

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF ELKHART

ELKHART COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
02/06/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Mayor	Dick Moore	01-01-12 to 12-31-15
President of the Board of Public Works	Michael C. Machlan	01-01-13 to 12-31-14
Controller	Stephen J. Malone	01-01-13 to 12-31-14
President of the Common Council	Ronald D. Troyer	01-01-13 to 12-31-14
City Clerk	Sue M. Beadle	01-01-12 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF ELKHART, ELKHART COUNTY, INDIANA

This report is supplemental to our audit report of the City of Elkhart (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 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 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 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

October 28, 2014

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CITY CONTROLLER
CITY OF ELKHART

CITY CONTROLLER
CITY OF ELKHART
FEDERAL FINDINGS

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

The City did not have a proper system of internal controls 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 our audit, we noted the SEFA contained the following errors:

One grant amount was not included: Bulletproof Vest Partnership Program (CFDA Number 16.607) in the amount of \$2,962.

Five grants were reported with incorrect amounts: Community Development Block Grants/Entitlement Grants (CFDA 14.218), B-12-MC-18-0015, was over reported by \$26,295; Community Development Block Grants/Entitlement Grants (CFDA 14.218), B-13-MC-18-0015, was over reported by \$4,812; Neighborhood Stabilization Program 1 (CFDA 14.218), B-08-MN-18-0002, was over reported by \$20,632; Neighborhood Stabilization Program 3 (CFDA 14.218), B-11-MN-18-0002, was underreported by \$39,620; and Capitalization Grants for Clean Water State Revolving Funds (CFDA 66.458) was over reported by \$208,367.

Two grants reported on the SEFA were not federal grants.

Four grant names were not correct.

Ten direct grants were listed as if received through pass-through entities.

The names of seven pass-through entities listed were not correct.

Three grant identifying numbers were not correct.

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."

CITY CONTROLLER
CITY OF ELKHART
FEDERAL FINDINGS
(Continued)

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."

FINDING 2013-002 - INTERNAL CONTROLS OVER PROGRAM INCOME COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS CLUSTER

Federal Agency: Department of Housing and Urban Development

Federal Program: Community Development Block Grants/Entitlement Grants

CFDA Number: 14.218

Federal Award Number and Year (or Other Identifying Number): B-12-MC-18-0015, B-13-MC-18-0015,
B-08-MN-18-0002, B-11-MN-18-0002

The City has not established an effective internal control system related to the recording and reconciling of program income for the Community Development Block Grant, Neighborhood Stabilization Program 1, and Neighborhood Stabilization Program 3 grant programs. Due to the lack of effective controls, management has not identified discrepancies in relation to program income.

In regards to the Community Development Block Grant, program income received was not always reported to the federal agency as required or used prior to the next drawdown.

CITY CONTROLLER
CITY OF ELKHART
FEDERAL FINDINGS
(Continued)

In regards to the Neighborhood Stabilization Program 1 and the Neighborhood Stabilization Program 3, program income was not reported separately in the fund ledger but was comingled with grant drawdowns received from the federal agency.

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."

24 CFR 85.25(a) states:

"Grantees are encouraged to earn income to defray program costs. Program income includes income from fees for services performed, from the use or rental of real or personal property acquired with grant funds, from the sale of commodities or items fabricated under a grant agreement, and from payments of principal and interest on loans made with grant funds. Except as otherwise provided in regulations of the Federal agency, program income does not include interest on grant funds, rebates, credits, discounts, refunds, etc. and interest earned on any of them."

24 CFR 85.25(g) states in part:

"Program income shall be deducted from outlays which may be both Federal and non-Federal as described below, unless the Federal agency regulations or the grant agreement specify another alternative (or a combination of the alternatives). In specifying alternatives, the Federal agency may distinguish between income earned by the grantee and income earned by subgrantees and between the sources, kinds, or amounts of income. When Federal agencies authorize the alternatives in paragraphs (g) (2) and (3) of this section, program income in excess of any limits stipulated shall also be deducted from outlays."

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

FINDING 2013-003 - INTERNAL CONTROLS OVER REPORTING COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS CLUSTER

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants
CFDA Number: 14.218

Federal Award Number and Year (or Other Identifying Number): B-12-MC-18-0015, B-13-MC-18-0015,
B-08-MN-18-0002, B-11-MN-18-0002

CITY CONTROLLER
CITY OF ELKHART
FEDERAL FINDINGS
(Continued)

The City has not established an effective internal control system related to the reconciling of City's funds ledger and the Community Development Block Grant (CDBG), Neighborhood Stabilization Program 1 (NSP1), and Neighborhood Stabilization Program 3 (NSP3) grant records.

There were no reviews of the subsidiary ledgers for the CDBG, NSP1, and NSP3 funds, and the subsidiary ledgers were not properly reconciled to the funds ledger.

The City has not established an effective internal control system relating to the reporting of financial information for the CDBG, NSP1, and NSP3 grant programs. As a result, management has not identified errors in the quarterly reports sent to the U.S. Department of Housing and Urban Development.

The reviews of the quarterly Federal Financial Reports filed for the CDBG and the reviews of the quarterly Performance Reports for the NSP1 and the NSP3 did not reveal the inconsistencies between the reports and the City's funds ledger and subsidiary ledgers.

The 2013 quarterly Federal Financial Reports filed for the CDBG's first quarter, third quarter, and fourth quarter were not mathematically accurate and/or complete, nor were they supported by the City's records. Although the Department Head reviewed and approved the Federal Financial Reports, the errors made on the reports were not discovered.

The 2013 quarterly Performance Reports for NSP1 and NSP3 were not supported by the City's records. Program income was not separated from grant fund reimbursements received and posted in the fund ledger. Grant fund reimbursements were not always posted to the correct funds in the fund ledger and the NSP1 and NSP3 subsidiary ledgers did not accurately reflect the drawdowns and program income reported to the federal agency on the DRGR system.

Drawdown Voucher Reports prepared by the NSP Specialist for the posting of receipts into the funds ledger did not always accurately reflect the actual drawdowns for NSP1 and NSP3, nor were the drawdowns posted accurately to the NSP1 and NSP3 subsidiary ledgers.

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."

24 CFR 85.20(b) states in part:

"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 activities 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."

CITY CONTROLLER
CITY OF ELKHART
FEDERAL FINDINGS
(Continued)

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

The Honorable
Dick Moore
Mayor

Stephen J. Malone
City Controller



574.294.5471
Fax: 574.294.8491

City Controller's Office
229 S. Second St.
Elkhart, Indiana
46516

CORRECTIVE ACTION PLAN

Finding 2013-001 - Internal Controls Over Preparation Of Schedule Of Expenditures Of Federal Awards

Contact Person: Stephen J. Malone, Controller
Contact Phone Number: 574-294-5471

Description of Corrective Action Plan: Although the City organizational structure includes a Grants Department, a substantial amount of grant activity occurred in a decentralized manner. The origin of data used in preparation of the schedule of expenditures for federal awards was decentralized and the SEFA report was dependent upon data from various departmental sources. The means to corroborate the data provided was unreliable. A policy change was initiated in 2014 requiring all grant awards and documents to be provided to the Deputy Treasurer in the Controller's Office in order to track all grant activity at a centralized point and, thereby, corroborate the accuracy of data provided for each CFDA as well as grant receipts and expenditures.

Anticipated Completion Date: Policy changed March 10, 2014 establishing new procedures for a central repository of grant awards and assignment of responsibility to prepare the SEFA report.

Finding 2013-002 – Internal Controls Over Program Income Compliance Requirements That Have A Direct And Material Effect To Community Development Block Grants/Entitlement Grants Cluster

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants Cluster
CFDA Number: 14.218
Federal Award Number and Year: B-12-MC-18-0015, B-13-MC-18-0015, B-08-MN-18-0002, B-11-MN-18-0002.
Contact Person: Stephen J. Malone, Controller
Contact Phone Number: 574-294-5471

Description of Corrective Action Plan: The Controller's Office will meet with the Community Development Department Head, who administers the Community Development Block Grants, to review current accounting and program expenditure practices. Accounting procedures will be revised to separate program income from NSP grant funds and to delineate between expenditures

of grant funds and program income funds. This will facilitate proper reporting of both program income and grant funds.

Anticipated Completion Date: Corrective measures are expected to be in place by December 1, 2014.

Finding 2013-003 – Internal Controls Over Reporting Compliance Requirements That Have A Direct And Material Effect To Community Development Block Grants/Entitlement Cluster

Federal Agency: Department of Housing and Urban Development

Federal Program: Community Development Block Grants/Entitlement Grants Cluster

CFDA Number: 14.218

Federal Award Number and Year: B-12-MC-18-0015, B-13-MC-18-0015, B-08-MN-18-0002, B-11-MN-18-0002.

Contact Person: Stephen J. Malone, Controller

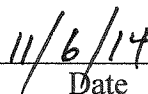
Contact Phone Number: 574-294-5471

Description of Corrective Action Plan: The City has in place an internal control system to review and reconcile the CDBG, NSP 1, and NSP 3 grant records to the City's funds ledger. The Deputy Treasurer meets monthly with the Community Development Department Head, who administers the Community Development Block Grants, to reconcile grant records to the City's funds ledger. Co-mingling program income and expenditures with grant funds contributed to inaccuracies in the way some of the activity was represented in reporting and contributed to difficulty in the auditing function. The monthly review and reconciling meetings are in place and will continue into the future. The accounting of program income and expenditures will be separated from grant revenue and expenditures as described above. Subsidiary ledgers will be reconciled monthly with the City's funds ledger. The Community Development Department Head will review the Federal Financial Reports and the Performance Reports for completeness and mathematical accuracy prior to submission.

Anticipated Completion Date: Accounting procedures will be revised to separate program income and expenditures from grant revenue and expenditures by December 1, 2014. A written report of verification of the monthly reconciling of subsidiary ledgers with the City's funds ledger will be development by January 31, 2015. The Community Development Department Head will develop a protocol to ensure mathematical accuracy and eliminate discrepancies in the Federal Financial Reports and the Performance Reports by the end of the first quarter of 2015.


Signature


Title


Date

CITY CONTROLLER
CITY OF ELKHART
EXIT CONFERENCE

The contents of this report were discussed on October 28, 2014, with Stephen J. Malone, Controller; Dick Moore, Mayor; and Ronald D. Troyer, President of the Common Council.

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CITY CLERK
CITY OF ELKHART

CITY CLERK
CITY OF ELKHART
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliations contained errors and did not balance. The amount shown on the reconciliation for outstanding checks was not accurate. The outstanding check list shows all checks outstanding that were written before January 1, 2012, as a single amount. The listing of individual checks that make up this single amount is \$735 less than the amount stated on the bank reconciliation.

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)

RECONCILIATION OF SUBSIDIARY LEDGERS

The City Clerk's detailed Trust Register was not in balance with the City Clerk's Cash Book trust balance at December 31, 2013. The detailed Trust Register was \$2,573 less than the Cash Book trust balance of \$14,770.

The City Clerk's detailed Cash Bond Register was not in balance with the City Clerk's Cash Book bond balance at December 31, 2013. The detailed Cash Bond Register was \$1,265 more than the Cash Book cash bond balance of \$30,608.

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)

July 31, 2014

Mr. Paul D. Joyce, CPA

State Examiner

Indiana State Board of Accounts

Dear Mr. Joyce,

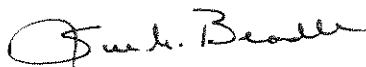
Thank you for discussing some areas that need to be improved upon in the books of Elkhart City Court. I will give you my assessment of steps I think should be taken to remedy the issues we discussed.

Outstanding checks: I will go back through the closed checkbook carbon copies of the checks and make sure we haven't missed any returned non-deliverable or closed checks. This should be much easier since the time to hold unclaimed funds has been compacted in recent years.

Trust and Bond registers: I will go back and make sure that disbursements had the proper fund designation on the memo portion of the checks and that the cases were properly closed in the respective register. In the recent past there were several staff members that had the authority to write bond release checks and restitution checks. Now that authority is shared with only the Clerk, 1st Deputy and the Court Administrator.

Thank you for your time and helpful suggestions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Sue M. Beadle".

Sue M. Beadle

Elkhart City Clerk



City of Elkhart, Indiana
the city with a heart



*The Honorable
Dick Moore
Mayor*

*Stephen J. Malone
City Controller*

574.294.5471
Fax: 574.294.8491

City Controller's Office
229 S. Second St.
Elkhart, Indiana
46516

**CITY OF ELKHART
CITY CONTROLLER'S NOTES TO AUDIT REPORT
FOR YEAR ENDED DECEMBER 31, 2013**

When reading the audit report compiled by the Indiana State Board of Accounts for records ending December 31, 2013, it is important to note that financial records maintained by the City Clerk have been included as a component of the City of Elkhart reporting entity. However, the financial records reported by the City Clerk are distinct and separate from the financial records maintained by the City Controller. An interface between the two sets of records does not exist. Because there is no shared accounting and reconciling process and no shared financial depository, the City Controller has no access to and no knowledge of the Clerk's records and is, therefore, unable to certify accuracy of the records maintained by the City Clerk. Internal control of the Clerk's records rests solely with the City Clerk.

**CONTROLLER
CITY OF ELKHART, INDIANA**

September 11, 2014

CITY CLERK
CITY OF ELKHART
EXIT CONFERENCE

The contents of this report were discussed on July 8, 2014, with Sue M. Beadle, City Clerk.