

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF DELPHI

CARROLL COUNTY, INDIANA

January 1, 2017 to December 31, 2017



FILED
09/07/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Federal Findings:	
Finding 2017-001	
Financial Transactions and Reporting	6-7
Finding 2017-002	
Community Development Block Grants/State's program and Non-Entitlement	
Grants in Hawaii - Special Tests and Provisions - Wage Rate Requirements	7-8
Corrective Action Plan	9-10
Exit Conference	11

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Leanne Aldrich	01-01-16 to 12-31-19
Mayor	Shane Evans	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Shane Evans	01-01-16 to 12-31-19
President of the Common Council	Carolyn Pearson	01-01-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF DELPHI, CARROLL COUNTY, INDIANA

This report is supplemental to our audit report of the City of Delphi (City), 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 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/.

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

August 8, 2018

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CLERK-TREASURER
CITY OF DELPHI

CLERK-TREASURER
CITY OF DELPHI
FEDERAL FINDINGS

FINDING 2017-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

There were deficiencies in the internal control system of the City related to financial transactions and reporting. The City had not separated incompatible activities related to payroll disbursements and reporting of financial transactions and of federal program expenditures.

Payroll Disbursements

One person entered payroll information into the accounting system without an oversight, review, or approval process to ensure the accuracy of the information entered.

Reporting of Financial Transactions

One person entered the information into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source for the Annual Financial Report and the financial statement, without an oversight, review, or approval process to ensure accuracy of the information submitted.

Reporting of Federal Program Expenditures

One person entered the federal program information into Gateway, which was the source for the Schedule of Expenditures of Federal Awards, without an oversight, review, or approval process to ensure the accuracy of the information submitted.

Context

The lack of adequate internal controls was a systemic 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:

"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
CITY OF DELPHI
FEDERAL FINDINGS
(Continued)

Cause

Management of the City had not established a proper system of internal control that segregated key functions.

Effect

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

Recommendation

We recommended that the City establish a system of internal controls related to financial transactions and reporting.

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: Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii - Special Tests and Provisions - Wage Rate Requirements

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 Number and Year (or Other Identifying Number): A192-12-DR2-09-216

Pass-Through Entity: Indiana Office of Community & Rural Affairs

Compliance Requirement: Special Tests and Provisions - Wage Rate Requirements

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 wage rate requirements. The grant administrator notified project contractors and subcontractors of the requirement to comply with the wage rate requirements and obtained weekly certified payrolls; however, there was no oversight, review, or approval process performed by the City to ensure compliance with the wage rate requirements.

Context

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

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

CLERK-TREASURER
CITY OF DELPHI
FEDERAL FINDINGS
(Continued)

(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 that segregated key functions.

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. 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

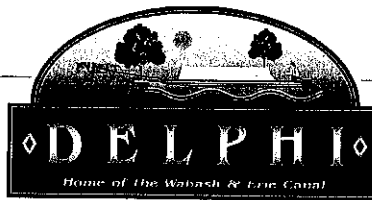
There were no questioned costs identified.

Recommendation

We recommended that the City's management establish controls related to the grant agreement and the wage rate requirements.

Views of Responsible Officials

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



Date: August 8, 2018

CORRECTION ACTION PLAN

Finding 2017-001

Leanne Aldrich
765-564-2097

Payroll Disbursements

Correction Action Plan: A payroll clerk will continue to process payroll but with check points signed off from another individual in the office. Time sheets, PTO sheets, hours reports will be checked by two parties. Once the hours are entered into the keystone payroll system, the software calculates the taxes and prints the checks and the direct deposit check copies. The system prints off a report of "entries transferred to fund" and from this report your determination for checks to be printed from different accounts are created in order to make a deposit covering payroll. These checks will be checked by the second individual in the office and signed. The final stage of payroll is to make the necessary disbursements for individual retirement accounts, child support and health savings accounts and federal payment to IRS. The second individual will check the reports generated in keystone, the claim vouchers and the receipts and initial agreement.

Reporting of Financial Transactions

The information entered into Gateway will be verified by the second individual in the office through fund report balances as well as the copy printed in Gateway. The fund report and gateway copy will be initialed by both individuals to signify agreement.

Reporting of Federal Program Expenditures

The information entered into the federal program of Gateway will be verified by the second individual in the office through the fund report generated in keystone software and the print out of the Gateway federal section. Both the fund report and the copy of the Gateway will be initialed by both individuals to signify agreement.

A policy and procedure for internal controls on the above items will be made part of the City of Delphi's Internal Control Policy.

Finding 2017-002

Although the Clerk's office followed Davis Bacon procedures in regards to the FAA grant with Delphi Municipal Airport, it was not applied to the Community Development Block Grant for the Floodgate Project. KIRPC was the grant administrator and offered payrolls from the contractor to be certified by the Clerk's office. In the future, when those are offered by KIRPC or any other grant administrator, it will be part of our policy to pick payrolls to verify. Payroll dates will be selected and returned to KIRPC in order for them to supply the payroll records. These will be gone over and compared to the contract time data. These copies will be entered in the binder systems that has been used to keep records in addition to the software records.

A policy and procedure for internal controls of federal grants will be detailed and implemented in order to show a complete and correct record of all funds pertaining to the grant. Our policy and procedure will show that records contained in the binders will balance with the fund reports generated in keystone software. These reports will be initialed signifying approval by two individuals.

The steps described in the two findings will be implemented immediately and the policy and procedures for the internal control of the City of Delphi will be completed within 60 days.



Leanne Aldrich

Clerk Treasurer

August 8, 2018

CLERK-TREASURER
CITY OF DELPHI
EXIT CONFERENCE

The contents of this report were discussed on August 8, 2018, with Leanne Aldrich, Clerk-Treasurer; Shane Evans, Mayor; and Carolyn Pearson, President of the Common Council.