

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CLAY TOWNSHIP

ST. JOSEPH COUNTY, INDIANA

January 1, 2022 to December 31, 2022



FILED
06/30/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director of Finance	Georgeann Ewald	01-01-22 to 12-31-23
Trustee	Lucas Hudnall	01-01-22 to 12-31-22
	Sean O'Brien	01-01-23 to 12-31-23
Chair of the Township Board	Melinda Fountain	01-01-22 to 12-31-22
	Robbie Thomas	01-01-23 to 12-31-23



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO: THE OFFICIALS OF CLAY TOWNSHIP, ST. JOSEPH COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of Clay Township (Township), for the year ended December 31, 2022, and the related notes to the financial statement, which collectively comprise the Township's financial statement and have issued our report thereon dated June 14, 2023, wherein we noted the Township followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Township's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Township's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, as described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002, that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Clay Township's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Township's response to findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Township's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Township's response was not subjected to the auditing procedures applied in the audit of the financial statement, and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Township's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth Kelley, CPA, CFE
Deputy State Examiner

June 14, 2023



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

TO: THE OFFICIALS OF CLAY TOWNSHIP, ST. JOSEPH COUNTY, INDIANA

Report on Compliance for the Major Federal Program

Qualified Opinion on Staffing for Adequate Fire and Emergency Response (SAFER)

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinions* section of our report, the Township complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Staffing for Adequate Fire and Emergency Response (SAFER) for the year ended December 31, 2022.

Basis for Qualified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Township and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Township's compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on Staffing for Adequate Fire and Emergency Response (SAFER)

As described in the accompanying Schedule of Findings and Questioned Costs, the Township did not comply with requirements regarding 97.083 Staffing for Adequate Fire and Emergency Response (SAFER), as described in items 2022-004 and 2022-005 for Cash Management and Reporting, respectively. Compliance with such requirement is necessary, in our opinion, for the Township to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Township's federal programs.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Township's compliance based on our audit. Reasonable assurance is a high level of assurance, but is not absolute assurance, and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Township's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Township's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Township's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on the Township's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The Township's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Township's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2022-003, 2022-004, and 2022-005, to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards require the auditor to perform limited procedures on the Township's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The Township's response was not subjected to the other auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statement of the Township, as of and for the year ended December 31, 2022, and the related notes to the financial statement. We issued our report thereon dated June 14, 2023, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with accounting principles generally accepted in the United States of America, and an unmodified opinion was issued regarding the presentation in accordance with the regulatory basis of accounting. Our audit was performed for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.



Beth Kelley, CPA, CFE
Deputy State Examiner

June 14, 2023

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the Township. The schedule and notes are presented as intended by the Township.

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CLAY TOWNSHIP, ST. JOSEPH COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2022

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Department of Homeland Security</u>					
Staffing for Adequate Fire and Emergency Response (SAFER) SAFER Grant	Direct Grant	97.083	EMW-2019-FF-00944	\$ -	\$ 835,870
Total - Department of Homeland Security				-	835,870
Total federal awards expended				\$ -	\$ 835,870

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CLAY TOWNSHIP, ST. JOSEPH COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the Township under programs of the federal government for the year ended December 31, 2022. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the Township, it is not intended to and does not present the financial position of the Township.

B. Other Significant Accounting Policies

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

Note 2. Indirect Cost Rate

The Township has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

CLAY TOWNSHIP, ST. JOSEPH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Program and type of auditor's report issued on compliance for it:

Assistance Listings Number	Name of Federal Program or Cluster	Opinion Issued
97.083	Staffing for Adequate Fire and Emergency Response (SAFER)	Qualified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?	no
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Section II - Financial Statement Findings

FINDING 2022-001

Subject: Financial Transactions
Audit Finding: Material Weakness

Condition and Context

A proper system of internal controls, which would include appropriate segregation of duties, and policies and procedures, should be designed and implemented at various levels to effectively prevent, or detect and correct, errors and/or fraud on the financial statement. The Township had not separated incompatible activities related to receipts and disbursements. The failure to establish appropriate internal controls could have enabled material misstatements to occur and remain undetected.

CLAY TOWNSHIP, ST. JOSEPH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Receipts

One employee received collections, issued receipts, posted to the ledger, and took deposits to the bank without evidence of an oversight or review process to ensure the accuracy, completeness, timeliness, and classification of receipts.

Disbursements

One employee wrote vendor checks and posted to the ledger without evidence of an oversight or review process to ensure the accuracy, completeness, timeliness, and classification of vendor disbursements.

Additionally, the employee who entered payroll with the bank for payment also authorized the payroll to be paid by the bank without evidence of an oversight or review process to ensure the occurrence and accuracy of payroll disbursements.

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. . . ."

Cause

A system of internal controls was not designed or implemented by management of the Township, which would include segregation of key functions. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the Township's management expectation of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

Effect

Without the proper design or implementation of the components of a system of internal controls, including policies and procedures that provide segregation of duties and additional oversight as needed, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance, and, therefore, material misstatements of receipts and disbursements could have occurred and remained undetected.

CLAY TOWNSHIP, ST. JOSEPH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Views of Responsible Officials

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

FINDING 2022-002

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

Condition and Context

The Township had not established internal controls over the federal award information entered in the Indiana Gateway for Government Units financial reporting system, which was the source of the Township's Schedule of Expenditures of Federal Awards (SEFA). One employee prepared and entered the grant information without evidence of an oversight or review process in place to prevent, or detect and correct, errors on 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. . . ."

Cause

A proper system of internal controls was not designed by management of the Township which would include segregation of key functions. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the Township's management expectations of what should be done to effect internal control, and procedures should consist of actions that would implement these policies.

Effect

Without the proper design or implementation of the components of a system of internal controls, including policies and procedures that provide segregation of duties and additional oversight as needed, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance, and, therefore, material misstatements of the SEFA could have occurred and remained undetected.

CLAY TOWNSHIP, ST. JOSEPH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Views of Responsible Officials

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

Section III - Federal Award Findings and Questioned Costs

FINDING 2022-003

Subject: Staffing for Adequate Fire and Emergency Response (SAFER) – Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Performance

Federal Agency: Department of Homeland Security

Federal Program: Staffing for Adequate Fire and Emergency Response (SAFER)

Assistance Listings Number: 97.083

Federal Award Number and Year (or Other Identifying Number): EMW-2019-FF-00944

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Performance

Audit Finding: Material Weakness

Condition and Context

The Township had not properly designed or implemented a system of internal controls, which would include appropriate segregation of duties that would likely be effective in preventing, or detecting and correcting, noncompliance. The Township incurred and paid for payroll and other related expenses. Then requested reimbursement from the federal agency for these costs. Costs requested for reimbursement from the federal agency are to be allowable per the grant, adequately supported, and within the period of performance for the grant.

The Township submitted five reimbursement requests during the audit period. The Director of Finance compiled the payroll and benefit amounts to be submitted for reimbursement and provided it to the Assistant Fire Chief. The reimbursement request was then filed by the Assistant Fire Chief without evidence of an oversight or review process in place to prevent, or detect and correct, errors and ensure the payroll was an allowable activity, allowable cost and within the period of performance.

The lack of internal 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). . . ."

CLAY TOWNSHIP, ST. JOSEPH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Cause

A system of internal controls was not designed or implemented by management of the Township which would include segregation of key functions. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the management's expectation of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

Effect

Without the proper design or implementation of the components of a system of internal controls, including policies and procedures that provide segregation of duties and additional oversight as needed, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that management of the Township design and implement a proper system of internal controls, including policies and procedures that would provide segregation of duties to ensure appropriate reviews, approvals, and oversight are taking place.

Views of Responsible Officials

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

FINDING 2022-004

Subject: Staffing for Adequate Fire and Emergency Response (SAFER) - Cash Management
Federal Agency: Department of Homeland Security
Federal Program: Staffing for Adequate Fire and Emergency Response (SAFER)
Assistance Listings Number: 97.083
Federal Award Number and Year (or Other Identifying Number): EMW-2019-FF-00944
Compliance Requirement: Cash Management
Audit Findings: Material Weakness, Modified Opinion

Condition and Context

The Township submits request for reimbursements to the Federal Emergency Management Agency of the Department of Homeland Security. The reimbursement method of cash management requires the Township to retain supporting documentation that shows the costs for which reimbursement was requested were paid prior to the reimbursement date.

The Township was awarded a SAFER grant to increase the number of firefighters and was approved for personnel and fringe benefits costs, which includes health insurance, for nine additional firefighters.

CLAY TOWNSHIP, ST. JOSEPH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The Township is self-insured and would make payments to third-party administrators and other benefit coordinators. The Township would pay a large dollar amount at the end of each year to its self-insurance benefit coordinators for the next year's benefit, and then additional payments throughout the year as needed for employee's medical claim coverage. These payments were made from various Township funds and the Payroll Deductions fund. Additionally, the payroll deductions for health insurance, including those for employees paid from the grant, would accumulate in the Payroll Deductions fund, and be used for payments to the benefit coordinators as needed and the payment of the next year's required funding.

The amount submitted for reimbursement for health insurance benefits were based upon a calculation. The Township did not have supporting documentation for the calculation of those benefits that were claimed. In addition, the health insurance benefits claimed for reimbursement were not paid out of the SAFER Grant Fund and were not at a transaction level in the ledger. The health insurance benefit submitted for reimbursement could not be tied to a specific payment; thus, we were unable to determine the Township's compliance for the health benefit reimbursements being incurred and paid prior to the Township's request for reimbursement.

The lack of internal 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 200.302 states in part:

"(a) Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. See also § 200.450.

(b) The financial management system of each non-Federal entity must provide for the following (see also §§ 200.334, 200.335, 200.336, and 200.337):

(1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the Assistance Listings title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.

CLAY TOWNSHIP, ST. JOSEPH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (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 §§ 200.328 and 200.329. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient must not be required to establish an accrual accounting system. This recipient may develop accrual data for its reports on the basis of an analysis of the documentation on hand. Similarly, a pass-through entity must not require a subrecipient to establish an accrual accounting system and must allow the subrecipient to develop accrual data for its reports on the basis of an analysis of the documentation on hand.
- (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, financial obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.
- (4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See § 200.303. . . ."

Cause

A system of internal controls was not designed or implemented by management of the Township which would include segregation of key functions. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect management's expectation of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

Effect

Without the proper implementation of an effectively designed system of internal controls, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. As a result, health insurance benefits were requested for reimbursement without adequate supporting documentation that the amount was paid prior to the request.

Noncompliance with the grant agreement and the cash management compliance requirement could result in the loss of future federal funds to the Township.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that management of the Township establish a proper system of internal controls and develop policies and procedures to ensure expenses are paid prior to requesting reimbursement.

Views of Responsible Officials

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

CLAY TOWNSHIP, ST. JOSEPH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2022-005

Subject: Staffing for Adequate Fire and Emergency Response (SAFER) - Reporting
Federal Agency: Department of Homeland Security
Federal Program: Staffing for Adequate Fire and Emergency Response (SAFER)
Assistance Listings Number: 97.083
Federal Award Number and Year (or Other Identifying Number): EMW-2019-FF-00944
Compliance Requirement: Reporting
Audit Findings: Material Weakness, Modified Opinion

Condition and Context

Recipients are required to submit Reimbursement Requests, Quarterly Performance Reports, and Semi-Annual SF-425 Federal Financial Reports to the Federal Emergency Management Agency (FEMA). The reporting periods, as well as the respective due dates are based on the calendar year, and recipients must begin to submit reports in the period following the beginning of their period of performance, and throughout the entire period of performance of the grant. Information to be reported includes expenditures for the appropriate reporting period.

The Township submitted five reimbursement requests during the audit period. The Director of Finance prepared a sheet with the payroll and benefit amounts to be submitted for reimbursement and provided it to the Assistant Fire Chief. The reimbursement request was filed by the Assistant Fire Chief, without a review or oversight process in place to prevent, or detect and correct, errors and ensure compliance with the reporting compliance requirement.

Additionally, the Township did not have a system of internal controls in place to ensure submission of required reports. The Township did not submit the Semi-Annual SF-425 Federal Financial Report that was due by July 30, 2022, or the four Quarterly Performance Reports that were due during the audit period.

The lack of internal 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). . . ."

CLAY TOWNSHIP, ST. JOSEPH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2 CFR 200.329 states in part:

". . . (b) *Reporting program performance.* The Federal awarding agency must use OMB-approved common information collections, as applicable, when providing financial and performance reporting information. As appropriate and in accordance with above mentioned information collections, the Federal awarding agency must require the recipient to relate financial data and accomplishments to performance goals and objectives of the Federal award. Also, in accordance with above mentioned common information collections, and when required by the terms and conditions of the Federal award, recipients must provide cost information to demonstrate cost effective practices (e.g., through unit cost data). In some instances (e.g., discretionary research awards), this will be limited to the requirement to submit technical performance reports (to be evaluated in accordance with Federal awarding agency policy). Reporting requirements must be clearly articulated such that, where appropriate, performance during the execution of the Federal award has a standard against which non-Federal entity performance can be measured.

(c) *Non-construction performance reports.* The Federal awarding agency must use standard, governmentwide OMB-approved data elements for collection of performance information including performance progress reports, Research Performance Progress Reports.

- (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. Reports submitted annually by the non-Federal entity and/or pass-through entity must be due no later than 90 calendar days after the reporting period. Reports submitted quarterly or semiannually must be due no later than 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 submitted by the non-Federal entity and/or pass-through entity must be due no later than 120 calendar days after the period of performance end date. A subrecipient must submit to the pass-through entity, no later than 90 calendar days after the period of performance end date, all final performance reports as required by the terms and conditions of the Federal award. See also § 200.344. If a justified request is submitted by a non-Federal entity, the Federal agency may extend the due date for any performance report. . . ."

Cause

A system of internal controls was not designed or implemented by management of the Township which would include segregation of key functions. Embedded within a properly designed and implemented internal control system should be controls consisting of policies and procedures. Policies reflect the management's expectation of what should be done to effect internal control, and procedures should consist of actions that would implement these policies.

CLAY TOWNSHIP, ST. JOSEPH COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Effect

Without the proper implementation of an effectively designed system of internal controls, including policies and procedures that provide segregation of duties and additional oversight as needed, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. As a result, reimbursement requests were completed and filed by one individual and the Semi-Annual SF-425 Federal Financial Report and the four Quarterly Performance Reports due during the audit period were not submitted as required.

Noncompliance with the grant agreement and the reporting compliance requirement could result in the loss of future federal funds to the Township.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that management of the Township design and implement a proper system of internal controls, including policies and procedures that would provide segregation of duties to ensure appropriate reviews, approvals, and oversight are taking place over reimbursement requests. In addition, we recommended that management of the Township establish a proper system of internal controls and develop policies and procedures to ensure that all required reports are filed.

Views of Responsible Officials

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

AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the Township. The document is presented as intended by the Township.

Clay Civil Township
Clay Fire Territory
Clay Parks Department

Office of the Trustee
18355 Auten Road
South Bend, IN 46637
574-277-4452 phone
574-272-4043 fax

FINDING 2022-001

Subject: Financial Transactions

Contact Person Responsible for Corrective Action: George ann Ewald, Director of Finance & HR
Contact Phone Number: (574) 277-4452

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

RECIPTS: The Director of Finance, who prepares the receipts and bank deposits, will ensure that the receipts/bank deposits are reviewed for accuracy and signed off on by an additional officer or member of the administrative staff.

DISBURSEMENTS: The Director of Finance, who prepares the vendor checks, will ensure the vendor checks are reviewed for accuracy and signed off on by an additional officer or member of the administrative staff. Additionally, the preparer of the payroll report will make any necessary adjustments, inclusive of the removal of "zero pays", during the preparation cycle, and the Director of Finance will review the payroll report and authorize for payment. This should result in the bank report reflecting that the preparer and the authorizing party are not one and the same.

Anticipated Completion Date:

- Implementation: June 2023

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FINDING 2022-002

Subject: Preparation of the Schedule of Expenditures of Federal Awards

Contact Person Responsible for Corrective Action: George ann Ewald, Director of Finance & HR
Contact Phone Number: (574) 277-4452

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Director of Finance will print a copy of the Annual Financial Report when completed in Gateway and ensure that both the preparer and the submitter have reviewed it for accuracy and signed off on it. This document includes the Schedule of Expenditures of Federal Awards and receipt information. Signed copies will be kept on file with both the Federal Grant information and the Annual Report information.

Anticipated Completion Date:

- Implementation: January 2024

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FINDING 2022-003

Contact Person Responsible for Corrective Action: George ann Ewald, Director of Finance & HR
Contact Phone Number: (574) 277-4452

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Assistant Fire Chief will prepare an Excel® spreadsheet which will contain blank cells for all allowable reimbursement costs associated with each firefighter position covered by the 2019 Staffing for Adequate Fire and Emergency Response (SAFER) federal grant. The Director of Finance & HR will complete the blank spreadsheet by entering the corresponding data inside each of the cells for all covered positions. The Director of Finance and HR will attach supporting documentation (payroll history report & ledger line-item transactions) to indicate the costs were accurate, allowable, and within the period of performance. The Fire Chief will review and authorize the completed spreadsheet. The Fire Chief will then direct the Assistant Fire Chief to complete the reimbursement request via the FEMA GO website, which will include uploading the completed spreadsheet and supporting documentation. Once the reimbursement request has been submitted, the Assistant Fire Chief will print the completed reimbursement request documents and obtain signatures from each of the following individuals:

1. Prepared By: (NAME), Director of Finance & HR
2. Reviewed & Approved By: (NAME), Fire Chief
3. Submitted By: (NAME), Assistant Fire Chief

Anticipated Completion Date:

- Implementation: June 2023

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FINDING 2022-004

Contact Person Responsible for Corrective Action: George ann Ewald, Director of Finance & HR

Contact Phone Number: (574) 277-4452

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Director of Finance & HR will expand Fund 8700 to include adding line items for all allowable reimbursement costs associated with each firefighter position covered by the 2019 Staffing for Adequate Fire and Emergency Response (SAFER) federal grant. The Director of Finance & HR will ensure that all funds used to compensate each covered firefighter position will be paid entirely out of Fund 8700, only. This action will result in a negative value for Fund 8700 until which time the fund is reimbursed the allowable costs under the provisions of the federal grant.

The Director of Finance & HR will generate a report for each reimbursement request, which will be limited to include only the payroll dates of the period for which the request is being submitted. The Fire Chief will review and confirm that all associated costs have been withdrawn from Fund 8700. The Fire Chief will then direct the Assistant Fire Chief to complete the reimbursement request via the FEMA GO website. Once the reimbursement request has been submitted, the Assistant Fire Chief will print the completed reimbursement request documents and obtain signatures from each of the following individuals:

1. Prepared By: (NAME), Director of Finance & HR
2. Reviewed & Approved By: (NAME), Fire Chief
3. Submitted By: (NAME), Assistant Fire Chief

Anticipated Completion Date:

- Implementation: June 2023

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FINDING 2022-005

Contact Person Responsible for Corrective Action: George ann Ewald, Director of Finance & HR

Contact Phone Number: (574) 277-4452

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Assistant Fire Chief will ensure that all required reimbursement requests, quarterly performance reports, and semi-annual SF-425 “Federal Financial Reports to the Federal Emergency Management Agency (FEMA)” are completed thoroughly, accurately, and on-time. The Fire Chief will direct the Assistant Fire Chief to complete the reports via the FEMA GO website. Once each of the reports have been submitted, the Assistant Fire Chief will print the completed documents and obtain signatures from each of the following individuals:

1. Prepared By: (NAME), Assistant Fire Chief
2. Submitted By: (NAME), Assistant Fire Chief
3. Reviewed & Approved By: (NAME), Fire Chief

Anticipated Completion Date:

- Implementation: June 2023

OTHER REPORTS

In addition to this report, other reports may have been issued for the Township. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.