

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MARION

GRANT COUNTY, INDIANA

January 1, 2013 to December 31, 2013



**FILED**

08/01/2014



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Controller:	
Federal Findings:	
Finding 2013-001 - Internal Controls Over Financial Transactions and Reporting.....	6
Finding 2013-002 - Internal Controls Over Reporting of Expenditures of Federal Awards ..	6-8
Finding 2013-003 - Cash Management - Internal Controls/Compliance Requirements .....	8
Finding 2013-004 - Equipment and Real Property Management - Internal Controls/Compliance Requirements .....	9-10
Corrective Action Plan .....	11-12
Audit Results and Comments:	
Overdrawn Cash Balances .....	13
Annual Report - Supplemental Schedule.....	13
Bank Account Reconciliations.....	13-14
Park Funds - Sources and Uses .....	14
TIF Allocation Fund - Sources and Uses .....	14-15
Loan From Marion Utilities in Anticipation of Taxes to be Collected .....	15
Temporary Transfer of Funds Not Returned.....	15
Penalties, Interest, and Other Charges.....	16
Supporting Documentation .....	16
Official Bond - Controller .....	16-17
Internal Controls.....	17
Exit Conference .....	18

### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Cindy Wright	01-01-13 to 03-08-13
	(Vacant)	03-09-13 to 03-31-13
	Tamera N. Miller	04-01-13 to 12-31-14
Mayor	Wayne W. Seybold	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Thomas J. Reto	01-01-13 to 12-31-13
	Bryan K. Harris	01-01-14 to 12-31-14
President of the Common Council	Donald W. Batchelor	01-01-13 to 12-31-13
	Henry L. Smith	01-01-14 to 12-31-14
Utilities Director	John C. Binkerd	01-01-13 to 12-31-14



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE CITY OF MARION, GRANT COUNTY, INDIANA

This report is supplemental to our audit report of the City of Marion (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/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, were not verified for accuracy.

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

June 26, 2014

(This page intentionally left blank.)

CONTROLLER  
CITY OF MARION

CONTROLLER  
CITY OF MARION  
FEDERAL FINDINGS

***Section II - Financial Statement 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. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the City to reduce risks to the achievement of financial reporting objectives. The City has not separated incompatible activities related to receipts and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the City's audited financial statement and then determining how those identified risks should be managed. During the audit of the financial statement, we noted that the City did not include all of its financial transactions. A \$3,892,625 advance tax draw on May 10, 2013, was not completely recorded. Only \$700,000 was receipted to the General fund. The remaining \$3,192,625 was used to make a direct repayment to the bank towards the tax anticipation warrant loan. This disbursement was never recorded in the funds affected by the loan. As a result, the receipts and disbursements were understated in the financial records by \$3,192,625. Audit adjustments were proposed, accepted by the City, and made to the financial statement presented to correct the error.

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)

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***FINDING 2013-002 - INTERNAL CONTROLS OVER REPORTING 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.

CONTROLLER  
CITY OF MARION  
FEDERAL FINDINGS  
(Continued)

During the audit of the SEFA, we noted the following errors: (a) total federal expenditures of \$1,290,956 were either incorrectly reported or were omitted from the SEFA, (b) information such as grantor agency, program title, pass-through entity, Catalog of Federal Domestic Assistance (CFDA) number, and pass-through identifying number were either incorrectly reported or omitted for some grant awards. Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

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."

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 the 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.

CONTROLLER  
CITY OF MARION  
FEDERAL FINDINGS  
(Continued)

- (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 - CASH MANAGEMENT - INTERNAL CONTROLS/COMPLIANCE REQUIREMENTS**

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number and Year (or Other Identifying Number): 3-18-0053-21, 3-18-0053-22

Pass-Through Entity: Direct Grant

Management of the City has not established an effective internal control system related to Cash Management compliance requirements. As a result, the City did not effectively minimize the time elapsing between the transfer of funds from the grantor and disbursement to its various contractors. For 2 of the 7 drawdowns tested, the time elapsed from the draw of federal funds to the issuance of contractor checks was 26 days.

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 type of 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."

49 CFR 18.21(c) states:

"Grantees and sub-grantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or sub-grantee."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, to ensure the City complies with all requirements related to the grant agreement and Cash Management compliance requirements.

CONTROLLER  
CITY OF MARION  
FEDERAL FINDINGS  
(Continued)

***FINDING 2013-004 - EQUIPMENT AND REAL PROPERTY MANAGEMENT -  
INTERNAL CONTROLS/COMPLIANCE REQUIREMENTS***

Federal Agency: Department of Transportation  
Federal Program: Airport Improvement Program  
CFDA Number: 20.106  
Federal Award Number and Year (or Other Identifying Number): 3-18-0053-21  
Pass-Through Entity: Direct Grant

Management of the City has not established an effective internal control system, which would include segregation of duties, related to its grant agreements and the Equipment and Real Property Management compliance requirement.

The failure to establish an effective internal control system puts the City at risk of noncompliance with the grant agreement and the Equipment and Real Property Management compliance requirements. A lack of a properly established internal control system, including segregation of duties, could 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 grant.

The failure to establish an effective internal control system resulted in the City being in noncompliance with Equipment and Real Property Management compliance requirements related to the Airport Improvement Program. Information and cost amounts related to the acquisition of some airport infrastructure related improvements was not properly captured and accounted for as an addition to the City's capital asset records. Additionally, the City did not conduct an inventory of property as required.

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 type of 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."

49 CFR 18.32(d) states in part:

"(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

CONTROLLER  
CITY OF MARION  
FEDERAL FINDINGS  
(Continued)

- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of property. Any loss, damage, or theft shall be investigated."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements that have a direct and material effect to the program 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 the Equipment and Real Property Management compliance requirement to ensure the City complies with all requirements.



## CORRECTIVE ACTION PLAN

### **FINDING 2013-001**

Contact Person Responsible for Corrective Action: Tameria (Tammy) N Miller  
Contact Phone Number: 765-382-3779

#### Description of Corrective Action Plan:

In March of 2014 we hired a new employee in the Controller's Office. With that hiring we are now able to use the Deputy Controller in a more effective manner and segregate duties between more than two of us.

AP/Receipt Deputy will audit and enter all AP Vouchers and print checks  
Deputy Controller will inspect check report for accuracy and sign off on

Controller will audit collection reports that have been turned in by departments. Controller will then turn collection reports over to Receipt Deputy for entry

Controller will complete the Bank Reconciliation  
Deputy Controller will review for accuracy and sign off on.

Deputy Controller will complete Payroll  
Controller will check for accuracy

Deputy Controller will complete Payroll Bank Reconciliation  
Controller will review for accuracy and sign off on

Anticipated Completion Date: Plan in action now!

### **FINDING 2013-002**

Contact Person Responsible for Corrective Action: Tameria (Tammy) N Miller  
Contact Phone Number: 765-382-3779

#### Description of Corrective Action Plan:

Effective April 1, 2014 Deputy Controller has taken over the duties as Grant Administrator. She will be completing all of the Grant Files and the Controller will be inspecting them.

When it comes time to do the Annual Report the Grant Administrator will enter the Grant information into Gateway and the Controller will inspect the information for accuracy.

Anticipated Completion Date: Plan is being used now.

**FINDING 2013-003**

**FEDERAL AGENCY:** Department Of Transportation  
**FEDERAL PROGRAM:** Airport Improvement Program  
**CFDA NUMBER:** 20.106  
**FEDERAL AWARD NUMBER and YEAR:** 3-18-0053-21, 3-18-0053-22  
**Pass through entity:** Direct Grant

Contact Person Responsible for Corrective Action: Tameria (Tammy) N Miller  
Contact Phone Number: 765-382-3779

Description of Corrective Action Plan:

Effective April 1, 2014 Deputy Controller has taken over the duties as Grant Administrator. Effective July 1<sup>st</sup>, all Grant Claims will be turned into her for processing and payment. Once she has audited the voucher she will turn it over to the Controller for approval and promptly print the check and mail it.

Anticipated Completion Date: Plan is being used now.

**FINDING 2013-004**

**FEDERAL AGENCY:** Department Of Transportation  
**FEDERAL PROGRAM:** Airport Improvement Program  
**CFDA NUMBER:** 20.106  
**FEDERAL AWARD NUMBER and YEAR:** 3-18-0053-21  
**Pass through entity:** Direct Grant

Contact Person Responsible for Corrective Action: Tameria (Tammy) N Miller  
Contact Phone Number: 765-382-3779

Description of Corrective Action Plan:

Effective April 1, 2014 Deputy Controller has taken over the duties as Grant Administrator. She will work closely with the person that does the City Inventory to make sure that all of the property and inventory pertaining to the Grant is properly accounted for.

Anticipated Completion Date: Plan is being used now.

Tameria N. Miller  
(Signature)

Controller  
(Title)

June 26, 2014  
(Date)

CONTROLLER  
CITY OF MARION  
AUDIT RESULTS AND COMMENTS

**OVERDRAWN CASH BALANCES**

The financial statement presented in the Financial Statement and Federal Single Audit Report included some funds with overdrawn cash balances. At December 31, 2013, the Animal Control Non-Reverting and Insurance Reserve funds were overdrawn by \$175,447 and \$2,017,671, respectively.

General Ordinance No. 29-2004, An Ordinance Governing the Operation of the City Insurance Fund, states:

"Section IV. If the funds are totally depleted the Council will appropriate adequate funds to replenish the fund minimum balance."

"Section V. The fund minimum balance should be no less than the recommended amount used for self-funded programs which is normally four (4) months contributions."

A similar comment appeared in prior Report B42678.

The balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**ANNUAL REPORT - SUPPLEMENTAL SCHEDULE**

Per our review, the Schedule of Capital Assets, included in the Annual Report for 2013, was not fairly stated and did not properly reflect the financial activity of the City. Proper amounts could not be determined; therefore, no Schedule of Capital Assets is presented for December 31, 2013. A similar comment appeared in prior Report B42678.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

**BANK ACCOUNT RECONCILIATIONS**

An audit of the depository reconciliations of the fund balances to the bank account balances at December 31, 2013, disclosed the following:

1. The cash and investment balances, as maintained by the City Controller, exceeded reconciled bank balances by \$7,456.
2. The outstanding check list of the payroll checking account ("Bank 2") included checks that were outstanding in excess of two years.

CONTROLLER  
CITY OF MARION  
AUDIT RESULTS AND COMMENTS  
(Continued)

3. The outstanding check list of the operating checking account ("Bank 0") contained checks dated 2012 that had either cleared the bank during 2012, or were not on the December 31, 2012 outstanding check list.

A similar comment appeared in prior Report B42678.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balances should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**PARK FUNDS - SOURCES AND USES**

On December 31, 2013, \$40,125 of disbursements was transferred by "correction" entries from the Park Non Reverting fund to the Park and Recreation fund. These disbursements, which were related to Splash House expenses, enabled the Park Non Reverting fund to have a December 31, 2013 balance of \$80. Park Non Reverting fund financial records for operating the Splash House during 2013 indicate the following:

Receipts	\$ 405,495
Disbursements	(493,063)
Disbursements transferred by correction entries	<u>(40,125)</u>
Operating deficit	<u>\$ (127,693)</u>

General Ordinance No. 5 - 2009, passed June 2, 2009, states:

Section III. The amounts paid from this fund are to be used expressly for expenses that are incurred from programs and activities sponsored by the Marion Parks and Recreation Department.

Section V. Money in form of admission fees procured from the Splash House or similar facilities requiring major expenditures for management and maintenance shall be deposited in the Park NON-REVERTING FUND.

The State Board of Accounts audit position is that the special nonreverting operating fund provides a means of funding a "particular activity" with a reasonable fee. Each such activity is to be more or less self-supporting. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**TIF ALLOCATION FUND - SOURCES AND USES**

The City disbursed \$47,111 from the TIF Allocation fund for professional fees incurred in the issuance of 2013 tax anticipation warrants. These disbursements should have been made from the General fund or allocated among the various funds that received the tax anticipation warrant proceeds. Also, \$14,111 of prescription drug expenses was charged to the TIF Allocation fund. These disbursements should have been made from the Health Insurance Reserve fund. A similar comment appeared in prior Report B42678.

CONTROLLER  
CITY OF MARION  
AUDIT RESULTS AND COMMENTS  
(Continued)

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***LOAN FROM MARION UTILITIES IN ANTICIPATION OF TAXES TO BE COLLECTED***

A loan of \$1,000,000 was received by the City on September 11, 2012, from the Marion Utilities in anticipation of taxes to be levied and collected. The loan was made to allow the City to meet its cash flow obligations. The loan was not repaid on or before 30 days after the last day for the payment of the anticipated taxes, which were received December 6, 2012. The loan remains outstanding as of April 15, 2014. A similar comment appeared in Report B42678.

Indiana Code 8-1.5-3-12 states in part:

"(a) A municipality may, by ordinance of its legislative body, borrow money from a utility owned by the municipality for any of the following purposes: . . .

(d) A loan under this section: . . .

(3) is due:

(A) on or before thirty (30) days after the last day for the payment of anticipated taxes, in the case of a loan made under subsection (a)(1); and

(B) on a date determined by the board (but not more than six (6) years after the date of the loan), in the case of a loan made under subsection (a)(2); . . ."

***TEMPORARY TRANSFER OF FUNDS NOT RETURNED***

A \$700,000 temporary transfer was made from the Marion Utilities to the General fund on April 4, 2013. The transfer was made to allow the City to meet its cash flow obligations. Resolution No. 10-2013, adopted by the Common Council April 2, 2013, authorized the transfer per Indiana Code 36-1-8-4. The amount was not returned to the Marion Utilities by the approved date of June 30, 2013.

Indiana Code 36-1-8-4 states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met: . . .

(3) . . . the prescribed period must end during the budget year of the year in which the transfer occurs.

(4) The amount transferred must be returned to the other fund at the end of the prescribed period."

CONTROLLER  
CITY OF MARION  
AUDIT RESULTS AND COMMENTS  
(Continued)

***PENALTIES, INTEREST, AND OTHER CHARGES***

The City paid penalties and interest in the amount of \$997 due to payments for the three City credit cards not being remitted on a timely basis. A similar comment appeared in prior Report B42678.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest, or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***SUPPORTING DOCUMENTATION***

During the testing of credit card purchases, we noted 37 separate purchases totaling \$1,528 that lacked supporting documentation such as receipts or invoices. Due to the lack of supporting documentation, we could not verify the purpose of the disbursements.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***OFFICIAL BOND - CONTROLLER***

No evidence was presented for audit to indicate that the Controller obtained an individual surety bond.

Indiana Code 5-4-1-18 states in part:

"(a) Except as provided in subsection (b), the following city, town, county, or township officers and employees shall file an individual surety bond:

- (1) City judges, controllers, clerks, and clerk-treasurers.
- (2) Town judges and clerk-treasurers.
- (3) Auditors, treasurers, recorders, surveyors, sheriffs, coroners, assessors, and clerks.
- (4) Township trustees.
- (5) Those employees directed to file an individual bond by the fiscal body of a city, town, or county.

CONTROLLER  
CITY OF MARION  
AUDIT RESULTS AND COMMENTS  
(Continued)

(6) Township assessors (if any).

(b) The fiscal body of a city, town, county, or township may by ordinance authorize the purchase of a blanket bond or a crime insurance policy endorsed to include faithful performance to cover the faithful performance of all employees, commission members, and persons acting on behalf of the local government unit, including those officers described in subsection (a)."

***INTERNAL CONTROLS***

We found several instances where internal controls were deemed to be inadequate, which could impair the City's ability to prevent and detect errors related to its recordkeeping. These instances included the following:

- a. Internal controls over the cash and investments and receipting functions were insufficient. One person has primary responsibility for issuing and posting receipts and reconciling.
- b. Internal controls over the preparation of the financial statement were ineffective. During the audit of the financial statement, we noted that the City did not include all of its financial transactions. A \$3,892,625 advance tax draw on May 10, 2013, was not completely recorded. Only \$700,000 was receipted to the General Fund. The remaining \$3,192,625 was used to make a direct repayment to the bank towards the tax anticipation warrant loan. This disbursement was never recorded in the funds affected by the loan. As a result, the receipts and disbursements were understated in the financial records by \$3,192,625. Audit adjustments were proposed, accepted by the City, and made to the financial statement presented to correct the error.
- c. Management of the City has not established an effective internal control system over accounting for capital assets which would include controls over the recording of additions, disposals, and balances.
- d. The City did not have a proper system of internal control in place related to financial reporting as it pertains to the preparation of the Schedule of Expenditures of Federal Awards (SEFA).

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. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONTROLLER  
CITY OF MARION  
EXIT CONFERENCE

The contents of this report were discussed on June 26, 2014, with Wayne W. Seybold, Mayor; Tamera N. Miller, Controller; and Henry L. Smith, President of the Common Council.