

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF PINE VILLAGE

WARREN COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED

10/11/2018

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	6-7
Finding 2016-002	
Preparation of the Schedule of Expenditures of Federal Awards	7-10
Finding 2016-003	
Water and Waste Program Cluster - Procurement and	
Suspension and Debarment.....	10-11
Corrective Action Plan	12-14
Exit Conference	15

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Nancy C. Kochell	01-01-16 to 12-31-19
President of the Town Council	Donny R. Hensley James Blinn	01-01-16 to 12-31-17 01-01-18 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE TOWN OF PINE VILLAGE, WARREN COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Pine Village (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

September 6, 2018

(This page intentionally left blank.)

CLERK-TREASURER
TOWN OF PINE VILLAGE

CLERK-TREASURER
TOWN OF PINE VILLAGE
FEDERAL FINDINGS

FINDING 2016-001

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

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-001.

Condition

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

The Town had not separated incompatible activities related to the financial information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the Annual Financial Report (AFR) and financial statement. No evidence of a control, such as an oversight, review, or approval process could be identified.

Due to an ineffective control process, the AFR and financial statement presented for audit omitted the OCRA Grant, RD Grant, Sewage Depreciation, Sewage Bond and Interest, and Sewage Operating funds which understated receipts, disbursements, and cash and investment balances as follows:

Fund	Cash and Investments 1/1/2016	Receipts	Disbursements	Cash and Investments 12/31/2016
OCRA Grant	\$ -	\$ 196,737	\$ 196,737	\$ -
RD Grant	20,245	2,014,279	2,034,279	245
Sewage Depreciation	-	9,600	-	9,600
Sewage Bond and Interest	-	4,000	-	4,000
Sewage Operating	-	84,584	57,972	26,612

Audit adjustments were proposed, approved by the Town, and made to the AFR and financial statement.

Context

The lack of internal controls was a systemic issue throughout the audit period. Several funds were omitted from the AFR and financial statement presented for audit.

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 PINE VILLAGE
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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

Cause

Management had not established an effective system of internal control that would have ensured proper reporting of the AFR and financial statement.

Effect

The failure to establish effective internal controls enabled material misstatements to go undetected. The AFR and financial statement contained the errors identified in the *Condition*.

Recommendation

We recommended that the Town establish an effective system of internal controls to ensure that all transactions will be properly reported on the AFR and financial statement.

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 Findings: Material Weakness, Noncompliance

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-002.

CLERK-TREASURER
TOWN OF PINE VILLAGE
FEDERAL FINDINGS
(Continued)

Condition

There were deficiencies in the internal control system of the Town related to the preparation of the Schedule of Expenditures of Federal Awards (SEFA).

The Town had not separated incompatible activities related to the financial information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the SEFA. No evidence of a control, such as an oversight, review, or approval process could be identified.

Due to an ineffective control process, the SEFA contained the following errors:

1. The Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii was omitted, which understated federal expenditures by \$196,737.
2. The Water and Waste Disposal Systems for Rural Communities grant expenditures were overstated by \$2,772,681.
3. The Water and Waste Disposal Systems for Rural Communities amount passed through to subrecipients was overstated by \$3,826,260.

Audit adjustments were proposed, approved by the Town, and made to the SEFA.

Context

The lack of internal controls was a systemic issue throughout the audit period. Several errors were identified on the SEFA presented for audit.

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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

CLERK-TREASURER
TOWN OF PINE VILLAGE
FEDERAL FINDINGS
(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 a 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 an effective system of internal control that would have ensured proper reporting of the SEFA.

Effect

The failure to establish effective internal controls enabled material misstatements to go undetected. The SEFA contained the errors identified in the *Condition*.

CLERK-TREASURER
TOWN OF PINE VILLAGE
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the Town establish an effective system of internal controls to ensure that the federal expenditures will be properly reported 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 2016-003

Subject: Water and Waste Program Cluster - Procurement and Suspension and Debarment
Federal Agency: Department of Agriculture
Federal Program: Water and Waste Disposal Systems for Rural Communities
CFDA Number: 10.760
Federal Award Number and Year (or Other Identifying Number): 15-086-467250585
Compliance Requirement: Procurement and Suspension and Debarment
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-003.

Condition

Management of the Town had not established an effective internal control system related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

The Town relied on a Grant Administrator to perform all of the activities related to the Procurement and Suspension and Debarment compliance requirement. The Town was unaware of the compliance requirement. No evidence of a control, such as an oversight, review, or approval process was identified.

Context

This was a systemic issue, which occurred throughout the audit period.

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. . . ."

Cause

The Town had not established an effective system of internal controls to ensure compliance with the Procurement and Suspension and Debarment compliance requirement.

CLERK-TREASURER
TOWN OF PINE VILLAGE
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system could have enabled material non-compliance to go undetected. 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 effective controls related to the grant agreement and Procurement and Suspension and Debarment the compliance requirement.

Views of Responsible Officials

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



THE TOWN OF PINE VILLAGE
 James Blinn, President
 Nancy Kochell, Clerk/Treasurer
 P.O. Box 11, 206 South Main St.
 Pine Village, In 47975

Phone: 765-585-9941

E-Mail:
 pinevillageclerk@hotmail.com

CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Nancy Kochell
 Contact Phone Number: 765-585-9941

We concur with the findings.

The funds not reported on Gateway stemmed from federal grants. These were the first federal grants the Town had ever received. I was unaware that each should have a separate fund and be entered into the financial reporting system separately.

The Town Council President will review all financial information entered into the Gateway financial reporting system and sign off. The issue has been resolved and entered into Gateway correctly.

Anticipated Completion Date:

Nancy C. Kochell
 (Signature)

Clerk/Treasurer
 (Title)

9/6/18



THE TOWN OF PINE VILLAGE
 James Blinn, President
 Nancy Kochell, Clerk/Treasurer
 P.O. Box 11, 206 South Main St.
 Pine Village, In 47975

Phone: 765-585-9941

E-Mail:
 pinevillageclerk@hotmail.com

CORRECTIVE ACTION PLAN

FINDING 2016-002

Contact Person Responsible for Corrective Action: Nancy Kochell
 Contact Phone Number: 765-585-9941

We concur with the findings.

These were the first federal grants the Town had ever received. I was unaware that each should have a separate fund and be entered into the financial reporting system separately.

The Town Council President will review all financial information entered into the Gateway financial reporting system and sign off. The issue has been resolved and entered into Gateway correctly.

Anticipated Completion Date:

Nancy C Kochell
 (Signature)

Clerk/Treasurer
 (Title)

9/6/18



THE TOWN OF PINE VILLAGE
 James Blinn, President
 Nancy Kochell, Clerk/Treasurer
 P.O. Box 11, 206 South Main St.
 Pine Village, In 47975

Phone: 765-585-9941

E-Mail:
 pinevillageclerk@hotmail.com

CORRECTIVE ACTION PLAN

FINDING 2016-003

Contact Person Responsible for Corrective Action: Nancy Kochell
 Contact Phone Number: 765-585-9941

We concur with the findings.

This was the first federal grant the Town had ever received. The grant has since been closed and the Town has no more requirements. We will be aware of this requirement with any future grants.

Anticipated Completion Date:

Nancy C Kochell
 (Signature)

Clerk / Treasurer
 (Title)

9/6/18
 (Date)

CLERK-TREASURER
TOWN OF PINE VILLAGE
EXIT CONFERENCE

The contents of this report were discussed on September 6, 2018, with Nancy C. Kochell, Clerk-Treasurer, and R. Keith Eberly, Town Council member.