

I will try to record the assets in the future.

Anticipated Completion Date: 6-22-2017

Julinda Wardenki
(Signature)

Clerk - Treasurer
(Title)

6/22/2017
(Date)

CLERK-TREASURER
TOWN OF RIDGEVILLE
EXIT CONFERENCE

The contents of this report were discussed on June 22, 2017, with Arlinda Hardwick, Clerk-Treasurer, and Tom Friend, President of the Town Council.