

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF SALEM

WASHINGTON COUNTY, INDIANA

January 1, 2016 to December 31, 2016



**FILED**  
01/18/2019



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sally Hattabaugh	01-01-16 to 12-31-19
Mayor	Troy Merry	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Troy Merry	01-01-16 to 12-31-18
President Pro Tempore of the Common Council	Warren Jones Wally Terkhorn Steve Crane	01-01-16 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18
Utility Office Manager	Carol Brough	01-01-16 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF SALEM, WASHINGTON COUNTY, INDIANA

This report is supplemental to our audit report of the City of Salem (City), 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 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/](http://www.in.gov/sboa/).

The Federal Finding, identified in the above referenced audit report, is included in this report.

Any Corrective Action Plan for the Federal Finding, incorporated within this report, was not verified for accuracy.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

December 6, 2018

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CLERK-TREASURER  
CITY OF SALEM

CLERK-TREASURER  
CITY OF SALEM  
FEDERAL FINDING

***FINDING 2016-001***

Subject: Airport Improvement Program - Internal Controls

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): AIP 3-18-0075-15-2014,  
AIP 3-18-0075-16-2015,  
AIP 3-18-0075-17-2016

Compliance Requirements: Reporting, Special Tests and Provisions - Wage Rate Requirements

Audit Finding: Material Weakness

*Repeat Finding*

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

*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 Reporting and Special Tests and Provisions - Wage Rate Requirements compliance requirements.

*Reporting*

The City did not have proper procedures in place to verify the accuracy of the reports that were submitted. The City hired a Grant Administrator to oversee the daily activities of the grant. The Grant Administrator maintained a manual ledger, which was used to prepare the reports that were submitted. The Grant Administrator provided this ledger to the Clerk-Treasurer's office, but no reconciliation or comparison of the ledger to the City's financial records was made to ensure the accuracy of the information submitted on the reports.

*Special Tests and Provisions - Wage Rate Requirements*

The contractors for the various airport projects submitted certified payrolls to the Grant Administrator, who checked to determine if the prevailing wages were properly paid. The Grant Administrator then submitted the certified payrolls to the Clerk-Treasurer's office for verification that the Grant Administrator had properly performed his review. No evidence was presented for audit that the Clerk-Treasurer's office actually reviewed the certified payrolls.

*Context*

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

CLERK-TREASURER  
CITY OF SALEM  
FEDERAL FINDING  
(Continued)

*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. . . ."

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 City had not developed a proper system of internal controls to ensure compliance with the Reporting and Special Tests and Provisions - Wage Rate Requirements compliance requirements.

*Effect*

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirements 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 Reporting and Special Tests and Provisions - Wage Rate Requirements compliance requirements.

*Views of Responsible Officials*

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



*Sally Hattabaugh, Clerk-Treasurer*  
201 E. Market Street, Suite 101  
Salem, IN 47167  
812-883-4264 (Office)  
812-883-3634 (Fax)

CORRECTIVE ACTION PLAN

**FINDING 2016-001**

Contact Person Responsible for Corrective Action: Sally J. Hattabaugh, Clerk-Treasurer  
Contact Phone Number: 812-883-4264

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

A master spreadsheet which tracks all items that constitute the pay requests is sent by the grant administrator to the Clerk-Treasurer. The Clerk-Treasurer then verifies the amounts that the claims dockets are for that month.

Procedures are in place for the Clerk-Treasurer to tick mark the certified payrolls after they are reviewed.

Anticipated Completion Date: January 3, 2017

  
\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
Clerk-Treasurer  
(Title)

\_\_\_\_\_  
November 27, 2018  
(Date)

CLERK-TREASURER  
CITY OF SALEM  
EXIT CONFERENCE

The contents of this report were discussed on December 6, 2018, with Sally Hattabaugh, Clerk-Treasurer; Troy Merry, Mayor; Warren Jones, Common Council member; and Justin Green, Common Council member.