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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF NORTH WEBSTER

KOSCIUSKO COUNTY, INDIANA

January 1, 2016 to December 31, 2016

FILED
09/27/2018

TABLE OF CONTENTS


| Description | Page |
|---|---|
| Schedule of Officials | 2 |
| Transmittal Letter | 3 |
| Clerk-Treasurer: | |
| Federal Findings: | |
| Finding 2016-001 | |
| Financial Transactions and Reporting | 6-7 |
| Finding 2016-002 | |
| Preparation of the Schedule of Expenditures of Federal Awards | 7-8 |
| Corrective Action Plan | 9-10 |
| Exit Conference | 11 |

SCHEDULE OF OFFICIALS

| Office | Official | Term |
|---|---|---|
| Clerk-Treasurer | Alice E. Luce | 01-01-16 to 12-31-18 |
| President of the Town Council | Jon W. Sroufe | 01-01-16 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 NORTH WEBSTER, KOSCIUSKO COUNTY, INDIANA

This report is supplemental to our audit report of the Town of North Webster (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 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

August 30, 2018

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CLERK-TREASURER
TOWN OF NORTH WEBSTER

CLERK-TREASURER
TOWN OF NORTH WEBSTER
FEDERAL FINDINGS

***FINDING 2016-001***

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

*Condition*

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

> Lack of Segregation of Duties: The Town had not separated incompatible activities related to cash and investments, receipts, and disbursements, including vendor and payroll. The failure to establish these controls could have enabled material misstatements or irregularities to remain undetected.
>
> Preparation of Financial Statements: The Town had not identified risks to the preparation of reliable financial statements and, as a result, had not designed effective controls over the preparation of the financial statements to prevent, or detect and correct, material misstatements.
>
> Monitoring of Controls: The Town did not monitor and assess the quality of the system of internal control. The Town also had no process to identify or communicate corrective actions to improve controls.

*Context*

This 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. Detention 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 control. An evaluation of the Town's system of internal control had not been conducted. Management had not conducted a risk assessment related to the Town's financial reporting and transactions.

*Effect*

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

*Recommendation*

We recommended that the Town's management establish a system of internal controls, including segregation of duties, related to financial transactions and reporting, and that those controls be monitored to ensure effective implementation.

*Views of Responsible Officials*

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

***FINDING 2016-002***

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

*Condition*

The Town had not established effective internal controls over 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). One employee prepared the SEFA without evidence of a review or approval process, or other compensating control.

*Context*

This 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.
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> 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.

*Recommendation*

We recommended that the Town's management establish controls related to the preparation of 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 NORTH WEBSTER

POST OFFICE BOX 95
NORTH WEBSTER, IN 46555
PHONE 574-834-7894
FAX 574-834-7012


## CORRECTION ACTION PLAN

FINDING 2016-001

Fiscal year in which the finding initially occurred: 2016

Contact Person Responsible for Corrective Action: Alice (Betsy) Luce
Contact Phone Number: 574-834-7894

Status of Audit Finding:

Internal control systems and segregation of duties related to receipts have been established and will continue following the performed audit. The Secretary and/or Administrative Assistant will open all mail and review receipts and invoices. Either will prepare the written receipts and submit them to the Clerk-Treasurer for review prior to posting within the accounting software by the Secretary and/or Administrative Assistant.

Invoices will be posted to the accounting software by the Clerk-Treasurer after being reviewed and matched with supporting documentation of approval by the Administrative Assistant. Checks will be issued by the Clerk-Treasurer and matched to supporting documents and claims by the Administrative Assistant and reports verified for accuracy.

Payroll entries will be made by the Clerk-Treasurer and verified by the Secretary and/or Administrative Assistant for each payroll.

The Clerk-Treasurer prepares the monthly bank reconciliation and the Administrative Assistant reviews and approves each month.

Anticipated Completion Date: Immediately

Alice E. Luce
Signature

Clerk-Treasurer
Title

July 31, 2018
Date

# TOWN OF NORTH WEBSTER

POST OFFICE BOX 95
NORTH WEBSTER, IN 46555
PHONE 574-834-7894
FAX 574-834-7012


CORRECTION ACTION PLAN

FINDING 2016-002

Fiscal year in which the finding initially occurred: 2016

Contact Person Responsible for Corrective Action: Alice (Betsy) Luce
Contact Phone Number: 574-834-7894

Status of Audit Finding:

Financial information pertaining to Schedule of Expenditures of Federal Awards (SEFA) will be entered into the Gateway Program by the Clerk-Treasurer after verification by the Administrative Assistant.

Anticipated Completion Date: Immediately: Immediately

Alice E Luce
Signature

Clerk-Treasurer
Title

July 31, 2018
Date

CLERK-TREASURER
TOWN OF NORTH WEBSTER
EXIT CONFERENCE

The contents of this report were discussed on August 30, 2018, with Alice E. Luce, Clerk-Treasurer, and Lisa Strombeck, Vice President of the Town Council.