

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF SWEETSER

GRANT COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
02/01/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Federal Findings:	
Finding 2014-001	
Financial Transactions and Reporting	6-8
Finding 2014-002	
Preparation of the Schedule of Expenditures of Federal Awards	8-10
Finding 2014-003	
Davis-Bacon Act	10-11
Corrective Action Plan	12-16
Audit Result and Comment:	
Capital Assets	17
Exit Conference	18

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Eileen D. LeMaster	03-22-12 to 12-01-15
	Tina J. Cole	12-02-15 to 12-29-17
	(Vacant)	12-30-17 to 01-24-18
	John R. Potter	01-25-18 to 12-31-19
President of the Town Council	Travis J. LeMaster	01-01-14 to 12-31-15
	Charles V. Briede	01-01-16 to 12-31-17
	Rich P. Gamble	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 SWEETSER, GRANT COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Sweetser (Town), for the period from January 1, 2014 to December 31, 2014. 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 and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Result and Comment contained herein describe the identified reportable instance of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Result and Comment, incorporated within this report, were not verified for accuracy.

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

December 12, 2018

(This page intentionally left blank.)

CLERK-TREASURER
TOWN OF SWEETSER

CLERK-TREASURER
TOWN OF SWEETSER
FEDERAL FINDINGS

FINDING 2014-001

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

Condition

There were several deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not separated incompatible activities related to cash and investments, receipts, and financial close and reporting.

Cash and Investments

The Town had not established controls to ensure that reconciled cash and investment balances agreed to the ledgers or the financial statement. The Clerk-Treasurer completed monthly bank reconciliations without any documented oversight or review procedures in place to ensure their accuracy.

Receipts

The Town had not established controls or separated incompatible activities related to receipts. The Deputy Clerk-Treasurer independently receives, records, deposits and reports all receipts for the Town. There is no documented oversight, review or approval process, or other compensating control in place to ensure receipts are processed, recorded, and reported accurately.

Financial Close and Reporting

The Clerk-Treasurer entered the Town's financial information into the Indiana Gateway for Government Units financial reporting system, which was the source of the Town's financial statement; however, the process was completed without a documented oversight, review or approval process, or other compensating control in place to ensure that information was submitted accurately. The following errors were noted in the financial statement presented for audit:

1. The Waste Water Operating beginning balance was overstated by \$8,848.
2. The 2014 Wastewater SRF Bond and Interest fund was originally omitted, which resulted in receipts being understated by \$197,499 and disbursement understated by \$3,613.
3. The 2014 Wastewater SRF Debt Service Reserve fund was originally omitted, which resulted in the beginning balance being understated by \$45,000 and receipts being understated by \$30,952.
4. The 2014 Wastewater SRF Construction fund was originally omitted, which resulted in receipts and disbursements being understated by \$1,881,071.

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

CLERK-TREASURER
TOWN OF SWEETSER
FEDERAL FINDINGS
(Continued)

Context

The lack of controls and noncompliance were systemic issues, which occurred 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. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

Cause

Management had not established a proper system of internal control that segregated key functions related to cash and investments, receipts, and the financial close and reporting process.

Effect

The failure to establish controls enabled misstatements of the financial statement to remain undetected. The financial statement contained the errors identified in the *Context*.

Recommendation

We recommended that the Town's management establish a system of internal controls, including segregation of duties, related to cash and investments, receipts, and the financial close and reporting process.

CLERK-TREASURER
TOWN OF SWEETSER
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

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

FINDING 2014-002

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

Condition

The Town did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

The Town had not established effective internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Town's SEFA. The Clerk-Treasurer prepared the federal award information entered into Gateway without a control in place to prevent, or detect and correct, errors prior to submission.

Context

The SEFA presented for audit contained the following errors:

1. The Recreational Trails Program was omitted causing the SEFA to be understated by \$8,781.
2. The Capitalization Grants for Clean Water State Revolving Funds was understated by \$1,881,068.

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

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
TOWN OF SWEETSER
FEDERAL FINDINGS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § __.310. . . ."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. 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 award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual 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 shall 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.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

Cause

Management of the Town had not established a proper 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 remained undetected. The SEFA contained the errors identified in the *Context*.

Recommendation

We recommended that the Town establish controls to prevent, or detect and correct, errors on the SEFA prior to submission.

CLERK-TREASURER
TOWN OF SWEETSER
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

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

FINDING 2014-003

Subject: Davis-Bacon Act
Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458
Federal Award Number: WW13182701
Pass-Through Entity: Indiana Finance Authority
Compliance Requirement: Davis-Bacon Act
Audit Finding: Material Weakness

Condition

An effective internal control system was not in place at the Town in order to ensure compliance with requirements related to the grant agreement and the Davis-Bacon Act requirements.

Management did not review the weekly Davis-Bacon Act compliance reports prepared by their Labor Standards Administrator. There were no controls in place to ensure compliance with the Davis-Bacon Act requirements.

Context

There was no evidence of internal controls over compliance with the Davis-Bacon Act requirements. This was pervasive throughout the entire 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

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 Town at risk of noncompliance with the grant agreement and the compliance requirement.

Questioned Costs

There were no questioned costs identified.

CLERK-TREASURER
TOWN OF SWEETSER
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the Town's management establish controls related to the grant agreement and the compliance requirement listed above.

Views of Responsible Officials

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

TOWN OF SWEETSER
P.O. BOX 329
113 N. MAIN STREET
SWEETSER, INDIANA 46987
Phone 765-384-5065
Fax 765-384-5664
Email tosclerk18@yahoo.com
Web www.sweetserin.us



A Sweet Place to Live!

CORRECTIVE ACTION PLAN

FINDING 2014-001

Contact Person Responsible for Corrective Action: John R. Potter, clerk/treasurer

Contact Phone Number: 765-384-5065

Views of Responsible Official: I concur with the findings.

Cash and Investments: Bank Reconcilements were performed by the Town Clerk-Treasurer without an oversight, approval or review process in place to ensure the accuracy of cash and investments balances.

Description of Corrective Action Plan: *The clerk/treasurer will submit the monthly bank reconciliations and bank statements to a member of the council for review and sign-off.*

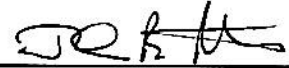
Receipts: The Deputy Clerk-Treasurer collected cash, wrote receipts, prepared the deposit and took the deposit to the bank without an oversight, approval, or review process in place to ensure the accuracy of the receipts.

Description of Corrective Action Plan: *The clerk/treasurer will review and approve the receipts and deposits prepared by the deputy clerk/treasure prior to the funds being deposited into the bank. On a random basis through the year, the clerk/treasurer will prepare the deposit.*

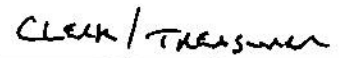
Financial Close and Reporting: The Clerk-Treasurer entered the Town's financial information into the Indiana Gateway for Government Units financial reporting system, which was the source of the Annual Financial Report (AFR), without an oversight, approval, or review process in place to ensure the accuracy of the information submitted.

Description of Corrective Action Plan: *The clerk/treasurer will prepare the Annual Financial Report in draft form and present it to the council for review and approval prior to submitting the report on Gateway.*

Anticipated Completion Date: January 1, 2019

A handwritten signature in black ink, appearing to be "J.R. H.", written above a horizontal line.

(Signature)

The handwritten title "CLEAN / TREASURER" written in black ink above a horizontal line.

(Title)

TOWN OF SWEETSER
P.O. BOX 329
113 N. MAIN STREET
SWEETSER, INDIANA 46987
Phone 765-384-5065
Fax 765-384-5664
Email tosclerk18@yahoo.com
Web www.sweetserin.us



A Sweet Place to Live!

CORRECTIVE ACTION PLAN

FINDING 2014-002

Contact Person Responsible for Corrective Action: John R. Potter, clerk/treasurer

Contact Phone Number: 765-384-5065

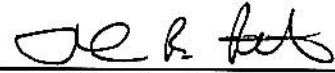
Views of Responsible Official: I concur with the findings.

The Town did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

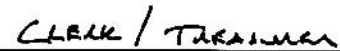
Description of Corrective Action Plan: *If the town is the recipient of Federal Rewards in the future, the clerk/treasurer will prepare draft reports to be presented to the council for review and approval prior to them being submitted to Gateway. The reports will include:*

1. *A schedule of expenditures of Federal award that lists:*
 - a. *The Federal Programs by Federal Agency*
 - b. *Name and identifying numbers of pass-through entities if the town receives the award as a subrecipient*
 - c. *Total Federal awards expended for each individual Federal program and an identifying number for each program*
 - d. *Notes that describe the accounting policies used in schedule preparation*
 - e. *If town acts as a pass-through entity the report will include the total amount provided to subrecipients from each Federal program*
 - f. *The value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end.*

Anticipated Completion Date: January 1, 2019



(Signature)



(Title)

TOWN OF SWEETSER
P.O. BOX 329
113 N. MAIN STREET
SWEETSER, INDIANA 46987
Phone 765-384-5065
Fax 765-384-5664
Email tosclerk18@yahoo.com
Web www.sweetserin.us



A Sweet Place to Live!

CORRECTIVE ACTION PLAN

FINDING 2014-003

Contact Person Responsible for Corrective Action: John R. Potter, clerk/treasurer

Contact Phone Number: 765-384-5065

Views of Responsible Official: I concur with the finding.

An effective internal control system was not in place at the Town in order to ensure compliance with requirements related to the grant agreement and the Davis-Bacon Act requirements.

Management did not review the weekly Davis-Bacon Act compliance reports prepared by their Labor Standards Administrator. There were no controls in place to ensure compliance with the Davis-Bacon Act requirements.

Description of Corrective Action Plan: *If the town is the recipient of Federal Rewards in the future, the clerk/treasurer will request a weekly compliance report from the Labor Standards Administrator. Upon receipt of the report, the clerk/treasurer will review and sign-off on the report and maintain a file of the reports with other records for the project.*

Anticipated Completion Date: January 1, 2019

(Signature)

(Title)

CLERK-TREASURER
TOWN OF SWEETSER
AUDIT RESULT AND COMMENT

CAPITAL ASSETS

The Town had not properly maintained a complete inventory of capital assets owned. There were no capital asset records presented for audit.

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF SWEETSER
EXIT CONFERENCE

The contents of this report were discussed on December 12, 2018, with Charles V. Briede, Town Council member; John R. Potter, Clerk-Treasurer; Kim A. Rogers, Town Attorney; and Jami Briede, Deputy Clerk-Treasurer.