

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF LAPORTE

LAPORTE COUNTY, INDIANA

January 1, 2016 to December 31, 2016



**FILED**  
01/31/2018



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Teresa L. Ludlow	01-01-16 to 12-31-19
Mayor	Blair E. Milo Mark A. Krentz	01-01-16 to 08-11-17 08-12-17 to 12-31-19
President of the Board of Public Works and Safety	Blair E. Milo Mark A. Krentz	01-01-16 to 08-11-17 08-12-17 to 12-31-19
President Pro Tempore of the Common Council	Joseph A. Mrozinske	01-01-16 to 12-31-17



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF LAPORTE, LAPORTE COUNTY, INDIANA

This report is supplemental to our audit report of the City of LaPorte (City), for the period from January 1, 2016 to December 31, 2016. 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/](http://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

December 20, 2017

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CLERK-TREASURER  
CITY OF LAPORTE

CLERK-TREASURER  
CITY OF LAPORTE  
FEDERAL FINDING

***FINDING 2016-001***

Subject: Financial Transactions and Reporting

Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediate prior year regarding receipts. The prior year finding number was 2015-001.

*Condition*

There were deficiencies in the internal control system of the City related to financial transactions and reporting.

*Receipts*

Several departments of the City collected funds and submitted them to the Clerk-Treasurer for depositing and recording. Not all departments provided the Clerk-Treasurer with supporting documentation for the amounts received. There was no documentation to verify the transfer of custodianship of the funds from the departments to the Clerk-Treasurer's office.

*Segregation of Duties*

Two employees rotated making deposits weekly, but one employee issued all the receipts. Due to the rotation, the same employee who issued the receipts also took the deposit to the bank. Both employees counted and verified the collections received; however, there was no evidence of this procedure presented for audit.

*Review of Financial Transaction Recording*

There was no process or procedure in place to ensure that receipts or disbursements were reviewed to ensure that they were properly recorded in the correct fund or for the correct amount. Employees recorded transactions individually without an oversight or review process.

*Context*

The lack of internal controls was systemic throughout the audit period.

CLERK-TREASURER  
CITY OF LAPORTE  
FEDERAL FINDING  
(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. . . ."

*Cause*

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

*Effect*

The failure to implement controls could have enabled material misstatements or irregularities to remain undetected.

*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 2016-001***

Contact Person Responsible for Corrective Action: Teresa Ludlow, Clerk-Treasurer  
Contact Phone Number: (219) 362-9512

Views of Responsible Official: Teresa L. Ludlow

#### Description of Corrective Action Plan:

Due to the timing of the 2015 State Board of Accounts Audit, the City of LaPorte did not have sufficient time to implement all the changes necessary for internal controls with regard to receipts and expenditures. The City of LaPorte is currently working on updating our Internal Control Policy to require supporting source documents for daily deposits; and checks and balances pertaining to expenditures. The Clerk-Treasurer or her designee will review the check registers against the claim docket signed by the Board of Works and the APV Transaction List to verify all claims are expended from the appropriate accounts and to the right vendor.

Anticipated Completion Date: June 30, 2018

*Teresa L. Ludlow*  
(Signature)

Clerk-Treasurer  
(Title)

December 18, 2017  
(Date)

CLERK-TREASURER  
CITY OF LAPORTE  
EXIT CONFERENCE

The contents of this report were discussed on December 20, 2017, with Teresa L. Ludlow, Clerk-Treasurer; Mark A. Krentz, Mayor; Joseph A. Mrozinske, President Pro Tempore of the Common Council; Renee D. Scherer, City Council member; Timothy J. Stabosz, City Council member; and Joanne K. Layman, Chief Deputy Clerk-Treasurer.

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COMMUNITY DEVELOPMENT AND PLANNING  
CITY OF LAPORTE

COMMUNITY DEVELOPMENT AND PLANNING  
CITY OF LAPORTE  
FEDERAL FINDINGS

***FINDING 2016-002***

Subject: Community Development Block Grants/Entitlement Grants - Reporting  
Federal Agency: Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/Entitlement Grants  
CFDA Number: 14.218  
Federal Award Numbers and Years (or Other Identifying Numbers): B-13-MC-18-0021, B-14-MC-18-0021,  
B-15-MC-18-0021, B-16-MC-18-0021  
Compliance Requirement: Reporting  
Audit Findings: Material Weakness, Other Matters

*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 Reporting compliance requirement.

The City did not have internal controls in place to ensure that the necessary supporting documentation was obtained to properly complete and review the quarterly Federal Financial Reports (reports). The City did not use supporting documentation for the receipts and disbursements portion of the quarterly reports.

*Context*

The lack of controls and the noncompliance were systemic issues, which occurred throughout the audit period. Two of the four quarterly reports contained errors. The first quarter overstated receipts and disbursements by \$17,682 and \$68,082, respectively; the fourth quarter understated receipts and disbursements by \$151,995 and \$29,238, respectively.

*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). . . ."

2 CFR 200.302(b)(2) states in part: "Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting . . ."

*Cause*

Management had not developed a system of internal controls to ensure compliance with the Reporting compliance requirement.

COMMUNITY DEVELOPMENT AND PLANNING  
CITY OF LAPORTE  
FEDERAL FINDINGS  
(Continued)

*Effect*

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

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish effective controls to ensure that proper supporting documentation is maintained and used to ensure compliance with the Reporting compliance requirement.

*Views of Responsible Officials*

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

**FINDING 2016-003**

Subject: Community Development Block Grants/Entitlement Grants - Subrecipient Monitoring  
Federal Agency: Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/Entitlement Grants  
CFDA Number: 14.218  
Federal Award Numbers and Years (or Other Identifying Numbers): B-13-MC-18-0021, B-14-MC-18-0021,  
B-15-MC-18-0021, B-16-MC-18-0021  
Compliance Requirement: Subrecipient Monitoring  
Audit Finding: Material Weakness

*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 Subrecipient Monitoring compliance requirement.

The City did not have internal controls in place to ensure that the required Federal Award Identification information was provided to its subrecipients. In addition, controls were not in place to guarantee that subrecipients had Single Audits performed so that timely corrective action could be taken on any findings noted in an audit.

*Context*

The lack of controls were systemic issues throughout the audit period.

COMMUNITY DEVELOPMENT AND PLANNING  
CITY OF LAPORTE  
FEDERAL FINDINGS  
(Continued)

*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). . . ."

*Cause*

Management had not developed a system of internal controls to ensure compliance with the Subrecipient Monitoring compliance requirement.

*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. The 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 effective controls to ensure compliance with the Subrecipient Monitoring compliance requirement.

*Views of Responsible Officials*

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

City of LaPorte  
INDIANA



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**CORRECTIVE ACTION PLAN**

**FINDING 2016-002 REPORTING**

Contact Person Responsible for Corrective Action: Mary Ann Richards, CDBG Program Manager  
Contact Phone Number: (219) 362-8260

Views of Responsible Official: We concur with the finding. The 2016 audit conducted by the Indiana State Board of Accounts was completed in December 2017. Thus, implementation of recommendations and actions to resolve findings will begin December 2017.

Description of Corrective Action Plan: Effective immediately, the City of LaPorte Community Development Block Grant program will begin using a Keystone ledger report that shows the income and expenditures for each quarter instead of monthly appropriation reports when completing the Standard Form 425, Federal Financial Report. The Office of Clerk/Treasurer will provide the ledger report to the CDBG Program Manager. Upon completion of the SF 425, the quarterly ledger report will be attached to the SF 425 and provided to the Mayor of the City of LaPorte for review prior to approval. All approved Standard Form 425s and supporting documentation will be provided to the Indiana Field Office of the U.S. Department of Housing and Urban Development within 30 days after the close of the quarter as required.

Anticipated Completion Date: Immediately

  
(Signature)

Clerk-Treasurer  
\_\_\_\_\_  
(Title)

December 18, 2017  
\_\_\_\_\_  
(Date)



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### CORRECTIVE ACTION PLAN

#### ***FINDING 2016-003 SUBRECIPIENT MONITORING***

Contact Person Responsible for Corrective Action: Mary Ann Richards, CDBG Program Manager  
Contact Phone Number: (219) 362-8260

Views of Responsible Official: We concur with the finding. The 2016 audit conducted by the Indiana State Board of Accounts was completed in December 2017. Thus, implementation of recommendations and actions to resolve findings will begin December 2017.

Description of Corrective Action Plan: The City of LaPorte Community Development Block Grant program will provide Federal Award Identification within the formal award letter to subrecipients. This Federal Award Identification shall include: the subrecipient name, subrecipient unique entity identifier; the federal award identification number (FAIN); the federal award date; the period of performance start and end date, the CDFA number and name; and an identification if the award is for research and redevelopment.

At the time of the subrecipient's application for CDBG funding, the Community Development Block Grant program will require copies of the most recent single audit of the subrecipient; an explanation of any findings included within the audit; and an explanation of how corrections shall be or were made to the finding. Audits will be reviewed before making an award. Subrecipients receiving more than \$750,000 in total federal funds for one year are required to have a federal audit in compliance with 2 CFR 200.

Anticipated Completion Date: Immediately

*Aeresa L. Ludlow*  
(Signature)

Clerk-Treasurer  
(Title)

December 18, 2017  
(Date)

COMMUNITY DEVELOPMENT AND PLANNING  
CITY OF LAPORTE  
EXIT CONFERENCE

The contents of this report were discussed on December 20, 2017, with Mary Ann Richards, Community Development Block Grant Program Manager; Teresa L. Ludlow, Clerk-Treasurer; Mark A. Krentz, Mayor; Joseph A. Mrozinske, President Pro Tempore of the Common Council; and Joanne K. Layman, Chief Deputy Clerk-Treasurer.