

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF NORTH VERNON

JENNINGS COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
05/14/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	R. Shawn Gerkin	01-01-12 to 12-31-15
Mayor	Harold N. Campbell	01-01-12 to 12-31-15
President of the Board of Public Works	Harold N. Campbell	01-01-12 to 12-31-15
President Pro Tempore of the Common Council	David Shaw	01-01-13 to 12-31-15
Utility Office Manager	Deanna Salyers Robin Jones	01-01-13 to 06-29-14 06-30-14 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF NORTH VERNON, JENNINGS COUNTY, INDIANA

This report is supplemental to our audit report of the City of North Vernon (City), for the period from January 1, 2013 to December 31, 2013. 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 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 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 Plans for the Federal Findings, incorporated within this report, were not verified for accuracy.

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

March 11, 2015

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CLERK-TREASURER
CITY OF NORTH VERNON

CLERK-TREASURER
CITY OF NORTH VERNON
FEDERAL FINDINGS

FINDING 2013-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted deficiencies in the internal control system of the City related to financial transactions and reporting.

Lack of Segregation of Duties: The City has not separated incompatible activities related to receipts, disbursements, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce risks to the achievement of financial reporting objectives.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FINDING 2013-002 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: (a) the Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii program (CFDA #14.228) was understated by \$211,471; and (b) the Airport Improvement Program (CFDA #20.106) was overstated by \$181,145. Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

CLERK-TREASURER
CITY OF NORTH VERNON
FEDERAL FINDINGS
(Continued)

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

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

FINDING 2013-003 - INTERNAL CONTROL OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO AIRPORT IMPROVEMENT PROGRAM

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0063-15-2012;
AIP 3-18-0063-16-2013

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Davis-Bacon Act, and Procurement and Suspension and Debarment. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

CLERK-TREASURER
CITY OF NORTH VERNON
FEDERAL FINDINGS
(Continued)

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

FINDING 2013-004 - INTERNAL CONTROL OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII

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): DR2-09-132; DR2OR-012-003;
DR2SC-011-002; ST-11-102; ST-10-001

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

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Cash Management, Davis-Bacon Act, and Procurement and Suspension and Debarment. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

CLERK-TREASURER
CITY OF NORTH VERNON
FEDERAL FINDINGS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.



CITY OF NORTH VERNON

CLERK-TREASURER
143 E. WALNUT STREET
NORTH VERNON, IN 47265

(812) 346-5907

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RAYMOND SHAWN GERKIN, CLERK-TREASURER
TREASURER

RITA L. ELMORE, ASST. CLERK-TREASURER

CORRECTIVE ACTION PLAN

FINDING 2013 - 001- INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact Person Responsible for Corrective Action: R. Shawn Gerkin
Contact Phone Number: (812) 346-5907

Description of Corrective Action Plan: Due to the fact that City of North Vernon has a small staff in the Clerk Treasurer's Office and the Utility office, it is impractical to segregate duties in an ideal manner.

However, the City continues to review the job duties of the employees in the Clerk Treasurer's office in order to develop and implement more effective segregation of duties.

Anticipated Completion Date: Immediately.



(Signature)

CLERK TREASURER

(Title)

03/05/2015

(Date)



CITY OF NORTH VERNON

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TREASURER

RITA L. ELMORE, ASST. CLERK-

CORRECTIVE ACTION PLAN

FINDING 2013 - 002- PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact Person Responsible for Corrective Action: R. Shawn Gerkin
Contact Phone Number: (812) 346-5907

Description of Corrective Action Plan: The City has begun working more closely with our grant writers to review expenditures on federal projects by having both parties review and sign off on a monthly transaction register and signing a reconciliation form for projects.

Anticipated Completion Date: Immediately



(Signature)

CLERK TREASURER

(Title)

03/05/2015

(Date)



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TREASURER

RITA L. ELMORE, ASST. CLERK-TREASURER

CORRECTIVE ACTION PLAN

FINDING 2013-003- INTERNAL CONTROL OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO AIRPORT IMPROVEMENT PROGRAM

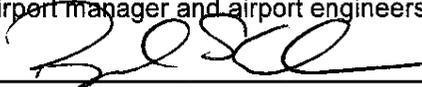
Contact Person Responsible for Corrective Action: R. Shawn Gerkin
Contact Phone Number: (812) 346-5907

Description of Corrective Action Plan:

As a part of the Davis Bacon process in which the payrolls of the contractors needs to be reviewed, I would recommend that the designated city staff attend the preconstruction meetings where the federal rules and regulations are discussed with the contractor. This will show that the city has seen that the rules and regulations have been communicated to all parties involved. I would then recommend that the grant administrator and city staff meet to review the initial payrolls and paperwork documentation after two weeks of forms have been received. Once this has been done and all parties can see that the correct wages are being paid. The grant administrator will then meet with the city staff on a monthly basis to review the payrolls and interviews done to date. Both parties will then sign off on a checklist that this has been done.

This checklist will also cover areas regarding the Procurements, Suspension and Debarment Process. The city and grant administrator are already looking at monthly balances of the federal funds to ensure that the receipts and expenditures are being channeled to the correct projects. The next step to better assist the city in the internal controls will be for the grant administrator to send the city staff a copy of the financial reports used for each project so both parties have the grantee financials sheets as well as the city's balance sheet.

Anticipated Completion Date: 06/01/2015, or after discussion with airport manager and airport engineers.



 (Signature)

CLERK TREASURER

 (Title)

03/05/2015

 (Date)

CLERK-TREASURER
CITY OF NORTH VERNON
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliation did not balance. As of December 31, 2013, the bank account reconciliation identified a cash short in the amount of \$275.

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."

COLLECTION OF AMOUNTS DUE

The amount of \$1,018 was due to the City as of January 29, 2015, as a result of pension benefits paid to retired police officers and surviving spouses that were incorrectly calculated for the year 2013, which resulted in an overpayment of benefits. The City plans to deduct an equal amount from the remaining ten pension payments in 2015 in order to collect the overpayment.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CLERK-TREASURER
CITY OF NORTH VERNON
EXIT CONFERENCE

The contents of this report were discussed on March 11, 2015, with R. Shawn Gerkin, Clerk-Treasurer; Harold N. Campbell, Mayor; Rita L. Elmore, Deputy Clerk-Treasurer; and Robin Jones, Utility Office Manager.

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AVIATION COMMISSION
CITY OF NORTH VERNON

AVIATION COMMISSION
CITY OF NORTH VERNON
FEDERAL FINDING

***FINDING 2013-003 - INTERNAL CONTROL OVER COMPLIANCE REQUIREMENTS THAT
HAVE A DIRECT AND MATERIAL EFFECT TO AIRPORT IMPROVEMENT PROGRAM***

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0063-15-2012;
AIP 3-18-0063-16-2013

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Davis-Bacon Act, and Procurement and Suspension and Debarment. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.



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CORRECTIVE ACTION PLAN

FINDING 2013-003- INTERNAL CONTROL OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO AIRPORT IMPROVEMENT PROGRAM

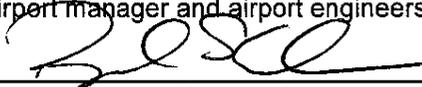
Contact Person Responsible for Corrective Action: R. Shawn Gerkin
Contact Phone Number: (812) 346-5907

Description of Corrective Action Plan:

As a part of the Davis Bacon process in which the payrolls of the contractors needs to be reviewed, I would recommend that the designated city staff attend the preconstruction meetings where the federal rules and regulations are discussed with the contractor. This will show that the city has seen that the rules and regulations have been communicated to all parties involved. I would then recommend that the grant administrator and city staff meet to review the initial payrolls and paperwork documentation after two weeks of forms have been received. Once this has been done and all parties can see that the correct wages are being paid. The grant administrator will then meet with the city staff on a monthly basis to review the payrolls and interviews done to date. Both parties will then sign off on a checklist that this has been done.

This checklist will also cover areas regarding the Procurements, Suspension and Debarment Process. The city and grant administrator are already looking at monthly balances of the federal funds to ensure that the receipts and expenditures are being channeled to the correct projects. The next step to better assist the city in the internal controls will be for the grant administrator to send the city staff a copy of the financial reports used for each project so both parties have the grantee financials sheets as well as the city's balance sheet.

Anticipated Completion Date: 06/01/2015, or after discussion with airport manager and airport engineers.



(Signature)

CLERK TREASURER

(Title)

03/05/2015

(Date)

AVIATION COMMISSION
CITY OF NORTH VERNON
AUDIT RESULT AND COMMENT

DEPOSITS

Aviation Commission receipts were deposited later than the next business day in 40 percent of the receipts tested.

Indiana Code 5-13-6-1(c) states in part:

". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

AVIATION COMMISSION
CITY OF NORTH VERNON
EXIT CONFERENCE

The contents of this report were discussed on March 11, 2015, with Ryan A. Curry, Airport Director; R. Shawn Gerkin, Clerk-Treasurer; and Harold N. Campbell, Mayor.

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PARKS AND RECREATION
CITY OF NORTH VERNON

PARKS AND RECREATION
CITY OF NORTH VERNON
AUDIT RESULTS AND COMMENTS

FEES

There was no documentation presented for audit to indicate that the Park Board approved the fee schedule currently in use by the Parks and Recreation Department.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DEPOSITS

Park and Recreation Department receipts were deposited later than the next business day in 17 percent of the receipts tested.

Indiana Code 5-13-6-1(c) states in part:

". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

PARKS AND RECREATION
CITY OF NORTH VERNON
EXIT CONFERENCE

The contents of this report were discussed on March 11, 2015, with Chad R. Speer, Park and Recreation Director; R. Shawn Gerkin, Clerk-Treasurer; and Harold N. Campbell, Mayor.