

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF ALBANY

DELAWARE COUNTY, INDIANA

January 1, 2017 to December 31, 2017



FILED
08/02/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Marcie J. Schlosser	01-01-16 to 12-31-19
President of the Town Council	Philip Evans	01-01-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF ALBANY, DELAWARE COUNTY, INDIANA

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

July 5, 2018

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CLERK-TREASURER
TOWN OF ALBANY

CLERK-TREASURER
TOWN OF ALBANY
FEDERAL FINDINGS

FINDING 2017-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Finding: Material Weakness

Condition

The Town had not established internal controls over the financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source for the Schedule of Expenditures of Federal Awards (SEFA).

Context

The financial information entered into Gateway was not subject to a review by anyone other than the preparer.

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 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 could have remained undetected.

CLERK-TREASURER
TOWN OF ALBANY
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the Town's management establish controls over the preparation of the SEFA to prevent, or detect and correct, possible 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.

FINDING 2017-002

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

There were 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 cash and investments and reporting. Monthly bank reconciliations were not reviewed by someone other than the preparer. The Clerk-Treasurer prepared and submitted the financial information into the Indiana Gateway for Government Units (Gateway). Gateway was the collection platform for local units of government to submit required data to the State of Indiana. All Towns were required to submit their Annual Financial Report via Gateway. The Town, however, did not have effective controls to verify the accuracy of the financial information prior to submission.
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.

Context

The lack of adequate internal controls was a systematic issue throughout the audit period.

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:

CLERK-TREASURER
TOWN OF ALBANY
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. . . ."

Cause

Management of the Town had not established a proper system of internal controls over cash and investments and reporting. An evaluation of the Town's system of internal controls had not been conducted.

Effect

The failure to establish controls could have enabled misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the Town at risk that controls may not be designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, misstatements in a timely manner.

Recommendation

We recommended that the Town establish a system of internal controls related to financial transactions and reporting and that the system of internal controls be evaluated on a timely basis.

Views of Responsible Officials

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

TOWN OF ALBANY
210 E. State Street, Albany, IN 47320
Phone: 765-789-6112 Fax: 765-789-6961

CORRECTIVE ACTION PLAN

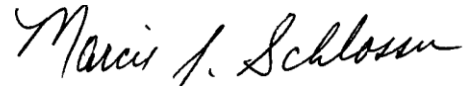
FINDING 2017-001

Contact Person Responsible for Corrective Action: Marcie J Schlosser
Contact Phone Number: 765-760-3866

Views of Responsible Official: We concur that we did not have a second person reviewing what was entered into Gateway for the Schedule of Expenditures of Federal Awards.

Description of Corrective Action Plan: We did not feel that having a second person reviewing what was entered was necessary nor did we have a person trained that was familiar with the reporting process. A Deputy Clerk was hired on January 1, 2018 and she will be trained to review the information entered into Gateway.

Anticipated Completion Date: Training began in January 2018 and will continue through the 2018 year-end reporting period.



(Signature)

Clerk-Treasurer _____

(Title)

7/5/2018 _____

(Date)

TOWN OF ALBANY
210 E. State Street, Albany, IN 47320
Phone: 765-789-6112 Fax: 765-789-6961

CORRECTIVE ACTION PLAN

FINDING 2017-002

Contact Person Responsible for Corrective Action: Marcie J Schlosser
Contact Phone Number: 765-760-3866

Views of Responsible Official: We concur that we did not have a second person reviewing the monthly bank reconciliation or the year-end financial information entered into Gateway and that additional internal control improvements could be made.

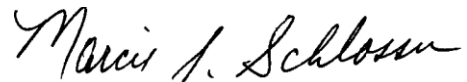
Description of Corrective Action Plan:

Item #1: We do not feel that having someone from the Clerk-Treasurer's office review the monthly reconciliation is enough of a separation of duties. The new Deputy Clerk is learning how to balance the books and she will continue to be involved in this process on a monthly basis as a backup for the Clerk-Treasurer. If the true intent of the review is to catch any fraud that could occur, having someone involved in the reconciliation process or even someone in the same office is not a true separation of duties and may not be a deterrent to fraud. The Council President began reviewing the monthly bank statements beginning with January 2018 and we will continue to have the Council President review each month and at year-end. This should satisfy the separation of duties specified in the internal control requirements.

We felt that the monthly Fund reports that were generated and distributed to the council members after the month was balanced were sufficient for them to review where we were financially. We also did not feel that having a second person reviewing what was entered into Gateway at the end of the year was necessary as all financial information is uploaded from our accounting software that is reconciled on a monthly basis and copies given to the Council Members to review.

Item #2: The Clerk-Treasurer was given the responsibility of monitoring internal controls. As the Clerk does not have direct supervision of town employees outside of the Municipal office staff, suggestions and reminders were given to department heads. A Deputy Clerk was hired on January 1, 2018 and she will be apprised of the internal control requirements and a plan will be put in place so that the Clerk-Treasurer and Deputy Clerk review what internal controls are currently in place and where improvements need to be made. This information will be forwarded to the Council President for distribution to department heads and town employees.

Anticipated Completion Date: Bank reconciliation reviews by the Council President have already been implemented. The Deputy Clerk has been shown how information is submitted to Gateway and will continue to be training throughout the remainder of 2018. An internal control procedure plan will be an ongoing project as department heads will need to be reminded on a regular basis as to items that need to be reviewed. We have an ordinance for internal control and it will be used as our guide for improvements in the control process.



(Signature)

Clerk-Treasurer

(Title)

7/5/2018

(Date)

CLERK-TREASURER
TOWN OF ALBANY
EXIT CONFERENCE

The contents of this report were discussed on July 5, 2018, with Marcie J. Schlosser, Clerk-Treasurer; Joyce L. Hamilton, Deputy Clerk-Treasurer; and Philip Evans, President of the Town Council.