

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF SPEEDWAY

MARION COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED

03/28/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Federal Findings:	
Finding 2016-001	
Financial Transactions and Reporting	6-8
Finding 2016-002	
Preparation of the Schedule of Expenditures of Federal Awards	9-11
Finding 2016-003	
Highway Planning and Construction Cluster - Suspension and Debarment.....	11-12
Corrective Action Plan	13-14
Audit Results and Comments:	
Appropriations	15
Overdrawn Cash Balances	15
Exit Conference	16

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Monty W. Combs	01-01-16 to 12-31-19
President of the Town Council	David Lindsey	01-01-16 to 12-31-16
	Gary L. Raikes	01-01-17 to 12-31-17
	Jeffery Matthews	01-01-18 to 12-31-18
Superintendent of Water Utility	Steve D. Hurst	01-01-16 to 12-31-18
Superintendent of Wastewater Utility	Norman Berry	01-01-16 to 12-31-1



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF SPEEDWAY, MARION COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Speedway (Town), 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 and Audit Results and Comments 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 and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

March 13, 2018

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CLERK-TREASURER
TOWN OF SPEEDWAY

CLERK-TREASURER
TOWN OF SPEEDWAY
FEDERAL FINDINGS

FINDING 2016-001

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Condition

An effective internal control system was not in place at the Town over Financial Transactions and Reporting. The Town did not have a proper system of internal controls in place to prevent, or detect and correct, errors over the bank reconciliations, payroll transactions, or the Annual Financial Report (AFR) and financial statement.

Bank Reconciliations

The Town did not have internal controls in place to ensure accurate ledger-to-bank reconciliations were prepared and reviewed. The outstanding check lists for six of the Town's bank accounts were not accurate. The outstanding check lists were either not complete or included checks that were either voided or cleared during the year.

Payroll Transactions

The Town utilized an outside vendor to process payroll. The Clerk-Treasurer was the only individual involved in entering and finalizing information used by the outside vendor to process payroll. Once payroll was processed, the Clerk-Treasurer summarized the information to post to the records.

Financial Statement

At year end, the Town uploaded its financial information into the Indiana Gateway for Government Units financial reporting system (Gateway). This information is the source for the AFR and the financial statement. The AFR and the financial statement contained the errors noted in the *Context* below. Audit adjustments for the errors noted below were proposed, accepted by the Town, and made to the AFR and financial statement.

Context

The AFR and financial statement contained the following errors:

CLERK-TREASURER
TOWN OF SPEEDWAY
FEDERAL FINDINGS
(Continued)

Fund Name	Beginning	Receipts -	Disbursements -	Ending Balance -
	Balance - Overstatement (Understatement)	Overstatement (Understatement)	Overstatement (Understatement)	Overstatement (Understatement)
General Fund	\$ -	\$ (41,030)	\$ -	\$ (41,030)
Parks & Recreation	-	135	1,674	(1,539)
Pub Safety COIT	-	41,030	-	41,030
2015 Series A Bond	1,457,540	-	-	1,457,540
2015 Series B Bond	2,922,514	-	-	2,922,514
Redevelopment Fund	(552,644)	982,170	-	429,526
2009 SRA Trust/Agent Acct	1,386,256	525,008	-	1,911,264
2010 SRA Trust/Agent Acct	1,604,963	-	67,856	1,537,107
SRC-Fund	307,677	(1,000)	-	306,677
SRC/Operating Fund	538,759	(982,569)	(59,014)	(384,796)
Water Utility Operating	-	(145,963)	252,594	(398,557)
Sewer Operating	-	629,549	678,943	(49,394)
SRF-SW BONY B&I	-	-	(1,000)	1,000
SRF-WW BONY B&I	-	307,482	476,078	(168,596)
SRF-WW BONY DSR	-	49,010	-	49,010
SRF-WW BONY CONST	1	-	-	1
Payroll/Net	-	353,330	(25,570)	378,900
Payroll Federal W/H	-	(39,489)	182	(39,671)
Payroll FICA W/H	-	80	-	80
Payroll Medicare W/H	-	28,604	118	28,486
Payroll State W/H	-	(13,405)	70	(13,475)
P/R-AFLAC	-	(815)	(142)	(673)
P/R-Anthem BC/BS	-	(100,122)	-	(100,122)
P/R-Boston Mutual	-	(418)	-	(418)
P/R-Grange	-	(383)	-	(383)
P/R-Waddell & Reed	5,658	56,634	(280)	62,572
P/R-PERF	54,072	(156,369)	56,660	(158,957)
P/R-PFLI	-	(881)	-	(881)
P/R-FOP	-	(2,526)	-	(2,526)
P/R-FFU	-	935	-	935
P/R-Child Support Wkly	-	(801)	(2,570)	1,769
P/R Child Support	-	50,075	2,570	47,505
P/R-Health Savings Acct	-	(11,518)	83	(11,601)
P/R EPIC	-	(3,186)	-	(3,186)
P/R-Bankruptcy	-	(150)	-	(150)
Paycor	-	(1,587)	(3,218)	1,631
P/R	-	12,000	-	12,000
Total - Overstatement (Understatement)	\$ 7,724,796	\$ 1,533,830	\$ 1,445,034	\$ 7,813,592

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 SPEEDWAY
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. . . ."

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."

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 an effective system of internal control to ensure accurate recording of Financial Transactions or to ensure accurate Financial Reporting.

Effect

The failure to establish controls enabled material misstatements or irregularities to remain undetected as identified in the *Context*.

Recommendation

We recommended that the Town institute a system of controls over Financial Transactions and Reporting. This includes, but is not limited to, submission of the financial information in Gateway and the preparation of the bank reconcilements.

Views of Responsible Officials

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

Auditor's Response

The Clerk-Treasurer was the only individual involved in accumulating the information to post to the Town's ledgers. Multiple errors in postings to the payroll funds were identified as noted in the table in the *Context* above.

CLERK-TREASURER
TOWN OF SPEEDWAY
FEDERAL FINDINGS
(Continued)

FINDING 2016-002

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

Condition

The Town had not established a proper system of internal control to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The grant schedule information entered into the Indiana Gateway for Government Units financial reporting system (Gateway), which is the financial information used to compile the SEFA, was not checked for accuracy and completeness.

Context

The lack of internal controls was a systemic problem during the audit period.

The SEFA was understated by \$4,184,800 due to the omission of the Highway Planning and Construction grant. 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.

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. . . ."

CLERK-TREASURER
TOWN OF SPEEDWAY
FEDERAL FINDINGS
(Continued)

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.
- (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 SPEEDWAY
FEDERAL FINDINGS
(Continued)

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 *Context*.

Recommendation

We recommended that the Town's management establish effective controls over the preparation of the SEFA to ensure accurate reporting of federal awards.

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: Highway Planning and Construction Cluster - Suspension and Debarment
Federal Agency: Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Federal Award Numbers and Years (or Other Identifying Numbers): DES 1173522, DES 1172450,
DES 1173576
Pass-Through Entity: Indiana Department of Transportation
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

Condition

An effective control system was not in place at the Town in order to ensure compliance with requirements related to the grant agreement and the Suspension and Debarment compliance requirement.

According to the Town's procedures, the Town should have used contracts with vendors that contained a suspension and debarment clause within the contract. However, a contract did not contain the required suspension and debarment clause.

Context

Of the two vendors tested, one did not have a suspension and debarment clause included in the contract.

CLERK-TREASURER
TOWN OF SPEEDWAY
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. . . ."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

Cause

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

Effect

The failure to establish an effective internal control system placed the Town in noncompliance with the Suspension and Debarment compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Town's management establish controls and ensure compliance related to the grant agreement and the Suspension and Debarment compliance requirement.

Views of Responsible Officials

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



CIVIL TOWN OF SPEEDWAY

1450 NORTH LYNHURST DRIVE
SPEEDWAY, INDIANA 46224-6499

TOWN COUNCIL

JEFFERY R. MATTHEWS, President
DAVID LINDSEY, Vice President
GARY L. RAIKES
EILEEN FISHER
JASON DELISLE

TELEPHONE: 317/ 246-4111

FAX: 317/ 240-1322

TOWN CLERK TREASURER

MONTY W. COMBS

TOWN MANAGER

JACOB BLASDEL

CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Monty W. Combs, Clerk-Treasurer
Contact Phone Number: 317 246-4111

Bank Reconciliations

The Town also did not have internal controls in place to ensure accurate ledger to bank reconciliations were prepared and reviewed. The outstanding check lists for six of the Town's bank accounts were not accurate. The outstanding check lists were either not complete or included checks that were either voided or cleared during the year.

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The employees that were responsible for the reconciliations in 2016 are no longer working for the Town of Speedway. Current staff has 2017 reconciled and accurate.

Payroll Transactions

The Town utilized an outside vendor to process payroll. The Clerk-Treasurer was the only individual involved in entering and finalizing information used by the outside vendor to process payroll. Once payroll was processed, the Clerk-Treasurer summarized the information to post to the records.

View of Responsible Official and Description of Corrective Action Plan: I disagree in the assessment of the Payroll issue. Yes, I as the Clerk-Treasurer was the primary Payroll processor. The only entrees necessary were based upon the Salary Ordinance approved by the Town Council each year. Salary staff was paid the same amount each of the twenty-four pays, so changes were very minor and only when a change in an employee status. Such as a Firefighter reaching a year of service which they became a first-class Firefighter instead of a probation officer. The hourly staff entered their work time in the vendor software for the pay period, which was approved by the Department Supervisor prior to being paid and was imported into the pay grid by the Clerk-Treasurer and reviewed.

Financial Statement

At year-end, the Town uploaded their financial information into the Indiana Gateway for Governmental Units financial reporting system (Gateway). This information is the basis for the Annual Financial Report (AFR) and the financial statement. The AFR and the financial statement contained the errors noted in the *Context* below. Audit adjustments for the errors noted below were proposed, accepted by the Town, and made to the financial statement.

Views of Responsible Official and Description of Corrective Action Plan: We concur with the finding. We contracted outside assistance with the AFR, but previous entrees were incorrect and flawed by staff at the time.

FINDING 2016-002

Contact Person Responsible for Corrective Action: Monty W. Combs, Clerk-Treasurer
Contact Phone Number: 317 246-4111

The Town had not established 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 information included in the SEFA was not checked for accuracy and completeness before it was submitted. The Town should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards.

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: We will correct these issues moving forward.

FINDING 2016-003

Subject: Highway Planning and Construction Cluster - Suspension and Debarment
Federal Agency: Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Federal Award Number and Year (or Other Identifying Number): DES 1173522; DES 1172450; DES 1173576
Pass-Through Entity: Indiana Department of Transportation
Compliance Requirement: Suspension and Debarment
Audit Findings: Material Weakness; Other Matters

Contact Person Responsible for Corrective Action: Monty W. Combs, Clerk-Treasurer
Contact Phone Number: 317 246-4111

Views of Responsible Official: This finding occurred one time from the review and we agree with the error.

Description of Corrective Action Plan: It has been addressed from this point forward.

CLERK-TREASURER
TOWN OF SPEEDWAY
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

The same comment appeared in prior Reports B45891 and B47824.

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund Name	Excess Amount Expended
General Fund	\$ 19,593
Parks & Recreation	25,821
Park Bond Debt Service	24,500
Cum Cap Development	8,365
Pub Safety COIT	159,319

Indiana Code 36-5-4-2 states: "Unless a statute provides otherwise, town monies ay be disbursed only after an appropriation made by ordinance of the town legislative body and recorded in a book kept for that purpose by the legislative body. Each appropriation must be made from the fund against which the expenses arose."

OVERDRAWN CASH BALANCES

The same comment appeared in prior Reports B45891 and B47824.

The financial statement presented for audit included the following funds with overdrawn cash balances as of December 31, 2016.

Fund Name	Amount Overdrawn
Street Improv B & I	\$ 21,184
P/R EPIC	8,839
P/R-Bankruptcy	2
Paycor	55
P/R	12,000
Citizens Academy Donations	2,744
Criminal Invest Checking	21,723
Criminal Invest Federal	4
P/R-Anthem BC/BS	28,995
P/R-Waddell & Reed	6,455
P/R-PERF	52,209

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF SPEEDWAY
EXIT CONFERENCE

The contents of this report were discussed on March 13, 2018 with Monty W. Combs, Clerk-Treasurer, and Jeffery Matthews, President of the Town Council.