

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF KNOX

STARKE COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
12/05/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jeffery J. Houston	01-01-12 to 12-31-15
Mayor	Rick L. Chambers	01-01-12 to 12-31-15
President of the Board of Public Works	Rick L. Chambers	01-01-12 to 12-31-15
President Pro Tempore of the Common Council	Gregory L. Matt Donald Kring	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 KNOX, STARKE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Knox (City), for the period from January 1, 2013 to December 31, 2013. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

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

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit 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 Plans for the Federal Findings, incorporated within this report, were not verified for accuracy.

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

October 27, 2014

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CLERK-TREASURER
CITY OF KNOX

CLERK-TREASURER
CITY OF KNOX
FEDERAL FINDINGS

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

We noted deficiencies in the City's internal control system related to the Schedule of Expenditures of Federal Awards (SEFA) which we believe constitute material weaknesses. Effective internal control over reporting of federal expenditures on the SEFA involves the identification and analysis of the risks of material misstatement to the City's audited SEFA and then determining how those identified risks should be managed. The Clerk-Treasurer independently prepared the SEFA without oversight, review, or approval. The City has not identified risks to the preparation of a reliable SEFA and as a result has failed to design effective controls over the preparation of the SEFA to prevent or detect material misstatements.

The SEFA presented for audit contained several errors including incorrect CFDA numbers, incorrect federal program titles, and incorrect pass-through agencies. One program was incorrectly reported as a pass-through grant when it was a direct grant. Also, the amount of expenditures reported was incorrect for two of the three programs. The SEFA was overstated by \$48,718, which is 10 percent of the total SEFA expenditures. 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 in part:

"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.

CLERK-TREASURER
CITY OF KNOX
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."

***FINDING 2013-003 - INTERNAL CONTROLS OVER THE COMMUNITY DEVELOPMENT
BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII***

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's
Program and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Numbers: A19213DR209239, B12DC180001CF11209

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

Management of the City hired a Grant Administrator to ensure compliance with requirements of the Community Development Block Grants/State's Programs and Non-Entitlement Grants in Hawaii program, including the Davis-Bacon Act compliance requirements. They have not established an effective internal control system to monitor the Grant Administrator's Davis-Bacon Act procedures. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements and could also allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

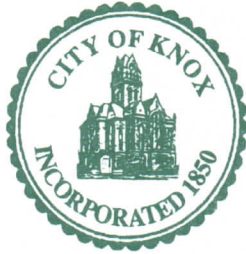
An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program.

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 noted above that have a direct and material effect on the program.



CORRECTIVE ACTION PLAN

FINDING 2013-001 Internal Controls over Schedule of Expenditures of Federal Awards (SEFA)

Contact person responsible for corrective action: Jeffery J. Houston
Contact phone number (574-772-3032)

DESCRIPTION OF CORRECTIVE ACTION PLAN

RE: PREPARING THE SEFA

The City has not identified risks to the preparation of a reliable SEFA and as a result failed to design effective controls over preparation of the SEFA to prevent material misstatement.

CITY'S RESPONSE

Within the Clerk-Treasurers office it is the responsibility of the Deputy Clerk-Treasurer to complete the Annual Report and SEFA report. Greater care will be taken in reporting the CFDA number, the Federal Grant title, pass through agency and expenditures.

In order to establish a system of checks and balances within the Clerk-Treasurers office, the Clerk-Treasurer will participate in compiling these reports and will verify the accuracy of the data.

This change in internal control structure will insure that federal compliance requirements have been met that have a direct and material effect on the program.

Anticipated completion date: The completion date of this finding is March 1st 2015 as this is when the 2014 annual report and SEFA are to be completed.

Jeffery J. Houston
Clerk-Treasurer
City of Knox
August 11, 2014



CORRECTIVE ACTION PLAN

FINDING 2013-003 Internal controls over compliance requirements that have a direct and significant effect to the Community Development Block Grants, State Program and Non-Entitlement Grants in Hawaii.

Contact person for corrective action: Jeffery J. Houston
Contact phone number: (574-772-3032)

Description of Corrective Action Plan:

RE: DAVIS BACON COMPLIANCE

The City has not established an effective internal control system to monitor the Grant Administrator's Davis Bacon Act procedures.

CITY'S RESPONSE

In order to establish an effective monitoring process the Clerk-Treasurer's office will request payroll verification through KIRPC to monitor that proper wage rates are being followed. The payroll verifications will be randomly requested by KIRPC and will be documented. As another level of control and in order to establish a set of checks and balances within the Clerk-Treasurer's office, the Clerk-Treasurer and the Deputy Clerk-Treasurer will also review the same payroll records and verify that they are in compliance with grant requirements.

Anticipated completion Date: This plan has been established as a standard operating procedure as of August 11, 2014 and will continue on an ongoing basis with further grants.

Jeffery J. Houston
Clerk-Treasurer
City of Knox
August 11, 2014

CLERK-TREASURER
CITY OF KNOX
AUDIT RESULT AND COMMENT

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property. The Utility Clerk explained that the City has not filed delinquent wastewater fees and penalties for at least the past two years. On July 23, 2013, the Utility Clerk sent a letter to 34 customers with delinquent wastewater fees and penalties explaining that the City would record the delinquency with the County Recorder. Since that time, all but 6 have paid but the delinquencies have not been recorded with the County Recorder.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;
 - (B) A description of the premises, as shown by the records of the county auditor.
 - (C) The amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

(c) The officer shall record a copy of each list or each individual instrument with the county recorder . . .

(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May."

CLERK-TREASURER
CITY OF KNOX
EXIT CONFERENCE

The contents of this report were discussed on October 27, 2014, with Jeffery J. Houston, Clerk-Treasurer, and with Rick L. Chambers, Mayor.

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CITY COURT
CITY OF KNOX

CITY COURT
CITY OF KNOX
FEDERAL FINDING

***FINDING 2013-002 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS - CITY COURT***

The City Court has not established internal controls to ensure that deposits are made no later than the next business day as required by Indiana statute. We noted several instances of daily receipts not deposited until several days later. For the days reviewed, deposits were made between one and eight business days after the receipt date.

The December 31, 2013 reconciliation of the Court Cash Book to the depository balance included two deposit amounts dated several months earlier. Receipts of \$6,041 originally dated July 30, 2013, were not deposited until June 18, 2014, nearly a year later. The City Court Clerk explained that the deposit was misplaced in her office and was deposited when discovered. Receipts of \$2,683, originally dated April 22, 2013, were also misplaced in her office. Only the check and money order portion of the receipts, \$1,784, was found August 17, 2014, and deposited August 19, 2014. The cash portion of the deposit, \$899, was paid by the City Court Clerk and deposited on August 29, 2014. Money orders totaling \$383.50 were rejected by the issuer because they were stale-dated. The City Court Clerk is working with the money order business to get replacement funding.

The failure to establish adequate internal controls over the deposit process could enable material misstatements or irregularities to remain undetected. Failure to deposit public funds later than the next business day is also a violation of Indiana statutes.

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 City and Town Courts, Chapter 4)

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

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



KNOX CITY COURT
101 WEST WASHINGTON STREET
KNOX, INDIANA 46534

CHARLES F. HASNERL – JUDGE
ANGELA K. JESUIT – CLERK
REBECCA CZARNECKI – BAILIFF

PHONE: 574-772-3766
FAX: 574-772-7224

September 10, 2014

Corrective Action Plan

Contact Person: Angela Jesuit (Clerk)

Section II – Financial Statement Findings

**FINDING 2013-002 – INTERNAL CONTROLS AND COMPLIANCE OVER
FINANCIAL TRANSACTIONS – CITY COURT**

New Internal controls –

The following issues have been addressed:

1. Deposits need to be made no later than the next business day.
2. Funds need to be kept in a secure location while waiting for deposit.
3. Training and distribution of responsibility in the event that the Clerk is absent.

Changes that have been made:

1. During a normal business day, all members of the court staff are responsible for receipting incoming funds. The money box has been relocated so that it is generally in view of a court staff member at all times. At the close of a business day; funds are counted by the Clerk, the till (Odyssey) is reconciled, and the deposit slip is prepared for deposit the following morning. The \$100 cash that is kept in the cash box is counted at that time and all of those funds are placed into the bank bag and locked in a desk drawer in the inner office.
2. There have been new locks added so that the inner office can also be locked to prevent persons other than court staff members from entering the area where the



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money is secured. There are copies of all of these keys located in the key box in the City Clerk-Treasurers office.

3. In the event that the Court Clerk is unavailable to remove, secure, and facilitate the deposit; the responsibility falls to the office assistant. The necessary training has been completed to ensure that this process can happen without fail.

Note: In the event that a deposit cannot be made the next business day, notations will be made to the deposit slip to explain.

Examples : Power failure that prevents reconciliation or holidays.

CITY COURT
CITY OF KNOX
EXIT CONFERENCE

The contents of this report were discussed on September 16, 2014, with Angela K. Jesuit, City Court Clerk, and Charles F. Hasnerl, City Court Judge.