

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF MILAN

RIPLEY COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED
03/01/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Debra Fugate Hackman	01-01-16 to 12-31-22
President of the Town Council	Noel Houze	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 MILAN, RIPLEY COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Milan (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 and Audit Results and Comments 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 Results and Comments contained herein describe the identified reportable instances 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 Results and Comments, incorporated within this report, were not verified for accuracy.

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

December 27, 2018

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CLERK-TREASURER
TOWN OF MILAN

CLERK-TREASURER
TOWN OF MILAN
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.

Cash and Investments

The Town's contracted accountant was responsible for performing the monthly bank reconciliation. There was no documentation of a control in place to prevent, or detect and correct, errors.

Receipts

One employee was primarily responsible for issuing, posting and depositing receipts, and had access to the system to make adjustments without a proper system of oversight, review, or approval.

Financial Close and Reporting

The Clerk-Treasurer uploaded financial information from the Town's accounting software to the Indiana Gateway for Government Units financial reporting system, which was the source for the Annual Financial Report and the financial statement. There was no oversight, review, or approval process to ensure the accuracy of the information prior to submission.

Context

The lack of controls was a systemic issue, 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. . . .

CLERK-TREASURER
TOWN OF MILAN
FEDERAL FINDINGS
(Continued)

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 of the Town had not established a proper system of internal controls that segregated key functions.

Effect

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

Recommendation

We recommended that the Town 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 2016-002

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 controls in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

Context

The SEFA contained the following error:

The Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii program was omitted, resulting in an understatement of \$981,640.

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:

CLERK-TREASURER
TOWN OF MILAN
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. . . ."

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 the 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."

CLERK-TREASURER
TOWN OF MILAN
FEDERAL FINDINGS
(Continued)

Cause

Management had not established a system of internal controls that would have ensured proper reporting of the SEFA.

Effect

Without a proper system of internal controls in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the error identified in the *Context*.

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.

FINDING 2016-003

Subject: Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii - Cash Management, 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): DR2-09-270

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

Compliance Requirements: Cash Management, Special Tests and Provisions - Wage Rate Requirements

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 Cash Management and Special Tests and Provisions - Wage Rate Requirements compliance requirements.

Cash Management

The Clerk-Treasurer was responsible for compliance with the cash management requirements. There was no oversight, review, or approval process in place to ensure the Town was in compliance.

Special Tests and Provisions - Wage Rate Requirements

The Town hired a grant administrator to oversee compliance with the wage rate requirements; however, the Town did not provide oversight to ensure that the grant administrator adequately complied with wage rate requirements.

CLERK-TREASURER
TOWN OF MILAN
FEDERAL FINDINGS
(Continued)

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:

- (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 would have ensured compliance with the Cash Management and Special Tests and Provisions - Wage Rate Requirements compliance requirements.

Effect

The failure to establish internal controls could have enabled material noncompliance to go undetected.

Questioned Costs

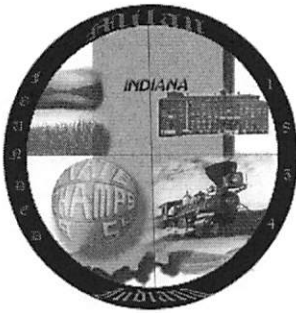
There were no questioned costs identified.

Recommendation

We recommended that the Town's management establish controls to ensure compliance with the grant agreement and the Cash Management 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.



Town of Milan
211 W Carr P O Box 86
812-654-3407 FAX 812-654-2869

CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Debra Fugate Hackman
Contact Phone Number: 812-654-3407

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: For the 2019 fiscal year, the Town has implemented a system of internal control designed to prevent, detect and correct errors of the Town's financial transactions and reporting:

Cash and Investments: Beginning in 2019, upon completion of the monthly bank reconciliation prepared by our contracted accountant, the reconciliation will be reviewed by the Clerk-Treasurer and initialed and dated.

Receipts: Beginning in 2019, on a monthly basis the Clerk-Treasurer will begin presenting payment application reports to the Town Council for their review.

Financial Close and Reporting: Beginning in 2019, the Clerk-Treasurer will present the financial information entered into Gateway along with the annual fund report from the Town's accounting software for their review.

Anticipated Completion Date: January 31, 2019

Debra Fugate Hackman
(Signature)

Clerk Treasurer
(Title)

12-19-18
(Date)



Town of Milan
211 W Carr P O Box 86
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CORRECTIVE ACTION PLAN

FINDING 2016-002

Contact Person Responsible for Corrective Action: Debra Fugate Hackman
Contact Phone Number: 812-654-3407

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Beginning in 2019, the Town will implement a system of internal control designed to prevent, detect and correct errors on the Schedule of Expenditures of Federal Awards to ensure the accurate reporting of federal awards. The Clerk-Treasurer will present the federal grant schedule from Gateway to the Town Council for their review and approval.

Anticipated Completion Date: March 31, 2019

Debra Fugate Hackman
(Signature)

Clerk Treasurer
(Title)

12-19-18
(Date)



Town of Milan
211 W Carr P O Box 86
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CORRECTIVE ACTION PLAN

FINDING 2016-003

Contact Person Responsible for Corrective Action: Debra Fugate Hackman
Contact Phone Number: 812-654-3407

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: If the Town were to hire a grant administrator to monitor CDBG funds in the future we would make arrangement for another town employee to help monitor the cash management requirements. Also, we will ask that our grant administrator report to us regarding compliance with the wage rate requirements for all contractors for the duration of the project.

Anticipated Completion Date: December 31, 2019

Debra Fugate Hackman
(Signature)

Clerk Treasurer
(Title)

12-19-18
(Date)

CLERK-TREASURER
TOWN OF MILAN
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

The December 31, 2016 bank reconciliation for the Town General, Water Utility Operating, Wastewater Utility Operating, and Utility Clearing bank accounts contained adjustments ranging from \$(472) to \$1,881, which did not have proper supporting documentation. The unidentified adjustments resulted in a net cash shortage of \$486.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

PENALTIES AND INTEREST

During 2016 and subsequent to the audit period in 2017 and 2018, the Town was assessed penalties and interest by the Internal Revenue Service in the amount of \$2,467 because the Town did not remit payments for federal withholding taxes on a timely basis.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF MILAN
EXIT CONFERENCE

The contents of this report were discussed on December 27, 2018, with Debra Fugate Hackman, Clerk-Treasurer, and Noel Houze, President of the Town Council.