

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, 2018 to December 31, 2018



FILED
07/05/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Federal Findings:	
Finding 2018-001	
Preparation of the Schedule of Expenditures of Federal Awards	6-8
Finding 2018-002	
Airport Improvement Program - Special Tests and	
Provisions - Wage Rate Requirements	8-9
Corrective Action Plan.....	10-11
Exit Conference.....	12

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sally J. 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	01-01-18 to 12-31-19
President Pro Tempore of the Common Council	Steve Crane Justin Green	01-01-18 to 12-31-18 01-01-19 to 12-31-19
Utility Office Manager	Carol Brough	01-01-18 to 12-31-19



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 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, 2018 to December 31, 2018. 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/.

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

May 20, 2019

(This page intentionally left blank.)

CLERK-TREASURER
CITY OF SALEM

CLERK-TREASURER
CITY OF SALEM
FEDERAL FINDINGS

FINDING 2018-001

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

Repeat Finding

This is a repeat of Finding 2017-001 from the immediately prior audit.

Condition

The City had implemented internal controls over the preparation of the Schedule of Expenditures of Federal Awards (SEFA). The Deputy Clerk-Treasurer entered the grant information into the Indiana Gateway for Government Units financial reporting system as part of the Annual Financial Report. The Clerk-Treasurer reviewed the information for accuracy prior to submission; however, the control was not effective in preventing, or detecting and correcting, errors as the SEFA was materially misstated.

Context

The SEFA contained the following errors:

1. The CFDA 14.228 was omitted resulting in expenditures being understated in the amount of \$168,803.
2. The expenditures for CFDA 20.106 were overstated by \$2,559.

Audit adjustments were proposed, accepted by the City, 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
CITY OF SALEM
FEDERAL FINDINGS
(Continued)

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities. . . .

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

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
CITY OF SALEM
FEDERAL FINDINGS
(Continued)

Cause

The City's 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 remained undetected. The SEFA contained the errors identified in the *Context*.

Recommendation

We recommended that the City'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 2018-002

Subject: Airport Improvement Program - Special Tests and Provisions - Wage Rate Requirements
Federal Agency: Department of Transportation
Federal Program: Airport Improvement Program
CFDA Number: 20.106
Federal Award Number and Year (or Other Identifying Number): AIP-3-18-0075-17-2016
Pass-Through Entity: Direct Grant
Compliance Requirement: Special Tests and Provisions - Wage Rate Requirements
Audit Finding: Material Weakness

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 Special Tests and Provisions - Wage Rate Requirements compliance requirement. The City hired an engineering firm to oversee compliance with the wage rate requirements; however, the City had not implemented effective controls that would have ensured that the engineering firm adequately verified compliance.

Context

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

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

CLERK-TREASURER
CITY OF SALEM
FEDERAL FINDINGS
(Continued)

(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

The City's management had not developed a system of internal controls, which would have ensured that the City complied with the Special Test and Provisions - Wage Rate Requirements compliance requirement.

Effect

The failure to establish an effective internal control system, which would include segregation of duties, placed the City at risk of noncompliance with the grant agreement and the Special Test and Provisions - Wage Rate Requirements compliance requirement.

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 Special Test and Provisions - Wage Rate 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 2018-001

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:

Clerk-Treasurer's office will implement a control that compares the last year's SEFA report with the current SEFA report to look for any grants reported in the prior report that we would still have in the current year. Also, the Clerk-Treasurer receives copies of all grant documentation and it is maintained in binders. And 1st Deputy Clerk-Treasurer along with the department heads will review the grant information entered into Gateway.

Anticipated Completion Date: May 31, 2019


(Signature)

Clerk-Treasurer

(Title)

04/26/2019

(Date)



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 2018-002

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: June 30, 2019


(Signature)

Clerk-Treasurer

(Title)

May 2, 2019

(Date)

CLERK-TREASURER
CITY OF SALEM
EXIT CONFERENCE

The contents of this report were discussed on May 20, 2019, with Sally J. Hattabaugh, Clerk-Treasurer; Troy Merry, Mayor; and Justin Green, President Pro Tempore of the Common Council.