

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF LAPORTE

LAPORTE COUNTY, INDIANA

January 1, 2018 to December 31, 2018



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Teresa L. Ludlow (deceased) (Vacant) Roger Galloway	01-01-16 to 09-30-18 10-01-18 to 11-26-18 11-27-18 to 12-31-19
Mayor	Mark A. Krentz	08-12-17 to 12-31-19
President of the Board of Public Works and Safety	Mark A. Krentz	01-01-18 to 12-31-19
President Pro Tempore of the Common Council	Roger Galloway (Vacant) Miles Fettinger	01-01-18 to 11-26-18 11-27-18 to 12-31-18 01-01-19 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF LAPORTE, LAPORTE COUNTY, INDIANA

This report is supplemental to our audit report of the City of LaPorte (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

June 17, 2019

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CLERK-TREASURER
CITY OF LAPORTE

CLERK-TREASURER
CITY OF LAPORTE
FEDERAL FINDING

FINDING 2018-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

There were deficiencies in the internal control system of the City related to financial transactions and reporting. There was a lack of adequate segregation of duties, as the City had not separated incompatible activities related to receipts.

One employee recorded receipts without evidence of oversight or review to ensure the accuracy and classification of the receipts to the proper fund and account.

Context

The lack of controls for receipts was a systemic issue 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.

CLERK-TREASURER
CITY OF LAPORTE
FEDERAL FINDING
(Continued)

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. . . ."

Cause

Management of the City had not established a proper system of internal controls that segregated key functions related to receipts.

Effect

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

Recommendation

We recommended that the City establish a system of internal controls related to receipts.

Views of Responsible Officials

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



Office of the Clerk-Treasurer, 801 Michigan Avenue, La Porte, Indiana 46350
Telephone 219-362-9512 FAX 219-362-8955 E-mail: rgalloway@cityoflaporte.in.gov Website: <http://cityoflaporte.com>

CORRECTIVE ACTION PLAN

FINDING 2018-001 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Roger A. Galloway, Clerk-Treasurer
Contact Phone Number: (219) 362-9512

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The City has implemented an addition to their Internal Controls regarding the receipting of revenues in the City's Financial Software by adding an additional layer to the process. After receipts are entered into the Financial Software by the Accounts Payable/Receivable Coordinator and prior to printing the actual receipts, he/she will verify that all information is correct and initial the Revenue Transaction List. Once this is done, either the Payroll Administrator, Deputy Clerk-Treasurer or Clerk-Treasurer will check the Revenue Transaction List to the receipts and initial the report that everything is correct. Once the receipts/revenues are verified, the receipts will be generated which in turn posts to the Financial Software Program.

Anticipated Completion Date: Immediately


(Signature)

Clerk-Treasurer
(Title)

June 17, 2019
(Date)

A great place to live, work and do business!

CLERK-TREASURER
CITY OF LAPORTE
EXIT CONFERENCE

The contents of this report were discussed on June 17, 2019, with Renee Scherer, Common Council member; Karyl Machek-Feikes, Common Council member; Laura Cutler, Common Council member; Joe Mrozinske, Common Council member; Mark A. Krentz, Mayor; Roger Galloway, Clerk-Treasurer; Joanne Layman, Deputy Clerk-Treasurer; and Nicholas Otis, City Attorney.

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COMMUNITY DEVELOPMENT AND PLANNING
CITY OF LAPORTE

COMMUNITY DEVELOPMENT AND PLANNING
CITY OF LAPORTE
FEDERAL FINDING

FINDING 2018-002

Subject: CDBG - Entitlement Grants Cluster - Reporting

Federal Agency: Department of Housing and Urban Development

Federal Program: Community Development Block Grants/Entitlement Grants

CFDA Number: 14.218

Federal Award Numbers and Years (or Other Identifying Numbers): B-14-MC-18-0021, B-15-MC-18-0021,
B-16-MC-18-0021, B-17-MC-18-0021,
B-18-MC-18-0021

Compliance Requirement: Reporting

Audit Findings: Material Weakness, Modified Opinion

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 compliance requirement.

The City had not designed or implemented adequate policies and procedures to ensure that the annual report HUD 60002, Section 3 Summary Report, Economic Opportunities for Low-and Very Low-Income Persons (Annual Report) was accurately prepared and submitted. There was no oversight, review, or monitoring process. The Annual Report due during the audit period was not submitted.

The City had not properly implemented controls to ensure the accuracy of the SF-425, Federal Financial Reports. The cash disbursements were incorrectly reported on the third quarter SF-425, Federal Financial Report by \$48,523 when compared to the City's ledger.

Context

The lack of controls and noncompliance were systemic issues 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). . . ."

2 CFR 200.327 states:

"Unless otherwise approved by OMB, the Federal awarding agency may solicit only the standard, OMB-approved governmentwide data elements for collection of financial information (at time of publication the Federal Financial Report or such future collections as may be approved by OMB and listed on the OMB Web site). This information must be collected with the frequency required by the terms and conditions of the Federal award, but no less frequently

COMMUNITY DEVELOPMENT AND PLANNING
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FEDERAL FINDING
(Continued)

than annually nor more frequently than quarterly except in unusual circumstances, for example where more frequent reporting is necessary for the effective monitoring of the Federal award or could significantly affect program outcomes, and preferably in coordination with performance reporting."

2 CFR 200.328 states in part:

"(a) *Monitoring by the non-Federal entity.* The non-Federal entity is responsible for oversight of the operations of the Federal award supported activities. The non-Federal entity must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved. Monitoring by the non-Federal entity must cover each program, function or activity. See also § 200.331 Requirements for pass-through *entities*. . . .

- (1) The non-Federal entity must submit performance reports at the interval required by the Federal awarding agency or pass-through entity to best inform improvements in program outcomes and productivity. Intervals must be no less frequent than annually nor more frequent than quarterly except in unusual circumstances, for example where more frequent reporting is necessary for the effective monitoring of the Federal award or could significantly affect program outcomes. Annual reports must be due 90 calendar days after the reporting period; quarterly or semiannual reports must be due 30 calendar days after the reporting period. Alternatively, the Federal awarding agency or pass-through entity may require annual reports before the anniversary dates of multiple year Federal awards. The final performance report will be due 90 calendar days after the period of performance end date. If a justified request is submitted by a non-Federal entity, the Federal agency may extend the due date for any performance report. . . ."

CFR 200.302(b) states in part:

"The financial management system of each non-Federal entity must provide for the following:
. . .

- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting . . .
- (3) Records that identify adequately the source and application of funds for federally funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation. . . ."

Cause

The City's management had not developed an effective system of internal controls that would have ensured compliance with the grant agreement and the reporting requirements.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the City.

COMMUNITY DEVELOPMENT AND PLANNING
CITY OF LAPORTE
FEDERAL FINDING
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish controls to ensure compliance and comply with the grant agreement and the Reporting compliance requirement.

Views of Responsible Officials

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

City of LaPorte

INDIANA



OFFICE OF COMMUNITY DEVELOPMENT AND PLANNING
801 MICHIGAN AVENUE
LA PORTE, INDIANA 46350
PH. (219) 362-8260 FAX (219) 325-0656

CORRECTIVE ACTION PLAN

FINDING 2018-002

Contact Person Responsible for Corrective Action: Mary Ann Richards, CDBG Program Manager
Contact Phone Number: (219) 362-8260

Views of Responsible Official: We concur with the finding.

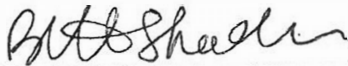
Description of Corrective Action Plan: The City of La Porte Community Development Block Grant re-activated the account with SPEARS during the week of June 10, 2019 in order to file Form 60002. Several phone calls and emails were made in order to correct software issues existing on the part of SPEARS. A Form 60002 for Program Year 2017 was entered into SPEARS on June 14, 2019. The City of LaPorte Community Development Block Grant program will submit subsequent Forms 60002 in December of each year when a CAPER is submitted.

According to documentation available in the Section 3 file kept in the CDBG Program Manager's office, Form 60002 were submitted for Program Years 2012, 2013, 2014, 2015, 2016.

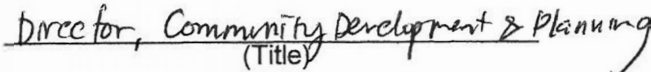
The Community Development Block Grant Program shall implement controls to ensure the accuracy of SF-425, Federal Financial Reports. The CDBG Program Manager shall prepare the SF-425 using the Monthly Appropriation Reports and Monthly Revenue History Detail. When complete, the Clerk/Treasurer's Office shall review the SF-425 before submission to the Mayor for an authorizing signature.

All approved Standard Form 425s and supporting documentation will be provided to the Indiana Field Office of the U.S. Department of Housing and Urban Development within 30 days after the close of the quarter as required.

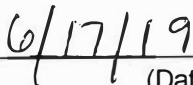
Anticipated Completion Date: Immediately



(Signature)



(Title)



(Date)

COMMUNITY DEVELOPMENT AND PLANNING
CITY OF LAPORTE
EXIT CONFERENCE

The contents of this report were discussed on June 17, 2019, with Beth Shrader, Community Development and Planning Director; Mary Ann Richards, Community Development Block Grant Manager; Renee Scherer, Common Council member; Karyl Machek-Feikes, Common Council member; Laura Cutler, Common Council member; Joe Mrozinske, Common Council member; Mark A. Krentz, Mayor; Roger Galloway, Clerk-Treasurer; Joanne Layman, Deputy Clerk-Treasurer; and Nicholas Otis, City Attorney.