

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF NEW ALBANY

FLOYD COUNTY, INDIANA

January 1, 2013 to December 31, 2013



**FILED**

10/30/2014



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Mary Ann Prestigiacomo Sandy Boofter (Interim) Linda S. Moeller	01-01-13 to 07-07-13 07-08-13 to 08-02-13 08-03-13 to 12-31-14
Mayor	Jeff Gahan	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Warren Nash	01-01-13 to 12-31-14
President of the Common Council	Pat McLaughlin	01-01-13 to 12-31-14
Superintendent of Wastewater Utility	Robert Sartell	01-01-13 to 12-31-14
Utility Office Manager	April Dickey	01-01-13 to 12-31-14



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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TO: THE OFFICIALS OF THE CITY OF NEW ALBANY, FLOYD COUNTY, INDIANA

This report is supplemental to our audit report of the City of New Albany (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

September 18, 2014

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CONTROLLER  
CITY OF NEW ALBANY

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FEDERAL FINDINGS

**FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE  
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 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.

One employee was responsible for issuing receipts, making deposits, and posting receipt transactions. The activities related to receipts were not always reviewed or verified by someone other than the employee performing these activities.

Bank reconciliations were not always being reviewed and approved by someone other than person performing the depository reconciliations.

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. 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 material misstatements, including notes to the financial statement.

*Annual Report*

The City has not established effective controls to allow for the proper reporting of the City's financial transactions and cash and investment balances. The audited financial statement was compiled from information entered by the City into the Gateway system, a financial reporting system established by the state to allow governmental unit to file Annual Financial Reports. The City manually entered the financial data from the City's records into the Gateway system. Upon completion of the Annual Report, the City did not compare the Annual Report to the City's records to ensure that all financial data had been properly entered prior to submitting the Annual Report to the state. As a result of the City not having controls in place to verify that all financial data from the City's records had been properly entered, the financial statement presented for audit incorrectly omitted some of the City funds, overstated receipts by \$3,561,903, and understated disbursements by \$3,109,474. Adjustments were proposed, accepted by the City, and made to the financial statement to correct the deficiencies noted above.

*Transaction Posting*

The City has not developed controls to ensure that all financial transactions of the Wastewater Utility SRF funds are timely and accurately recorded in the City's records. The cash and investments of these funds are maintained and held in trust with the Bank of New York. Monthly trust statements are provided to the City which details the financial transactions to be posted to the City's records. During the audit period, the City had not assigned

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FEDERAL FINDINGS  
(Continued)

a designate employee to review the trust statements and post the transactions to the City records. As a result of the City not having controls in place over the financial transactions of the Wastewater Utility SRF funds, the City failed to record receipts of \$1,298,011 and disbursements totaling \$5,426,218 during 2013 for these funds. Audit adjustments were proposed, accepted by the City, and made to the financial statement presented in this report.

*Bank Reconcilements*

The City had not developed controls to ensure monthly bank reconcilements were being performed and that variances between the reconciled bank balance and the City records were being investigated timely. During the audit, monthly bank account reconciliations were not being performed for some bank accounts. In August 2013, the current Controller was appointed to her position. Shortly after her appointment she became aware that monthly bank reconcilements for the City's main checking account and Wastewater Utility Operating checking account had not been performed since October 2012 and December 2011, respectively. It was also later determined that the City's Payroll checking account had not been reconciled since March 2013. These monthly reconcilements were subsequently prepared and, by March 2014, the City had completed monthly bank reconcilements through December 2013 for all 17 of its banks accounts.

A review of the 2013 monthly reconcilements of the City's main checking account shows that record balances were not fully reconciled to the depository balances. As of December 31, 2013, the City shows \$148,419 more in unidentified cash being held in its' records than in the bank for all funds accounted for in the City's main checking account. As of June 2014, monthly reconcilements show that the City has consistently maintained this variance since December 2013.

A review of the 2013 monthly reconcilements of the City's Wastewater Utility Operating account shows that the record balances were not fully reconciled to the depository balance. As of December 31, 2013, the Wastewater Utility Operating checking account was showing \$323,693 more in unidentified cash in the bank than that recorded in the City's records for all funds accounted for in the Wastewater Utility Operating checking account. As of June 2014, monthly reconcilements show that the City has consistently maintained this variance since July 2013.

3. **Monitoring of Controls:** Effective internal control over financial reporting requires City's Management and those charged with governance to monitor and assess the quality of the City's system of internal control. The City's Management and those charged with governance 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 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.

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FEDERAL FINDINGS  
(Continued)

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)

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."

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)

***FINDING 2013-002 - INTERNAL CONTROLS 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, we noted the following errors:

1. Four federal grants with a total of \$1,017,320 in expenditures had not been reported.
2. The amount reported for three federal programs were incorrect.
3. Six federal awards reported did not include the correct federal program name.
4. Two federal awards reported did not properly report the pass-through entity.
5. One federal award reported did not include the correct CFDA number.
6. Federal awards provided to subrecipients were reported incorrectly in the amount of \$308,299.

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FEDERAL FINDINGS  
(Continued)

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."

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."

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FEDERAL FINDINGS  
(Continued)

***FINDING 2013-003 - DAVIS-BACON ACT***

Federal Agency: Department of Commerce  
Federal Program: Economic Adjustment Assistance  
CFDA Number: 11.307  
Federal Award Number and Year (or Other Identifying Number): 06-79-05510

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 compliance requirements that apply to Davis-Bacon Act. 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.

The City hired a Grant Administrator to assist in overseeing the labor standards required by the Davis-Bacon Act. Certified payrolls were submitted by the contractors/subcontractors to the Grant Administrator who would then check to determine if prevailing wages were being properly paid. The City did not have procedures in place to review and approve the work being performed by the Grant Administrator.

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. 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 and implement controls, including segregation of duties, related to the grant agreement and compliance requirements related to Davis-Bacon Act.

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FEDERAL FINDINGS  
(Continued)

***FINDING 2013-004 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO STAFFING FOR ADEQUATE FIRE AND EMERGENCY RESPONSE (SAFER)***

Federal Agency: Department of Homeland Security  
Federal Program: Staffing For Adequate Fire and Emergency Response (SAFER)  
CFDA Number: 97.083  
Federal Award Number and Year (or Other Identifying Number): EMW-2010-FH-00772

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Costs Principles, Cash Management, and Period of Availability. 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.

The City's Program Administrator is responsible for all compliance requirements related to the SAFER grant. The Program Administrator is responsible for ensuring that all program disbursements are for activities allowed, allowable costs, and were incurred during the grant's period of performance as outlined in the City's agreement with the Department of Homeland Security. There was no evidence presented to indicate that any oversight, reviews, or approvals were performed on the Program Administrator's activities by the City.

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 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 and implement controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

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FEDERAL FINDINGS  
(Continued)

**FINDING 2013-005 - REPORTING**

Federal Agency: Department of Homeland Security  
Federal Program: Staffing For Adequate Fire and Emergency Response (SAFER)  
CFDA Number: 97.083  
Federal Award Number and Year (or Other Identifying Number): EMW-2010-FH-00772

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 compliance requirements that apply to Reporting. 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.

The City's Program Administrator is responsible for preparing and filing all "SAFER Payment Request" forms required for the reimbursement of program expenses incurred. Additionally, all financial and performance reports required under the grant agreement are prepared and submitted by the Program Administrator. There was no evidence presented to indicate that any oversight, reviews, or approvals were performed on the Program Administrator's activities by the City.

Federal Financial Report/SF-425 is required to be filed semiannually under the grant agreement and is to accurately reflect the financial activity of the program. This financial report is due within 30 days of the end of the reporting period. The Federal Financial Report/SF-425 filed for the periods ending June 30, 2013, and December 31, 2013, did not accurately reflect the financial activity of the program. The amount reported for program receipts and expenditures did not agree with the records of the City. Information was not presented to be able to determine if the reports were filed timely.

Hiring Performance Reports are required to be filed quarterly under the grant agreement and are due within 30 days following the end of the quarter. The Hiring Performance Reports due for the quarters ending during 2013 were not filed timely. For the quarters ending February 26, May 26, August 26, and November 26, the reports were not filed until 328, 239, 147, and 89 days, respectively, after the required due date.

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."

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FEDERAL FINDINGS  
(Continued)

44 CFR, Chapter 1, Subchapter A, Part 13, Subpart C, Section 13.20 states in part:

"(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activity must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures and income."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance 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 and implement controls, including segregations of duties related to the grant agreement and compliance requirement that apply to Reporting. We further recommended that the City follow the reporting requirements related to the program.



FOUNDED 1813

# City of New Albany

City Controller

## CORRECTIVE ACTION PLAN

### **FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING**

Contact Person Responsible for Corrective Action: Linda S. Moeller, Pat McLaughlin  
Contact Phone Number: 812-948-5333

- (1) Necessary actions to establish internal controls related to receipts, cash and investments, financial statements and payroll were implemented in the last quarter of 2013. All bank deposits and payroll are reviewed and initialed by the Controller. All bank reconcilements are reviewed by the Controller with signature confirmation. Any financial transactions performed by the Controller are reviewed and signed by another member of the Controller's Office.
- (2) Personnel continue to review internal controls over financial reporting to determine weaknesses that could result in material misstatements of the City's financial statements. The Controller's Office has achieved an extensive working knowledge of the financial management system New World. This knowledge has resulted in identifying many issues relating to bank reconciliations and the annual report. All bank accounts, SRF funds and investments are being reconciled on a monthly basis.
- (3) A policy was established to prevent or detect material misstatements and to identify and communicate corrective actions to improve controls. When identified by SBOA at exit conference in November, 2013 the City began corrective measures in December, 2013.

Linda S. Moeller  
(Signature)

Controller  
(Title)

9-18-14  
(Date)

Pat McLaughlin  
(Signature)

Assistant City Council  
(Title)

9-18-14  
(Date)



FOUNDED 1813

# City of New Albany

City Controller

## CORRECTIVE ACTION PLAN

### **FINDING 2013-002 - INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Contact Person Responsible for Corrective Action: Linda S. Moeller  
Contact Phone Number: 812-948-5333

The City designated a person in the Controller's Office to monitor the timely filing for Federal awards and Grants. Contact with the department's Grant writer has been initiated to establish procedures for tracking and verification of data on the reports.

Linda S. Moeller  
(Signature)

Controller  
(Title)

9-8-14  
(Date)



FOUNDED 1813

# City of New Albany

City Controller

## CORRECTIVE ACTION PLAN

### ***FINDING 2013-003 – DAVIS BACON***

Contact Person Responsible for Corrective Action: Linda S. Moeller  
Contact Phone Number: 812-948-5333

The City continues to review and assist the grant administrator.

Linda S. Moeller  
(Signature)

Controller  
(Title)

9-8-14  
(Date)



FOUNDED 1813

# City of New Albany

INCLUDE ON OFFICIAL LETTERHEAD)

City Controller

## CORRECTIVE ACTION PLAN

**FINDING 2013-004 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO STAFFING FOR ADEQUATE FIRE AND EMERGENCY RESPONSE (SAFER)**

Contact Person Responsible for Corrective Action: Linda S. Moeller  
Contact Phone Number: 812-948-5333

The City designated a person in the Controller's Office to monitor the timely filing for Federal awards and Grants. Contact with the department's Grant writer has been initiated to establish procedures for tracking and verification of data on the reports.

Linda S. Moeller  
(Signature)

Controller  
(Title)

9-8-14  
(Date)



# City of New Albany

City Controller

## CORRECTIVE ACTION PLAN

### **FINDING 2013-005 - REPORTING**

Contact Person Responsible for Corrective Action: Linda S. Moeller  
Contact Phone Number: 812-948-5333

The City designated a person in the Controller's Office to monitor the timely filing for Federal awards and Grants. Contact with the department's Grant writer has been initiated to establish procedures for tracking and verification of data on the reports

Anticipated Completion Date:

Linda S. Moeller  
(Signature)

Controller  
(Title)

9-8-14  
(Date)

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CITY OF NEW ALBANY  
AUDIT RESULTS AND COMMENTS

**APPROPRIATIONS**

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Excess Amount Expended</u>
Motor Vehicle Highway	\$ 856,456
Police Pension	335,472

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

**COLLECTION OF AMOUNTS DUE**

The amount of \$818 was due to the City as of December 31, 2013, as a result of the City failing to properly withhold pension assessments and life insurance premiums on a City employee.

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)



# City of New Albany

City Controller

September 29, 2014

State Board Accounts  
Cities and Towns  
302 West Washington Street, Room E-418  
Indianapolis, IN 47204-2765

Re: Official Response of 2013 Audit

The City of New Albany is pleased with the findings of an unmodified report with no significant deficiencies as revealed during the September 18, 2014 State Board of Accounts "exit conference" for the Budget year 2013.

There were a few findings in the 2012 audit which recurred in 2013. A main reason for the recurrences revolved around the identification of the findings in the release of the audit which was late in the budgetary year. The 2012 audit was done in 2013 and not completed until November 2013. The City's former Controller passed away in July 2013 as the 2012 audit was being conducted. As a result, the City hired a new Controller, Linda Moeller, in August 2013. The City also hired a Certified Public Accountant to assist in the Controller's Office in August 2013.

The City took immediate action to implement corrective measures from the 2012 audit, however, due to the lateness of the report those measures were not fully implemented for the entire 2013 year because the report not released until two months remained in 2013. Thus, some of the same findings occurred in 2012 and 2013 due to the City not being able to get the corrective measures in place during the whole 2013 budget year.

Corrective measures have been implemented to address all concerns as follows:

- (1) Established internal controls related to receipts, cash and investments, financial statements and payroll which were implemented in the last quarter of 2013. All bank deposits and payroll are reviewed and initialed by the Controller. All bank reconcilements are reviewed by the Controller with signature confirmation. Any

financial transactions performed by the Controller are reviewed and signed by another member of the Controller's Office.

- (2) Personnel continue to review internal controls to ensure that proper financial reporting occurs. All bank accounts, SRF funds and investments are being reconciled on a monthly basis. Three previous administrations spanning over ten years attempted to isolate bank account variances; this administration identified the variances and is pleased to report an increase to City funds in the amount of \$175,277.
- (3) The City continues to review policies to identify any potential weaknesses in the procedures followed by the City. As evidence of such, when matters were identified by the State Board of Accounts at an exit conference in November, 2013 the City took immediate corrective measures in December, 2013 to address those items.

Concerning Internal Controls over Federal Awards/Grants, the City has designated a person in the Controller's Office to monitor the timely filing for Federal awards and Grants. Contact with the department's Grant writer has been initiated to establish procedures for tracking and verification of data on the reports. The Controller's Office now requires all grants and related documents be copied to the designated person to monitor any and all filings required as part of the grants. In addition, the City designated a person in the Controller's Office to monitor the timely filing for Federal awards and Grants. Contact with the department's Grant writer has been initiated to establish procedures for tracking and verification of data on the reports

It was noted that the budgetary expenditures were in excess approved amount for the Motor Vehicle Highway Department (Street Department). The City took action during the year to properly fund the MVH. The City passed a resolution and additional appropriation for the monies needed to increase the budget. However, the expenditures were not moved to the additional funds. This resulted in the MVH exceeding the budget. However, the fund maintained a positive cash balance during the time period. These issues have been noted and policy and procedures reviewed to prevent future miscalculations.

It was noted that the budgetary expenditures in excess of the police pension fund, budget was reduced by the DLGF in the 1782 report based on projected revenues. The revenue projections were inaccurate and understated by \$867,051 in 1782 Notice and approved budget by the Department of Local Government and Finance. If the proper revenues were included by the DLGF it would have been more than sufficient for the necessary expenditures. These issues have been noted and policy and procedures reviewed to prevent future miscalculations.

It was determined that \$818.40 for pension and life insurance should have been withheld by the City from an employee. The employee was placed on leave and later reinstated with back pay, which resulted in monies needing to be deducted for pension and life insurance. The City discussed this matter with the employee and the full amount has been paid.

It was determined that the New Albany Municipal Utilities had made the rate adjustments in the software used for billing of customers upon passage of the Ordinances in 2009 and 2010. The City reviewed all church and commercial accounts and made adjustments as necessary to correct the software billing matter.

Sincerely,

A handwritten signature in black ink that reads "Linda S. Moeller". The signature is written in a cursive style with a large, stylized initial "L".

Linda S. Moeller  
City of New Albany, Controller

CONTROLLER  
CITY OF NEW ALBANY  
EXIT CONFERENCE

The contents of this report were discussed on September 18, 2014, with Linda S. Moeller, Controller; Jeff Gahan, Mayor; Pat McLaughlin, President of the Common Council; and Shane L. Gibson, Corporate Counsel.

The contents of this report were also discussed on September 22, 2014, with Scott A. Blair and Diane Benedetti, Common Council members.

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COMMON COUNCIL  
CITY OF NEW ALBANY

COMMON COUNCIL  
CITY OF NEW ALBANY  
FEDERAL FINDING

**FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE  
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 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.

One employee was responsible for issuing receipts, making deposits, and posting receipt transactions. The activities related to receipts were not always reviewed or verified by someone other than the employee performing these activities.

Bank reconcilements were not always being reviewed and approved by someone other than person performing the depository reconcilements.

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. 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 material misstatements, including notes to the financial statement.

*Annual Report*

The City has not established effective controls to allow for the proper reporting of the City's financial transactions and cash and investment balances. The audited financial statement was compiled from information entered by the City into the Gateway system, a financial reporting system established by the state to allow governmental unit to file Annual Financial Reports. The City manually entered the financial data from the City's records into the Gateway system. Upon completion of the Annual Report, the City did not compare the Annual Report to the City's records to ensure that all financial data had been properly entered prior to submitting the Annual Report to the state. As a result of the City not having controls in place to verify that all financial data from the City's records had been properly entered, the financial statement presented for audit incorrectly omitted some of the City funds, overstated receipts by \$3,561,903, and understated disbursements by \$3,109,474. Adjustments were proposed, accepted by the City, and made to the financial statement to correct the deficiencies noted above.

*Transaction Posting*

The City has not developed controls to ensure that all financial transactions of the Wastewater Utility SRF funds are timely and accurately recorded in the City's records. The cash and investments of these funds are maintained and held in trust with the Bank of New York. Monthly trust statements are provided to the City which details the financial transactions to be posted to the City's records. During the audit period, the City had not assigned

COMMON COUNCIL  
CITY OF NEW ALBANY  
FEDERAL FINDING  
(Continued)

a designate employee to review the trust statements and post the transactions to the City records. As a result of the City not having controls in place over the financial transactions of the Wastewater Utility SRF funds, the City failed to record receipts of \$1,298,011 and disbursements totaling \$5,426,218 during 2013 for these funds. Audit adjustments were proposed, accepted by the City, and made to the financial statement presented in this report.

*Bank Reconcilements*

The City had not developed controls to ensure monthly bank reconcilements were being performed and that variances between the reconciled bank balance and the City records were being investigated timely. During the audit, monthly bank account reconciliations were not being performed for some bank accounts. In August 2013, the current Controller was appointed to her position. Shortly after her appointment she became aware that monthly bank reconcilements for the City's main checking account and Wastewater Utility Operating checking account had not been performed since October 2012 and December 2011, respectively. It was also later determined that the City's Payroll checking account had not been reconciled since March 2013. These monthly reconcilements were subsequently prepared and, by March 2014, the City had completed monthly bank reconcilements through December 2013 for all 17 of its banks accounts.

A review of the 2013 monthly reconcilements of the City's main checking account shows that record balances were not fully reconciled to the depository balances. As of December 31, 2013, the City shows \$148,419 more in unidentified cash being held in its' records than in the bank for all funds accounted for in the City's main checking account. As of June 2014, monthly reconcilements show that the City has consistently maintained this variance since December 2013.

A review of the 2013 monthly reconcilements of the City's Wastewater Utility Operating account shows that the record balances were not fully reconciled to the depository balance. As of December 31, 2013, the Wastewater Utility Operating checking account was showing \$323,693 more in unidentified cash in the bank than that recorded in the City's records for all funds accounted for in the Wastewater Utility Operating checking account. As of June 2014, monthly reconcilements show that the City has consistently maintained this variance since July 2013.

3. **Monitoring of Controls:** Effective internal control over financial reporting requires City's Management and those charged with governance to monitor and assess the quality of the City's system of internal control. The City's Management and those charged with governance 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 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.

COMMON COUNCIL  
CITY OF NEW ALBANY  
FEDERAL FINDING  
(Continued)

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)

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."

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)



FOUNDED 1813

# City of New Albany

City Controller

## CORRECTIVE ACTION PLAN

### **FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING**

Contact Person Responsible for Corrective Action: Linda S. Moeller, Pat McLaughlin  
Contact Phone Number: 812-948-5333

- (1) Necessary actions to establish internal controls related to receipts, cash and investments, financial statements and payroll were implemented in the last quarter of 2013. All bank deposits and payroll are reviewed and initialed by the Controller. All bank reconcilements are reviewed by the Controller with signature confirmation. Any financial transactions performed by the Controller are reviewed and signed by another member of the Controller's Office.
- (2) Personnel continue to review internal controls over financial reporting to determine weaknesses that could result in material misstatements of the City's financial statements. The Controller's Office has achieved an extensive working knowledge of the financial management system New World. This knowledge has resulted in identifying many issues relating to bank reconciliations and the annual report. All bank accounts, SRF funds and investments are being reconciled on a monthly basis.
- (3) A policy was established to prevent or detect material misstatements and to identify and communicate corrective actions to improve controls. When identified by SBOA at exit conference in November, 2013 the City began corrective measures in December, 2013.

Linda S. Moeller  
(Signature)

Controller  
(Title)

9-18-14  
(Date)

Pat McLaughlin  
(Signature)

Assistant City Council  
(Title)

9-18-14  
(Date)

COMMON COUNCIL  
CITY OF NEW ALBANY  
EXIT CONFERENCE

The contents of this report were discussed on September 18, 2014, with Pat McLaughlin, President of the Common Council.

The contents of this report were also discussed on September 22, 2014, with Scott A. Blair and Diane Benedetti, Common Council members.

WASTEWATER UTILITY  
CITY OF NEW ALBANY

WASTEWATER UTILITY  
CITY OF NEW ALBANY  
AUDIT RESULTS AND COMMENTS

***COMPENSATION AND BENEFITS***

The rate of pay for employees of the Wastewater Utility was not included on a salary ordinance, resolution, or approved salary schedule.

All compensation and benefits paid to officials and employees must be included in the salary ordinance adopted by the legislative body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***SANITATION CHARGES***

The City adopted Ordinance Nos. G-09-36 and G-10-26 setting the rates to be charged for the collection of refuse, garbage, and yard waste (sanitation). However, we noted that the City did not comply with its existing ordinances because the fees charged to some customers for sanitation did not agree with the approved rates. We noted the following exceptions:

1. Some commercial customers are being charged more than the approved commercial rates.
2. Some churches are being charged more than the approved rates established for churches.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WASTEWATER UTILITY  
CITY OF NEW ALBANY  
EXIT CONFERENCE

The contents of this report were discussed on September 18, 2014, with April Dickey, Utility Office Manager, and Jeff Gahan, Mayor and President of the Sewer Board.