

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF SEYMOUR

JACKSON COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
05/14/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Fred D. Lewis	01-01-12 to 12-31-15
Mayor	Craig Luedeman	01-01-12 to 12-31-15
President of the Board of Public Works	Craig Luedeman	01-01-13 to 12-31-15
President Pro Tempore of the Common Council	James W. Rebber	01-01-13 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF SEYMOUR, JACKSON COUNTY, INDIANA

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

April 9, 2015

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CLERK-TREASURER
CITY OF SEYMOUR

CLERK-TREASURER
CITY OF SEYMOUR
FEDERAL FINDINGS

**FINDING 2013-001 - INTERNAL CONTROL OVER THE PREPARATION
OF 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: State and Community Highway Safety program was understated \$594 and nonfederal funds in the amount of \$103,004 were included in the SEFA. These errors resulted in the SEFA being overstated \$102,410. 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.

CLERK-TREASURER
CITY OF SEYMOUR
FEDERAL FINDINGS
(Continued)

- (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 - SUSPENSION AND DEBARMENT

Federal Agency: Department of Homeland Security

Federal Program: Assistance to Firefighters Grant

CFDA Number: 97.044

Federal Award Number and Year (or Other Identifying Number): EMW-2012 FO-02762

The City failed to determine whether vendors they have entered into covered transactions with were suspended or debarred either by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity. The City's internal control system did not detect the noncompliance.

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 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.

44 CFR 13.35 states:

"Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, 'Debarment and Suspension.'"

CLERK-TREASURER
CITY OF SEYMOUR
FEDERAL FINDINGS
(Continued)

2 CFR, Subpart C, 180.300 states as follows:

"What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

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 check federal procurement transactions could cause federal programs to be used for vendors that are suspended or debarred.

We recommended that the City establish controls, including segregation of duties, related to the grant agreement and compliance requirements for Suspension and Debarment. We further recommended that the City comply with the Suspension and Debarment compliance requirements.

FINDING 2013-003 - INTERNAL CONTROL OVER PERIOD OF AVAILABILITY AND REPORTING

Federal Agency: Department of Homeland Security
Federal Program: Assistance to Firefighters Grant
CFDA Number: 97.044
Federal Award Number and Year (or Other Identifying Number): EMW-2012 FO-02762

The City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Period of Availability and Reporting that have a direct and material effect on the program. 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 has not designed and implemented adequate policies or procedures to ensure that the Period of Availability or Reporting requirements were being followed. The Fire Chief prepared all required reports; however, there were no controls to ensure that the reports were complete and accurate. In addition, the Fire Chief was the only individual aware of the Period of Availability requirements for the grant and no controls were in place to ensure that grant expenditures were within the period of availability as stated within the grant agreement.

CLERK-TREASURER
CITY OF SEYMOUR
FEDERAL FINDINGS
(Continued)

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 compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City establish controls, including segregation of duties, related to the grant agreement and compliance requirements noted above.



City of Seymour

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CRAIG LUEDEMAN

Clerk-Treasurer
FRED D LEWIS

City Council Members
JOHN J. REINHART

BRIAN D'ARCO

DANNY SLOAN

JAMES W. REBBER

DAVE EARLEY

LLOYD G. HUDSON

DARRIN BOAS

April 9, 2015

Indiana State Board of Accounts
302 W Washington St. Rm E-418
Indianapolis, In 46204

RE: Corrective action plan for findings: 2013-001
2013-002
2013-003

Dear Sirs,

I have been delivered a copy of the findings 2013-001; 2013-002; 2013-003 over the handling by the City of Seymour for monies received and paperwork kept and filed for a federal grant received by the Seymour Fire Department.

Finding 2013-001

When receiving such future grants we will work with the department receiving a grant to put better internal controls in place, between said department and our office, to properly record the receipt and disbursement of said funds with awareness to both offices.

Finding 2013-002

We will in the future, from any vendors awarded grant monies, make sure we verify they are not suspended or debarred from participating in grant funded programs by the federal government.

Finding 2013-003

Our office will in the future cooperatively work with any department receiving a federal grant to see that controls are in place, together, to see that proper compliance matters are handled together between the department and the administrative office holders.



City of Seymour

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We will work more closely with any departments receiving federal grants to see that all such matters are corrected with any future federal grants awarded the city.

Sincerely,

Fred D Lewis
Clerk-Treasurer
(812) 523-5881

CLERK-TREASURER
CITY OF SEYMOUR
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The following funds had overdrawn cash balances at December 31, 2013:

Fund	Amount Overdrawn
Payroll-Federal W/H	\$ 63
Net Payroll	5,700
Ameritas Life Ins Corp (DENTAL)	20,717
VSP Vision Insurance	7,121
MetLife Dental	10,206

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROPRIATIONS

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

Fund	Year	Excess Amount Expended
Certified Technology Park 2012	2013	<u>\$ 1,447</u>

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 FINES FOR MOVING TRAFFIC VIOLATIONS

As stated in the five prior reports, the City collects fines for ordinance violations, including those associated with moving traffic violations, through an Ordinance Violations Bureau established in accordance with Indiana Code 33-36. If a citizen waives their right to a trial, the City collects and retains the fine. We again noted instances where the City collected and retained fines for moving traffic violations through the Ordinance Violations Bureau rather than through a county, city or town court as required by statute.

Indiana Code 36-1-6-3(c) states: "An ordinance defining a moving traffic violation may not be enforced under IC 33-36 and must be enforced in accordance with IC 34-28-5."

The accounts of each public official and public office should reflect the proper treatment of fines collected for moving traffic violations as required by Indiana Code § 36-1-6-3(c), Indiana Code Ch. 34-28-5, and this Directive. Failure to do so will result in a civil action against those public officials who are responsible for the improper enforcement and collection of fines for moving traffic violations as allowable by law. (State Examiner Directive 2015-1)

CLERK-TREASURER
CITY OF SEYMOUR
EXIT CONFERENCE

The contents of this report were discussed on April 9, 2015, with Fred D. Lewis, Clerk-Treasurer; Craig Luedeman, Mayor; and James W. Rebber, President Pro Tempore of the Common Council.