

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF LAFAYETTE

TIPPECANOE COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED

09/30/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	J. Michael Jones	01-01-13 to 12-31-14
Mayor	Tony Roswarski	01-01-12 to 12-31-15
President of the Board of Public Works	Gary D. Henriott	01-01-13 to 12-31-14
President of the Common Council	Ronald B. Campbell Steven P. Meyer	01-01-13 to 12-31-13 01-01-14 to 12-31-14



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF LAFAYETTE, TIPPECANOE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Lafayette (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 Statements 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 Result and Comment, 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 Result and Comment contained herein describes 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, was not verified for accuracy.

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

July 23, 2014

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CONTROLLER'S OFFICE
CITY OF LAFAYETTE

CONTROLLER'S OFFICE
CITY OF LAFAYETTE
FEDERAL FINDING

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

We noted several 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 accounting for capital assets and construction work in progress to reduce risks to the achievement of financial reporting objectives. The Administrative Project Coordinator is responsible for maintaining the Capital Asset Package; she is also responsible for completing a reconciliation of the capital asset records to the general ledger. This reconciliation is presented to the Deputy Controller as supporting documentation during the financial statement preparation process. The Deputy Controller verifies, on a test basis, the capital asset reconciliation to the general ledger as part of the financial statement procedures performed. However, this verification was not documented. Adequate segregation of duties requires that someone other than the Administrative Project Coordinator complete and document the reconciliation of the capital asset records to the general ledger. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. **Monitoring of Controls:** Effective internal control over financial reporting requires the Common Council to monitor and assess the quality of the City's system of internal control. The Common Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the City at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the City has no process to identify or communicate corrective actions to improve controls.

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)



CORRECTIVE ACTION PLAN

FINDING 2013-01

Contact Person Responsible for Corrective Action: J. Michael Jones
Contact Phone Number: 765-807-1011:

Description of Corrective Action Plan:

1. The City of Lafayette has in place procedures for the purchase and recording of capital assets. These procedures include the Department Heads, Legal Department, Engineering Department, Purchasing and Accounts Payable. In addition to the reconciliation performed by the Administrative Project Coordinator, each Department Head receives a printout of the capital assets to review and return with additions, corrections and deletions. All of these things happen prior to the reconciliation of the assets and is done electronically wherever possible. The Deputy Controller using test procedures, much like an auditor, runs a check on the assets. The present ERP system does provide an electronic trail but as the system was written in 1998 it is not as detailed as current systems. The City is investing in a new ERP system with specific work flow processes that require supervisory action at each step of the process in place now, and will provide a transparent electronic audit trail.
2. Currently the City of Lafayette provides the Board of Works, the body that is in charge of the day to day operations of the City with weekly updates of the operational facets of the City. Starting in the third quarter of 2014 and following every quarter thereafter the Controller will have a meeting with the Council President to review the same information as the Board of Works so the President can report to the full Council on the financial systems of the City and its internal controls

Anticipated Completion Date: Part 1: 1/1/2015 Part 2: October 2014



(Signature)
Council President

(Title)

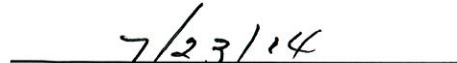


(Date)



(Signature)
Controller

(Title)



(Date)

CONTROLLER'S OFFICE
CITY OF LAFAYETTE
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCE

The financial statements presented for audit included the General fund with an overdrawn cash balance at December 31, 2013, of \$883,747.

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)

CONTROLLER'S OFFICE
CITY OF LAFAYETTE
EXIT CONFERENCE

The contents of this report were discussed on July 23, 2014, with Tony Roswarski, Mayor; J. Michael Jones, Controller; Steven P. Meyer, President of the Common Council; and Gary D. Henriott, President of the Board of Public Works.

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COMMUNITY DEVELOPMENT DEPARTMENT
CITY OF LAFAYETTE

COMMUNITY DEVELOPMENT DEPARTMENT
CITY OF LAFAYETTE
FEDERAL FINDING

**FINDING 2013-002 - INTERNAL CONTROLS OVER THE
HOME INVESTMENT PARTNERSHIPS PROGRAM**

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: HOME Investment Partnerships Program
CFDA Number: 14.239
Federal Award Numbers: M08-DC-180212; M10-DC-180212; M11-DC-180212;
M12-DC-180212; M13-DC-180212

Management of the City had not established an effective internal control system until December 2013, which would include segregation of duties, related to the grant agreement and the Reporting and Special Tests and Provisions compliance requirements that have a direct and material effect on the program. There was no documented review of the reports submitted to HUD and no documented review of the computation for the Special Test and Provision: Maximum Unit Subsidy.

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 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."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements that have a direct and material effect on 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 compliance requirements that have a direct and material effect on the program.



CITY OF
LAFAYETTE

OFFICE OF CONTROLLER

CORRECTIVE ACTION PLAN

FINDING 2013-02

Contact Person Responsible for Corrective Action: J. Michael Jones
Contact Phone Number: 765-807-1011:

Description of Corrective Action Plan:

The City of Lafayette has put in place procedures to insure that effective internal controls are in place. All procedures are in written form and have been distributed to the department. Weekly meetings are held with the Controller's Office and the department and all financial issues are discussed.

Anticipated Completion Date: December 2013



(Signature)

Council President

(Title)



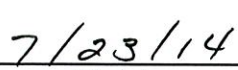
(Date)



(Signature)

Controller

(Title)



(Date)

COMMUNITY DEVELOPMENT DEPARTMENT
CITY OF LAFAYETTE
EXIT CONFERENCE

The contents of this report were discussed on July 23, 2014, with Tony Roswarski, Mayor; J. Michael Jones, Controller; Steven P. Meyer, President of the Common Council; and Gary D. Henriott, President of the Board of Public Works.

POLICE DEPARTMENT
CITY OF LAFAYETTE

POLICE DEPARTMENT
CITY OF LAFAYETTE
FEDERAL FINDING

FINDING 2013-003 - INTERNAL CONTROLS OVER ARRA - PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS

Federal Agency: U.S. Department of Justice
Federal Program: ARRA - Public Safety Partnership and Community Policing Grants
CFDA Number: 16.710
Federal Award Number and Year: 2009-RK-WX-0353

The management of the City has not adequately documented the establishment of an effective internal control system, which would include segregation of duties, related to the grant agreement and the Reporting compliance requirement that has a direct and material effect on the program. Reimbursement request reports filed by the Police Department Chief Deputy lacked oversight, review, and approval. 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 type of compliance requirement of a federal program will be prevented, or detected and corrected, in 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. Non-compliance with the grant agreement or the compliance requirements that have a direct and material effect on 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 compliance requirements that have a direct and material effect on the program.



OFFICE OF CONTROLLER

CORRECTIVE ACTION PLAN

FINDING 2013-03

Contact Person Responsible for Corrective Action: J. Michael Jones
Contact Phone Number: 765-807-1011:

Description of Corrective Action Plan:

The City of Lafayette has put in place procedures to insure that effective internal controls are in place and in use. A written procedure will be produced to further document these controls and distributed to all parties involved with the grant inputs and reimbursements.

Anticipated Completion Date: August of 2014



(Signature)

Council President

(Title)



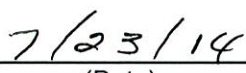
(Date)



(Signature)

Controller

(Title)



(Date)

POLICE DEPARTMENT
CITY OF LAFAYETTE
EXIT CONFERENCE

The contents of this report were discussed on July 23, 2014, with Tony Roswarski, Mayor; J. Michael Jones, Controller; Steven P. Meyer, President of the Common Council; and Gary D. Henriott, President of the Board of Public Works.