

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF EVANSVILLE

VANDERBURGH COUNTY, INDIANA

January 1, 2013 to December 31, 2013



**FILED**  
09/26/2014

*Reissued on February 20, 2015,  
to included changes to the  
findings.*



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Russell G. Lloyd, Jr.	01-01-13 to 12-31-14
Mayor	Lloyd Winnecke	01-01-12 to 12-31-15
President of the Board of Public Works	Bill Nix Marty Amsler	01-01-13 to 10-17-13 10-18-13 to 12-31-14
President of the City Council	Connie Robinson John E. Friend	01-01-13 to 12-31-13 01-01-14 to 12-31-14
General Manager of Utilities	Allen Mounts	01-01-13 to 12-31-14



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF EVANSVILLE, VANDERBURGH COUNTY, INDIANA

This report is supplemental to our audit report of the City of Evansville (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 and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

August 28, 2014, except for Finding 2013-001, as to which the date is December 23, 2014

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CITY CONTROLLER  
CITY OF EVANSVILLE

CITY CONTROLLER  
CITY OF EVANSVILLE  
FEDERAL FINDINGS

***FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE OVER  
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, errors noted included several instances of each of the following: Incorrect program names and CFDA numbers, misstated program expenditures, incorrect or omitted pass-through entity identifying numbers, and incorrect pass-through entity name or designation as a direct grant. Additionally, two programs funded by the American Recovery and Reinvestment Act were not separately identified on the SEFA by the inclusion of the prefix "ARRA -" as required. Also, the Economic Development Cluster was omitted from the SEFA. 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.



CITY CONTROLLER  
CITY OF EVANSVILLE  
FEDERAL FINDINGS  
(Continued)

- (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."

2 CFR 176.210(b) states in part:

"For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, 'Audits of States, Local Governments, and Non-Profit Organizations,' recipients agree to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133 . . . This shall be accomplished by identifying expenditures for Federal awards made under the Recovery Act separately on the SEFA, and as separate rows under Item 9 of Part III on the SF-SAC by CFDA number, and inclusion of the prefix 'ARRA-' in identifying the name of the Federal program on the SEFA and as the first characters in Item 9d of Part III on the SF-SAC."

***FINDING 2013-002 - INTERNAL CONTROL AND COMPLIANCE - BANK ACCOUNT RECONCILIATIONS***

City cash and investment fund balances, including Water and Wastewater funds, were not properly reconciled to bank balances. Numerous errors were noted on the City's bank reconciliations. These errors included the following: one bank account was not included in the reconciliations, incorrect bank balances were used, and reconciling transactions were not posted properly to the funds. As a result of incomplete and inaccurate reconciliations, improper accounting for cash and investments and incorrect postings to records remained undiscovered. When aggregated, the errors and discrepancies noted on the bank reconciliation resulted in a difference between the record and bank balances that was not considered material. As a result, the opinion on the financial statement was not modified with respect to this issue.

New accounting software was implemented during 2011. During 2012, the City implemented various changes to recording procedures, which included establishing separate bank accounts for Water and Wastewater Utilities. However, the City has not transferred the appropriate amount of cash from the City bank account to the Utility bank accounts as of the exit conference date. As a result, the reconciled bank accounts for the City, Water, and Wastewater Utilities do not agree with the amounts reported on the ledger.

The City has not identified risks to the preparation of a reliable bank reconciliation and as a result has failed to design effective controls over the preparation of the bank reconciliation to prevent or detect material misstatements. We believe this constitutes a material weakness.

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."

CITY CONTROLLER  
CITY OF EVANSVILLE  
FEDERAL FINDINGS  
(Continued)

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 2013-003 - INTERNAL CONTROL AND COMPLIANCE  
OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted a deficiency in the internal control system of the City related to financial transactions and reporting. We believe the following deficiency constitutes a material weakness:

Preparing Financial Statement: 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. The City has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements, including notes to the financial statement.

The financial statement of the City was prepared from information entered by the City into the Gateway Annual Financial Report. The City's beginning balances, receipts and disbursements, as originally reported in the Annual Financial Report, did not reflect the actual activity of the City. Therefore, the financial statement presented for audit was not reflective of the financial activity of the City. Subsequent audit adjustments were proposed, accepted by the City, and made to the financial statement presented in this report in order to more accurately reflect the financial activity of the City.

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 Indiana Code 5-14-3.8-7."

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 objections, 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)



**City of Evansville**  
**Office of the Controller**  
CIVIC CENTER COMPLEX, Room 300  
ONE N. W. MARTIN LUTHER KING JR. BLVD.  
EVANSVILLE, IN 47708

Lloyd Winnecke, Mayor

Russell Lloyd Jr. CPA, Controller

December 23, 2014

Indiana State Board of Accounts  
302 W. Washington St. Room E418  
Indianapolis, IN 46204-2765

**CORRECTIVE ACTION PLAN FOR 2013 FEDERAL FINDINGS**

Dear State Board Member(s):

Section II Financial Statement Findings

FINDING 2013-001. INTERNAL CONTROLS AND COMPLIANCE OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The City has operated for many years using a decentralized management system for financial accounting requirements within the Schedule of Expenditures of Federal Awards (SEFA). Individual City unit and department heads work with the City Controller to supervise and monitor federal and state grant awards, expenditures and record keeping.

During 2013 the Deputy City Controller assumed responsibility for the City's federal and state grant overall compliance and financial reporting. In 2014 the City hired an experienced employee as a Grants Manager with primary responsibility for compliance, monitoring, review and implementation of federal and state grants to further improve performance in this area.

The Deputy City Controller also implemented a quarterly review program to send inquiries to City Departments that receive federal funds through grants and other means to determine status of federal grants and programs. This change in policy with quarterly or semiannual review will allow the Finance Dept. to determine in advance any deficiencies in federal reporting and certifications for appropriate corrective action.

Both City Finance and Utility accounting personnel were informed of current federal and state law and regulations regarding correct reporting on these SEFA items and understand proper reporting. The City has worked with Indiana State Board of Accounts staff to review reporting and make changes to record proper titles, CFDA numbers and program names for all the City reported grants.

The City anticipates completion of corrected grant reporting procedures during the 2014 fiscal year.

FINDING 2013-002, INTERNAL CONTROL AND COMPLIANCE – BANK ACCOUNT RECONCILIATIONS

The City disputes the auditor's characterization that City fund balances were not properly reconciled to bank accounts. There were some City and Utility bank and payroll accounts that were improperly reconciled with differences to funds that are not material. The City provided the auditor with bank reconciliations for all City bank accounts and an "all bank to all funds" reconciliation. The starting point was the same and there were changes made in correcting entry columns, outstanding checks and deposits and reconciling adjustments.

As noted in the 2012 prior year audit report the Tyler Technology MUNIS financial system "Best Practices - Treasury Funds" financial reporting system was implemented effective Oct. 1, 2012. It took several additional months for the City Finance Dept. accounting staff to fully understand the system and make necessary corrections to fully utilize the audit and control features. This includes the bank account reconciliations which are performed monthly.

The benefits of the system were not fully understood or implemented by the Dec. 31, 2012 audit ending date but improvements have been made since. Some of the adjustments made to the account balances were due to errors from 2011 and 2012 that were finally adjusted. The late completion of the City 2012 audit necessarily fell into 2014 and caused some adjustments to be made outside the fiscal year. Since 2012 the City has made great progress in preparing balanced bank reconciliations, recording accurate transactions and correcting fund balances in 2013 so all funds are now in balance. The system controls are used on fund transactions and daily cash transactions are reviewed and exceptions identified. The City is using available computer system internal controls and coupled with enhanced control procedures feels the material weaknesses have been corrected although some of these corrections were made after the audit date.

The City Finance Dept. and Utility accounting staff have become experienced in the Tyler MUNIS accounting system and have made ongoing system adjustments to the bank account reconciliation and cash transaction programs. The Controller and responsible City department directors that use federal funds believe the accounting for all the federal and state grant programs are presented in the fund balances and include all transactions. The City Finance and Utility department management have seen great improvements made to the accounting and reporting system on an ongoing basis

The City anticipates completion of corrected bank account reconciliations and subsequent internal control and compliance during the 2014 fiscal year.

FINDING 2013-003, INTERNAL CONTROL AND COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING

The financial statement misstatements were related mainly to the cash and financial accounting system corrections being done in 2013 to correct the general ledger, fund accounting and bank account reconciliation programs. To recap, during 2011 the City of Evansville converted the obsolete 25 year old computer financial accounting software system to the new Tyler Technology MUNIS financial accounting ERP system. During implementation there were errors in fund transactions, pooled cash and bank account set ups combined with inadequate training and personnel project management, therefore the City was unable to reconcile bank accounts and subsequent fund balances for the year 2011 until September 2012.

The City engaged Tyler Technology and financial consulting experts to correct set up and install necessary controls over transactions. "Best Practice" standard set up schemes used throughout the Tyler Technology municipal accounting universe have been implemented. The new set up scheme allows accurate accounting and reconciliation of bank accounts and fund balances as well as improved supervisory monitoring.

These improvements continue to be implemented and the City believes the accounting for the federal programs for 2013 is in balance and includes all transactions that would limit material risk and correct the material weakness in future years. The City also asserts the bank accounts are reconciled City wide and for the federal programs.

The City anticipates completion of accurate financial statements and effective internal controls during 2014 coupled with corrected bank account reconciliations. The City Finance Dept. during the 2014 fiscal year and has seen great improvements made to the system on an ongoing basis.

Please contact me at 812-436-4916 or email [rlloyd@evansvillegov.org](mailto:rlloyd@evansvillegov.org) if any questions.

Sincerely,

Handwritten signature in blue ink that reads "Russell G. Lloyd Jr. CPA".

Russell G. Lloyd Jr., CPA  
Controller  
RGL/jc

CITY CONTROLLER  
CITY OF EVANSVILLE  
AUDIT RESULTS AND COMMENTS

**OVERDRAWN CASH BALANCES**

The financial statement presented for audit contained some funds with deficits in cash. Two of the funds (Community Dev Block Grant fund and Emergency Shelter Grant fund) are a result of those funds being set up for reimbursable grants. The reimbursements for expenditures made by the City were not received by December 31, 2013. The Accounts Receivable Clearing fund has a cash balance deficit due to the nature of the fund. The Parking fund, Golf Course fund, and Sports Non-Reverting fund spent more than they received.

A similar comment appeared in the prior report.

The cash 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)

**BUY MONEY - POLICE**

The Common Council has not passed an ordinance allowing the buy money program and the related expenditures. The City is working with the attorney to get an ordinance prepared and passed in the future.

A similar comment appeared in the prior report.

The following procedure, among others, should be followed if a municipality wishes to obtain an appropriation and make expenditures for buy money or payments to informants:

Under Indiana Code 36-1-3, an ordinance should be passed allowing this type of program and associated expenditures. (Cities and Towns Bulletins September 2004, Page 9)

**BANK ACCOUNT RECONCILIATIONS**

City cash and investment fund balances, including Water and Wastewater funds, were not properly reconciled to bank balances. The difference between the reconciled bank balance reported by the City and the fund ledger balance was \$395,157 cash short at December 31, 2013.

Errors noted on the City's reconcilements included:

1. One bank account was not included in the City's bank reconciliation.
2. The wrong balances from some of the bank statements were used in the City's reconciliation. In some cases, the December 31, 2013 bank balance was not used for reconciliation.
3. Transactions were not posted or were not posted properly to the fund.

As a result of incomplete and inaccurate reconcilements, improper accounting for cash and investments and incorrect postings to the records remained undiscovered.

In addition, prior to 2012, most cash and investments of the Water and Wastewater Utilities were accounted for in the City's bank account. During 2012, separate bank accounts were established; however, the exact cash and investment balance of each Utility was not transferred to the new bank accounts at that

CITY CONTROLLER  
CITY OF EVANSVILLE  
AUDIT RESULTS AND COMMENTS  
(Continued)

time. Some of the cash and investment balances were transferred to the new bank accounts during 2013, but there still was an amount remaining to be transferred at the exit conference date. The City should determine the exact amount due to each Utility and transfer the balances to the appropriate bank accounts.

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."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance 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)

***ANNUAL FINANCIAL REPORT***

The Annual Financial Report submitted through the Gateway system for 2013 contained material errors. Adjustments to the beginning balances, receipts and disbursements were proposed during the audit and approved by the City.

A similar comment appeared in the prior two reports.

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."

***PARKING METER FEES***

Parking meter fees are deposited into the General fund instead of a special fund. The City is working with the City Attorney to prepare an ordinance to be passed in the future.

A similar comment appeared in the prior report.

Indiana Code 36-9-12-4(a) states:

"A municipality must provide, by ordinance, that: (1) All license fees collected from parking meters shall be deposited with the municipal fiscal officer; (2) the fees shall be deposited to the credit of the municipality in a special fund; and (3) disbursements from the special fund may be made only on orders of the municipal works board, or board of transportation and only for the purposes listed in subsection (b)."

CITY CONTROLLER  
CITY OF EVANSVILLE  
AUDIT RESULTS AND COMMENTS  
(Continued)

**SEPARATE BANK ACCOUNTS**

Vanderburgh County Solid Waste District funds were accounted for in the bank account of the City of Evansville.

A similar comment appeared in the prior report.

A single bank account should be provided for all city or town funds, separate bank accounts for the funds belonging to each utility, and possibly a separate bank account for other funds if required by ordinance or regulation. Some bond ordinances and federal regulations require separate bank accounts for various funds and must be followed. Funds of other entities held by the city or town's fiscal officer must be accounted for in separate bank accounts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**PAYMENT BY THE CITY OF EVANSVILLE OF CAPITALIZED INTEREST ON THE EVANSVILLE REDEVELOPMENT AUTHORITY LEASE RENTAL REVENUE BONDS SERIES 2010B**

On December 22, 2011, the City of Evansville paid the Evansville Redevelopment Authority \$1,168,995 from the Food and Beverage Tax fund. In addition, on July 31, 2012, the City of Evansville paid the Evansville Redevelopment Authority \$2,527,904 from the Master TIF fund. These payments were deposited into the Evansville Redevelopment Authority 2010B Capitalized Interest Trust Account. The City of Evansville was not responsible for the payment of the capitalized interest. Capitalized interest was an obligation of the Evansville Redevelopment Authority.

As stated in the lease agreement between the City of Evansville and the Evansville Redevelopment Authority Section 2 RENTAL PAYMENTS: "(a) The first rental installment shall be due no earlier than February 1, 2013 and will be identified in an addendum to this Lease as described in Section 2(b) hereof. Thereafter, such rental shall be payable in advance in semi-annual installments on February 1 and August 1 of each year. All such rentals installments shall be deposited by the lessee with Trustee under Indenture three (3) business days in advance of such rental payment date." Per the lease agreement the first lease rental payment was due in January 2013 three business days prior to the February 1, 2013 rental payment date.

The Evansville Redevelopment Authority Lease Rental Revenue Bonds Series 2010B bond prospectus states:

"However, pursuant to the terms of the indenture, any such interest accruing after the completion of the Project will be paid only from (i) the proceeds of the series 2010A bonds or (ii) Build America Subsidy payments required to be deposited into the indenture."

The City of Evansville should request repayment of \$3,696,899 paid in error to the Evansville Redevelopment Authority.

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Manual for Cities and Towns, Chapter 7)





**City of Evansville**  
**Office of the Controller**  
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EVANSVILLE, IN 47708

Lloyd Winnecke, Mayor

Russell Lloyd Jr. CPA, Controller

September 5, 2014

Indiana State Board of Accounts  
302 W. Washington St. Room E418  
Indianapolis, IN 46204-2765

Reference: Official Response to 2013 State Board of Accounts Audit of the Financial Statements of the City of Evansville

Dear State Board Member(s):

The City of Evansville ("the City") recognizes the efforts put forth by the Indiana State Board of Accounts ("the State") performing the 2013 financial statement audit for the City. We submit below our responses to your audit findings. Our responses detail our understanding of the issues raised by the State and outline the City's expected course of action to explain and resolve these findings.

For purposes of this letter, we are referring to the financial statement audit for the fiscal year ending 2013. Presented in order are the audit results and comments raised by the State and addressed by the City.

**OVERDRAWN CASH BALANCES**

The City's long standing cash management policy is to minimize transfers between funds and to evaluate the annual accounting period as a whole, not as a series of 365 days. The City is aware that certain cash balances in particular funds may fall below zero on a given day. This is due to sporadic revenue streams and constant disbursement requests. It is the City's established policy that each department and correlated fund manage their budget throughout the year to ensure all funds begin and end the year with a positive cash balance.

In a situation where the City knows in advance a fund will end the period with a negative cash balance, the City may issue a temporary loan to that fund and establish repayment terms no later than June of the following year.

Additionally, some funds such as federal type funds that are operated on a reimbursement basis. In these circumstances the City will incur costs and then be reimbursed. On an interim basis the fund balance may fall below zero. It is the City's policy to be aware of these instances and ensure that those funds with a negative balance are offset by receivables (reimbursements) in excess of the shortfall.

### **BUY MONEY – POLICE**

The Buy Money program is an integral part of police operations. The City administration with the City legal staff are in the process of drafting an ordinance that will satisfy Indiana Code 36-1-3 to address this long standing audit finding. The City proposed ordinance will allow this program to operate within state and federal laws, contain proper accounting and internal control safeguards and meet law enforcement's flexibility requirements. The City administration plans to submit this ordinance to City Council in late 2014.

### **BANK ACCOUNT RECONCILIATIONS**

In 2011 the City of Evansville converted the obsolete 25 year old computer financial accounting software system to the new Tyler Technology MUNIS financial accounting ERP system. During implementation there were errors in fund transactions, pooled cash and bank account set ups combined with inadequate training and personnel project management, resulting in the City being unable to reconcile bank accounts and subsequent fund balances for the year 2011 until September 2012. The City engaged Tyler Technology and external financial consulting experts in 2012 and 2013 to correct system set ups and install necessary controls over transactions. MUNIS "Best Practice" standard set up schemes used throughout the Tyler Technology governmental municipal accounting universe have been implemented. The new set up schemes allow accurate accounting and reconciliation of bank accounts and fund balances as well as improved supervisory monitoring. It took several additional months after the October 2012 changeover for the City Finance Dept. accounting staff to fully understand the system and make necessary corrections to fully utilize the audit review and control features. This includes the bank account reconciliations which are performed monthly.

These improvements continue to be implemented and the City believes the financial accounting is now in balance and includes all transactions that would limit material risk and correct any material weaknesses identified in future years' accounts. The City disputes the State's characterization that City fund balances, cash and investments were not properly reconciled or contain undiscovered incorrect postings as of December 31, 2013.

The City enacted a long standing State audit recommendation and separated the City general checking account from the Water Utility and the Wastewater Utility bank accounts during 2012. The documented difficulties encountered by the City accounting staff during 2012 in reconciling the funds and transactions prohibited the City from transferring the exact amount due to the Utilities to the separate accounts as of the audit date. At the current time the City has calculated the amounts due to the Utilities to transfer from the City accounts and is making provision to complete this during 2014.

The City accounting staff are now preparing timely balanced monthly bank reconciliations, recording accurate transactions and correcting fund balances so all funds now balance. The new system controls used on funds and daily cash entries are reviewed by accounting staff and exceptions identified and corrected as prescribed by Indiana Code 5-13-6-1(e).

### **ANNUAL REPORT**

The City had to correct beginning fund balances due to residual transaction errors from the 2011 computer conversion system which led to certain inaccurate year end fund balances presented in the City's 2012 annual report. During 2013 the City continued to engage Tyler Technology and financial consulting experts to improve system set ups and transaction controls. The new MUNIS "Best Practice" standard set up schemes allow much improved bank account reconcilements and improved supervisory monitoring of transactions. These improvements continue to be implemented and the City believes the fund accounts and transactions for 2013 and 2014 are now in balance and include all transactions that would limit material risk and correct the material weakness in future years' annual reports.

### **PARKING METER FEES**

Indiana Code 36-9-12-4(2) states that parking meter receipts should be deposited into a special fund and disbursements should be made against that fund for authorized purchases. The City has considered establishing such a parking meter fund and deposit parking meter receipts into the fund as long as the resulting accounting and reporting requirements are not burdensome. Current parking receipts fall far short of matching the expenditures of the parking meter employees and department. Items such as revenue receipts, payroll and employee benefits and accounts payable in the new fund have to be investigated to determine the fund does not create reconciliation problems or operate with negative fund balances.

### **SEPARATE BANK ACCOUNTS**

The City maintains the funds for the Vanderburgh County Solid Waste Management District (VCSWMD) in the general bank account. These funds are accounted for separately and the entity has claim on the cash that is available to that entity when needed and authorized. The City manages the transactions for the VCSWMD which are few due to the small size of the

entity. The City will review the costs and benefits determined by using a separate bank account for this entity.

**PAYMENT BY THE CITY OF EVANSVILLE OF CAPITALIZED INTEREST ON THE EVANSVILLE REDEVELOPMENT AUTHORITY LEASE RENTAL REVENUE BONDS SERIES 2010B**

The City does not agree with the substance of the State's finding and contends the payments by the City of Evansville (Evansville Redevelopment Commission – ERC) to the Evansville Redevelopment Authority (ERA) capitalized interest account do not violate the bond indenture and can be remedied by ERC action. The City believes the ERA does not owe \$ 3,696,899 to the City ERC. The City and the bond trustee agreed to transfer funds to the ERA capitalized interest account in 2011 and 2012 as a simpler method of accounting when the Arena construction was winding down.

The City transferred available Food and Beverage tax money and other funds to the 2010B capitalized interest account instead of the 2010B construction account. The City's position is that Food and Beverage tax funds can be used to make the lease payment, which is clearly an authorized use. Rather than issue a refund, the Trustee credited the ERC for \$ 1,900,662.72 against the lease payment which came due August 1, 2013. So the City was in effect reimbursed for more than the capitalized interest payment it made from Food and Beverage taxes.

In the City Attorney's opinion, the remaining funds applied to the capitalized interest account were tax increment finance "TIF" funds. The ERC has the legal authority to direct the ERA to apply amounts transferred from the TIF account for capitalized interest to additional capital costs related to the Arena project, rather than requiring the ERA to refund such amounts. The City Attorney requests that to formally recognize this use of TIF funds the City ERC draft a resolution to accomplish this direction and present it during 2014.

Please contact me at 812-436-4919 or email [rlloyd@evansville.in.gov](mailto:rlloyd@evansville.in.gov) if any questions.

Respectively submitted,



Russell G. Lloyd Jr., CPA

Controller

CITY CONTROLLER  
CITY OF EVANSVILLE  
EXIT CONFERENCE

The contents of this report were discussed on August 28, 2014, with Russell G. Lloyd Jr., Controller; Janet M. Coudret, Deputy Controller; John E. Friend, President of the City Council; Conor O'Daniel, Finance Chairman of the City Council; H. Dan Adams, MD, Vice President of the City Council; and Steve Schaefer, Chief of Staff, Mayor's Office.

The contents of this report were discussed on December 23, 2014, with Russell G. Lloyd Jr., Controller; John E. Friend, President of the City Council; Conor O'Daniel, Finance Chairman of the City Council; H. Dan Adams, MD, Vice President of the City Council; and Steve Schaefer, Chief of Staff, Mayor's Office.