

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF PAOLI

ORANGE COUNTY, INDIANA

January 1, 2017 to December 31, 2017



FILED
07/19/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Amy J. Morris	01-01-16 to 12-31-19
President of the Town Council	Carolyn N. Clements Michael A. Harkness	01-01-17 to 12-31-17 01-01-18 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE TOWN OF PAOLI, ORANGE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Paoli (Town), for the period from January 1, 2017 to December 31, 2017. 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

June 14, 2018

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CLERK-TREASURER
TOWN OF PAOLI

CLERK-TREASURER
TOWN OF PAOLI
FEDERAL FINDING

FINDING 2017-001

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

Repeat Finding

This is a repeat finding from the immediately prior report. The prior audit finding number was 2016-001.

Condition

The Town had not established effective internal controls to prevent, or detect and correct, errors in the financial information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the Schedule of Expenditures of Federal Awards (SEFA).

Context

The SEFA presented for audit contained the following errors:

1. The Airport Improvement Program was overstated by \$67,621 due to the inclusion of the State matching portion.
2. The Federal program names and pass-through entities were listed incorrectly.
3. The Federal expenditures in the amount of \$2,194,701 were incorrectly listed as passed-through to subrecipients.

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. . . ."

CLERK-TREASURER
TOWN OF PAOLI
FEDERAL FINDING
(Continued)

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 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."

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*.

CLERK-TREASURER
TOWN OF PAOLI
FEDERAL FINDING
(Continued)

Recommendation

We recommended that the Town's management establish controls to prevent, or detect and correct, errors on the SEFA.

Views of Responsible Officials

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

TOWN OF PAOLI

110 North Gospel Street,
Paoli, Indiana 47454
Phone: 812.723.2739
Fax: 812.723.5834

CORRECTIVE ACTION PLAN

FINDING 2017-001

Contact Person Responsible for Corrective Action: Amy Morris
Contact Phone Number: 812-723-2739

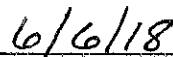
Views of Responsible Official: The Clerk-Treasurer concurs with the findings

Description of Corrective Action Plan: The Clerk-Treasurer's office will modify its procedures to implement internal controls to prevent, or detect and correct errors in the financial information entered into Gateway for Federal Awards (SEFA). The accounts payable clerk will compile the federal dollars amounts, the Clerk-Treasurer will review and enter the required annual financial reporting into Gateway. The Clerk-Treasurer will present the financials to the Town Council for review and approval prior to the final submission in Gateway.

Anticipated Completion Date: Effective Immediately


(Signature)


(Title)


(Date)

CLERK-TREASURER
Amy J. Morris
clerk@paoli.in.gov

TOWN COUNCIL
Michael A. Harkness - President, Steven L. Hankins - Vice President
Gary N. Barnett, William E. Chastain, Carolyn N. Clements

GENERAL FOREMAN
Mickey Moore
generalforeman@paoli.in.gov

CLERK-TREASURER
TOWN OF PAOLI
AUDIT RESULT AND COMMENT

CERTIFICATION OF INTERNAL CONTROL STANDARDS

The same comment also appeared in prior Report B50480.

The Clerk-Treasurer and members of the Town Council received training over internal control standards; however, there were several employees of the Town whose official duties included receiving, processing, depositing, disbursing, or otherwise having access to funds that did not receive training over internal control standards. The Clerk-Treasurer incorrectly certified on the Annual Financial Report that all applicable Town employees had received training.

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."

CLERK-TREASURER
TOWN OF PAOLI
EXIT CONFERENCE

The contents of this report were discussed on June 14, 2018, with Amy J. Morris, Clerk-Treasurer; Steven Hankins, Town Council member; and Carolyn N. Clements, Town Council member.

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TOWN COUNCIL
TOWN OF PAOLI

TOWN COUNCIL
TOWN OF PAOLI
FEDERAL FINDING

FINDING 2017-002

Subject: Airport Improvement Program - Procurement and Suspension and Debarment
Federal Agency: Department of Transportation
Federal Program: Airport Improvement Program
CFDA Number: 20.106
Federal Award Numbers and Years (or Other Identifying Numbers): 3-18-0064-012-2015,
3-18-0064-013-2016
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior report. The prior audit finding number was 2016-002.

Condition

An effective internal control system was not in place at the Town to ensure compliance with requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement. The Town was relying on the grant administrator for compliance with requirements pertaining to Procurement and Suspension and Debarment.

The Town did not have written policies and procedures outlining responsibilities and duties for procurement to ensure that staff was knowledgeable about the grant requirements and that they adhered to the requirements. The Town did not have a written code of ethical conduct.

The Town did not perform a verification, obtain certifications, or add a clause to appropriate contracts to ensure that the contracted vendors were not suspended or debarred.

Context

The lack of controls and noncompliance were systemic problems throughout the audit period. The Town did not have a formal written policy outlining their procurement policies. There was not any evidence that the Town had verified compliance with suspension and debarment requirements prior to entering into contracts with three of the four vendors tested.

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). . . ."

TOWN COUNCIL
TOWN OF PAOLI
FEDERAL FINDING
(Continued)

2 CFR 200.318 states in part:

"(a) The non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part.

(b) Non-Federal entities must maintain oversight to ensure that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

(c)(1) The non-Federal entity must maintain written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award and administration of contracts. . . ."

2 CRF 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 the 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 that segregated key functions.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Town's management establish controls related to the grant agreement and comply with the Procurement and 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.

TOWN OF PAOLI

110 North Gospel Street,
Paoli, Indiana 47454
Phone: 812.723.2739
Fax: 812.723.5834

CORRECTIVE ACTION PLAN


FINDING 2017-002

Contact Person Responsible for Corrective Action: Michael Harkness and Robert Lambert
Contact Phone Number: 812-723-2739 and 812-723-9923

Views of Responsible Official: Town Council and Airport Board concur with the finding.

Description of Corrective Action Plan: The Town Council will create a procurement policy for all Federal Funding received. The Airport Board and Clerk-Treasurer will modify the procedures for Suspension & Debarment for all bidders related to any contract to be funded under the Federal Grants within the System For Award Management (SAM). The Clerk-Treasurer will keep a log in the grant file to certify compliance of vendors. The Clerk-Treasurer will have the Airport Manager review this log, along with presenting it to the Town Council annually for their review.

Anticipated Completion Date: June 14, 2018



(Signature)

Council President
(Title)

6/6/18
(Date)



(Signature)

RMAB BOAC President
(Title)

6/6/18
(Date)

CLERK-TREASURER
Amy J. Morris
clerk@paoli.in.gov

TOWN COUNCIL
Michael A. Harkness - President, Steven L. Hankins - Vice President
Gary N. Barnett, William E. Chastain, Carolyn N. Clements

GENERAL FOREMAN
Mickey Moore
generalforeman@paoli.in.gov

TOWN COUNCIL
TOWN OF PAOLI
AUDIT RESULT AND COMMENT

TRAINING OVER INTERNAL CONTROL STANDARDS

The same comment also appeared in prior Report B50480.

Members of the Town Council received training over internal control standards; however, there were several employees of the Town whose official duties included receiving, processing, depositing, disbursing, or otherwise having access to funds that did not receive training over internal control standards.

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

TOWN COUNCIL
TOWN OF PAOLI
EXIT CONFERENCE

The contents of this report were discussed on June 14, 2018, with Steven Hankins, Town Council member, and Carolyn N. Clements, Town Council member.

BOARD OF AVIATION
TOWN OF PAOLI

BOARD OF AVIATION
TOWN OF PAOLI
FEDERAL FINDINGS

FINDING 2017-002

Subject: Airport Improvement Program - Procurement and Suspension and Debarment
Federal Agency: Department of Transportation
Federal Program: Airport Improvement Program
CFDA Number: 20.106
Federal Award Numbers and Years (or Other Identifying Numbers): 3-18-0064-012-2015,
3-18-0064-013-2016
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior report. The prior audit finding number was 2016-002.

Condition

An effective internal control system was not in place at the Town to ensure compliance with requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement. The Town was relying on the grant administrator for compliance with requirements pertaining to Procurement and Suspension and Debarment.

The Town did not have written policies and procedures outlining responsibilities and duties for procurement to ensure that staff was knowledgeable about the grant requirements and that they adhered to the requirements. The Town did not have a written code of ethical conduct.

The Town did not perform a verification, obtain certifications, or add a clause to appropriate contracts to ensure that the contracted vendors were not suspended or debarred.

Context

The lack of controls and noncompliance were systemic problems throughout the audit period. The Town did not have a formal written policy outlining their procurement policies. There was not any evidence that the Town had verified compliance with suspension and debarment requirements prior to entering into contracts with three of the four vendors tested.

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). . . ."

BOARD OF AVIATION
TOWN OF PAOLI
FEDERAL FINDINGS
(Continued)

2 CFR 200.318 states in part:

"(a) The non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

(b) Non-Federal entities must maintain oversight to ensure that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

(c)(1) The non-Federal entity must maintain written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award and administration of contracts. . . ."

2 CRF 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 the 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 that segregated key functions.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Town's management establish controls related to the grant agreement and comply with the Procurement and 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.

BOARD OF AVIATION
TOWN OF PAOLI
FEDERAL FINDINGS
(Continued)

FINDING 2017-003

Subject: Airport Improvement Program - Special Tests and Provisions - Wage Rate Requirements

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): 3-18-0064-012-2015,
3-18-0064-013-2016

Compliance Requirement: Special Tests and Provisions - Wage Rate Requirements

Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior report. The prior audit finding number was 2016-003.

Condition

An effective internal control system was not in place at the Town to ensure compliance with requirements related to the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement. The Town hired an engineering firm to oversee compliance with the wage rate requirements; however, the Town had not implemented procedures that would have ensured that the engineering firm adequately verified compliance.

Context

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

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 of the Town had not developed a system of internal controls, including segregation of duties, that would have ensured that the Town complied with the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

BOARD OF AVIATION
TOWN OF PAOLI
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system placed the Town at risk of noncompliance with the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement. A 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 Town's management establish controls related to the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

Views of Responsible Officials

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

TOWN OF PAOLI

110 North Gospel Street,
Paoli, Indiana 47454
Phone: 812.723.2739
Fax: 812.723.5834

CORRECTIVE ACTION PLAN


FINDING 2017-002

Contact Person Responsible for Corrective Action: Michael Harkness and Robert Lambert
Contact Phone Number: 812-723-2739 and 812-723-9923

Views of Responsible Official: Town Council and Airport Board concur with the finding.

Description of Corrective Action Plan: The Town Council will create a procurement policy for all Federal Funding received. The Airport Board and Clerk-Treasurer will modify the procedures for Suspension & Debarment for all bidders related to any contract to be funded under the Federal Grants within the System For Award Management (SAM). The Clerk-Treasurer will keep a log in the grant file to certify compliance of vendors. The Clerk-Treasurer will have the Airport Manager review this log, along with presenting it to the Town Council annually for their review.

Anticipated Completion Date: June 14, 2018



(Signature)

Council President
(Title)

6/6/18
(Date)



(Signature)

RMAB BOAC President
(Title)

6/6/18
(Date)

CLERK-TREASURER
Amy J. Morris
clerk@paoli.in.gov

TOWN COUNCIL
Michael A. Harkness - President, Steven L. Hankins - Vice President
Gary N. Barnett, William E. Chastain, Carolyn N. Clements

GENERAL FOREMAN
Mickey Moore
generalforeman@paoli.in.gov

TOWN OF PAOLI

110 North Gospel Street,
Paoli, Indiana 47454
Phone: 812.723.2739
Fax: 812.723.5834

CORRECTIVE ACTION PLAN

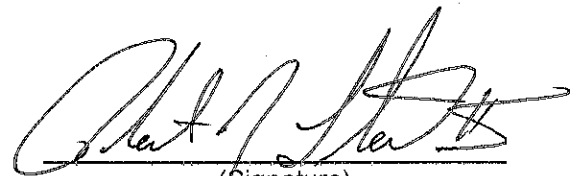
FINDING 2017-003

Contact Person Responsible for Corrective Action: Robert Lambert
Contact Phone Number: 812-723-9923

Views of Responsible Official: Airport Board concurs with the finding.

Description of Corrective Action Plan: The Airport Board will modify its Airport Improvement Program (AIP) Grant oversight policy and procedures to require the Airport Grant Administrator to provide the pay wage sheets with their pay request applications when presenting for the Airport Boards approval, therefore, the airport board can document it with their board meeting minutes. The Clerk-Treasurer will review the said documents when the request for payment is made to ensure compliance.

Anticipated Completion Date: June 29, 2018



(Signature)

PMAR BOAC President

(Title)

6/6/18

(Date)

CLERK-TREASURER
Amy J. Morris
clerk@paoli.in.gov

TOWN COUNCIL
Michael A. Harkness - President, Steven L. Hankins - Vice President
Gary N. Barnett, William E. Chastain, Carolyn N. Clements

GENERAL FOREMAN
Mickey Moore
generalforeman@paoli.in.gov

BOARD OF AVIATION
TOWN OF PAOLI
EXIT CONFERENCE

The contents of this report were discussed on June 14, 2018, with Matthew Sergent, Airport Manager; Steven Hankins, Town Council member; and Carolyn N. Clements, Town Council member.