

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, 2014 to December 31, 2014



FILED
05/18/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Linda S. Moeller	01-01-14 to 12-31-16
Mayor	Jeff Gahan	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Warren Nash	01-01-14 to 12-31-16
President of the Common Council	Pat McLaughlin	01-01-14 to 12-31-16
Utility Office Manager	April Dickey	01-01-14 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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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, 2014 to December 31, 2014. 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

March 9, 2016

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CONTROLLER
CITY OF NEW ALBANY

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CITY OF NEW ALBANY
FEDERAL FINDINGS

FINDING 2014-001 - 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.

The City has not established controls to effectively identify, manage, and report federal financial assistance. Under the current system, each department independently monitors their grant activities. Grant agreements and request for advances or reimbursements of federal funds are not always provided to the City Controller. Federal and state monitoring reports are prepared by each department based upon the records of grant activities maintained by the department. The City Controller relies on each department to report their federal financial assistance activities for use in preparing the SEFA. The City Controller inputs the grant information received from the departments into the grant schedule section of the Annual Report from which the SEFA is prepared. The City Controller compares the information provided by the departments to the prior audit report in an attempt to verify the inclusiveness of all grants in the schedule; however, the transactions reported are not verified to the financial records. Additionally, documentation was not presented to indicate a control was in place to ensure the accuracy and completeness of the schedule.

The City initially reported federal expenditures of \$1,898,393, but the audit of the SEFA identified errors totaling \$329,127. The errors included the omission of one of the City's federal grants from the SEFA that resulted in an understatement of federal expenditures in the amount of \$156,600, and four federal grants in which incorrect amounts were reported, resulting in a net understatement of \$172,527 in federal expenditures. 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:

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CITY OF NEW ALBANY
FEDERAL FINDINGS
(Continued)

- (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 2014-002 - 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.

1. Lack of Segregation of Duties: The City has not separated incompatible activities related to financial close and reporting. At year end, a fund equity report is printed out, along with the revenue ledger and disbursements ledger, that is the basis for preparing the City's Annual Financial Report. The financial information is entered by the Controller into the Gateway system, a financial reporting system established by the state to allow governmental units to file Annual Financial Reports. Information entered into the Gateway system is reviewed by the Controller to ensure that it agrees with the ledger. When the information agrees, the Controller submits the Annual Financial Report. There was no documentation presented to indicate that someone other than the Controller reviewed or approved the Annual Financial Report prior to submission. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.
2. Transaction Recording: The City has not developed controls to ensure all financial transactions of the Redevelopment Commission are timely and accurately recorded in the City's records. The City previously transferred its Green Valley Road Fire Station to the Redevelopment Commission. The Redevelopment Commission subsequently sold the property for economic development purposes and received net proceeds of \$1,495,897 from

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CITY OF NEW ALBANY
FEDERAL FINDINGS
(Continued)

the sale. The net proceeds were wired to a financial institution and with authorization from representatives of the Redevelopment Commission the proceeds were disbursed for the following expenses related to the purchase/construction of the City's Daisy Lane Fire Station:

- A. Scheduled loan payment on the new Daisy Lane Fire Station in the amount of \$208,061.
- B. Principal reduction on loan for new Daisy Lane Fire Station in the amount of \$800,406.
- C. Additional contribution to the project fund for the construction on the new Daisy Lane Fire Station in the amount of \$487,430.

Representatives of the Redevelopment Commission failed to provide the Controller with the information and documentation of the above transactions. As a result of the City not having controls in place over financial transactions of the Redevelopment Commission, the City failed to record the net proceeds of \$1,495,897 from the sale of the Green Valley Road Fire Station and the \$1,495,897 in disbursements as outlined above. Audit adjustments were proposed, accepted by the City, and made to the financial statement presented in this report. These adjustments resulted in a financial statement that is materially correct.

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)

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)



City of New Albany

City Controller

CORRECTIVE ACTION PLAN

FINDING 2014-001

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

Description of Corrective Action Plan:

The Federal Award information is obtained from the departments by the Controller. The file provided is verified with supporting documentation of date submissions and ledgers by the Controller. The Federal Award or Grant is then reporting into Gateway. Prior to submission of the Gateway report the data is audited by an accountant in the Controller's Office and initialed.

Linda Moeller
(Signature)

Controller
(Title)

Feb. 17 2016
(Date)



City of New Albany

City Controller

CORRECTIVE ACTION PLAN

FINDING 2014-002

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

Description of Corrective Action Plan:

- (1) The financial data entered into Gateway from the ledgers are verified and reviewed by the Controller and by the Accountant in the Controller's Office. I have initiated a procedure that the person verifying the figures in Gateway to the reports will initial the ledgers, these ledgers and supporting documentation will be maintained in the Controller's Office records.

Linda Moeller
(Signature)

Controller
(Title)

Feb. 17, 2016
(Date)

CONTROLLER
CITY OF NEW ALBANY
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliation of some accounts did not balance.

A review of the 2014 monthly reconcilements of the City's main checking account indicated that record balances were not fully reconciled to the depository balances. As of December 31, 2014, the bank account reconciliation for the City's main checking account identified a cash short in the amount of \$148,419. Officials have been unable to determine the source of the unidentified cash variance being shown in its financial records that exceeds the net reconciled balance for all funds accounted for in the City's main checking account. Monthly reconcilements show that the City has consistently maintained this variance since December 2013.

A review of the 2014 monthly reconcilements of one of the City's Wastewater Utility Operating account indicated that the record balances were not fully reconciled to the depository balance. As of December 31, 2014, the bank account reconciliation for this Wastewater Utility Operating checking account identified a cash long in the amount of \$323,693. Officials have been unable to determine the source of the unidentified cash in the bank account that has not been recorded in the records. Monthly reconcilements show that the City has consistently maintained this variance since July 2013.

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)

PENALTIES, INTEREST, AND OTHER CHARGES

The City paid penalties and interest to the United States Department of the Treasury in the amount of \$2,017 for failure to timely remit payroll withholdings for the period ending June 30, 2014.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)



City of New Albany

City Controller

March 11, 2016

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

Re: Official Response of 2014 Audit

The City of New Albany is pleased with the findings of an unmodified report with no significant deficiencies as revealed during the March 9, 2015 State Board of Accounts "exit conference" for the Budget year 2014.

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

1. All bank accounts, SRF funds and investments are being reconciled on a monthly basis with balance statements provided for all depositories. The variances identified by my office have remained consistent since 2013; these variances may date back to 2002. When action is taken the city will report an increase to City funds in the amount of \$175,277.
2. Payroll Withholdings are paid to the Department of Treasury twenty six times per year. This one time occurrence reflects a penalty for being one day late. At the time of the occurrence safeguards were established to prevent future incidents.

Sincerely,

Linda Moeller

CONTROLLER
CITY OF NEW ALBANY
EXIT CONFERENCE

The contents of this report were discussed on March 9, 2016, with Linda S. Moeller, Controller; Jeff Gahan, Mayor; Pat McLaughlin, President of the Common Council; and Shane Gibson, Corporate Council.

The contents of this report were also discussed on March 14, 2016, with David Aebersold, Common Council member; Dave Barksdale, Common Council member; Scott Blair, Common Council member; and Robert Caesar, Common Council member.

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FIRE DEPARTMENT
CITY OF NEW ALBANY

FIRE DEPARTMENT
CITY OF NEW ALBANY
FEDERAL FINDING

***FINDING 2014-003 - INTERNAL CONTROLS OVER 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 the following compliance requirements: Activities Allowed or Unallowed; Allowable Costs/Costs Principles; Cash Management; Period of Availability; and Reporting.

Activities Allowed or Unallowed

The City's Program Administrator prepared and submitted the SAFER Request for Funds to obtain reimbursement for expenses incurred. No evidence was presented to indicate that a control was in place to ensure all costs submitted for reimbursement were for activities allowed under the program.

Allowable Costs/Costs Principles

The City's Program Administrator prepared and submitted the SAFER Request for Funds to obtain reimbursement for expenses incurred. No evidence was presented to indicate that a control was in place to ensure all costs submitted for reimbursement were for allowable costs of the program.

Cash Management

The City's Program Administrator prepared and submitted the SAFER Request for Funds to obtain reimbursement for expenses incurred. No evidence was presented to indicate that a control was in place to ensure all costs submitted for reimbursement had been incurred and paid prior to requesting reimbursements.

Period of Availability

The City's Program Administrator prepared and submitted the SAFER Request for Funds to obtain reimbursement for expenses incurred. No evidence was presented to indicate that a control was in place to ensure all costs submitted for reimbursement had been incurred within the period of availability.

FIRE DEPARTMENT
CITY OF NEW ALBANY
FEDERAL FINDING
(Continued)

Reporting

The City's Program Administrator prepared and submitted all required reports for the program. No evidence was presented that a control was in place to ensure the reports were accurate and complete.

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.

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

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

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements 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 listed above.



City of New Albany

City Controller

CORRECTIVE ACTION PLAN

FINDING 2014-003

Contact Person Responsible for Corrective Action: Matt Juliot
Contact Phone Number: 812-948-5333

Description of Corrective Action Plan:


The SAFER Grant through Homeland Security was awarded in September of 2011, last report was filed March 25, 2014 and last payment request filed March 26, 2014. On July 27, 2015 the Grant Administrator received notice that the web site to file closeout was not available so close out was filed October 8, 2015 at the first available opportunity.

This Grant provided salaries and benefits for eight firefighters. The figures were obtained from the Controller's Office, reports prepared by the Grant Administrator and reviewed by myself. Due to when the audit findings were released for 2013 it was not possible to impose corrective action for the reports filed in March of 2014. There were no further reports filed for reimbursement in 2014 or 2015, Homeland Security has sent notice acknowledging the official closing of this Grant in April, 2015.

I have met with the Controller and Grant Administrator to review internal controls and will continue to monitor all aspects of Grant reporting.


(Signature)


(Title)


(Date)

FIRE DEPARTMENT
CITY OF NEW ALBANY
EXIT CONFERENCE

The contents of this report were discussed on March 9, 2016, with Matt Juliot, Fire Chief; Linda S. Moeller, Controller; Jeff Gahan, Mayor; Pat McLaughlin, President of the Common Council; and Shane Gibson, Corporate Council.

The contents of this report were also discussed on March 14, 2016, with David Aebersold, Common Council member; Dave Barksdale, Common Council member; Scott Blair, Common Council member; and Robert Caesar, Common Council member.

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DEPARTMENT OF REDEVELOPMENT
CITY OF NEW ALBANY

DEPARTMENT OF REDEVELOPMENT
CITY OF NEW ALBANY
FEDERAL FINDING

FINDING 2014-004 - REPORTING

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants
CFDA Number: 14.218
Federal Award Numbers: B-12-MC-180018, B13-MC-180018

The City was the prime awardee for the Community Development Block Grants/Entitlement Grants program. As a prime awardee, the City is required to report in the Federal Funding Accountability and Transparency Act (FFATA) Sub-award Reporting System (FSRS) on its subgrants. Prime awardees are required to file a FFATA sub-award report by the end of the month following the month in which the prime awardee awards any subgrant equal to or greater than \$25,000. Management of the City has not established an effective internal control system to ensure all subgrants equal to or greater than \$25,000 are properly reported. In 2014, the City awarded three subgrants of at least \$25,000, but no FFATA reports were filed.

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 allowed noncompliance with compliance requirements and could 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.

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."

DEPARTMENT OF REDEVELOPMENT
CITY OF NEW ALBANY
FEDERAL FINDING
(Continued)

2 CFR, Subtitle A, Chapter I, Subpart C, Appendix A to Part 170, states in part:

"a. Reporting of first-tier subawards.

1. *Applicability.* Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5) for a subaward to an entity (see definitions in paragraph e. of this award term).
2. *Where and when to report.*
 - i. You must report each obligating action described in paragraph a.1. of this award term to <http://www.fsrs.gov>.
 - ii. For subaward information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)
3. *What to report.* You must report the information about each obligating action that the submission instructions posted at <http://www.fsrs.gov> specify. . . ."

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance with 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 compliance requirements that apply to Reporting. We further recommended that the City follow the reporting requirements related to the Federal Funding Accountability and Transparency Act (FFATA).



City of New Albany

City Controller


CORRECTIVE ACTION PLAN

FINDING 2014-004

Contact Person Responsible for Corrective Action: David Duggins
Contact Phone Number: 812-948-5333

Description of Corrective Action Plan:

The years reviewed by the auditor actually were for 2013 and 2014. There was two subgrants in 2013 and one in 2014. HUD did not send out any notice to their grantees regarding this new federal tracking system and when we were made aware of the new requirement during the audit the three subgrants were entered into the FSRS immediately. Everything was current by October 2015. Corrective action was taken promptly and controls established for any future subgrants that need to be reported.


(Signature)

Redevelopment Director
(Title)

02/23/2016
(Date)

DEPARTMENT OF REDEVELOPMENT
CITY OF NEW ALBANY
EXIT CONFERENCE

The contents of this report were discussed on March 9, 2016, with Dave Duggins, Economic Development and Redevelopment Director; Irving Joshua, President of the Redevelopment Commission; Linda S. Moeller, Controller; Jeff Gahan, Mayor; Pat McLaughlin, President of the Common Council; and Shane Gibson, Corporate Council.

The contents of this report were also discussed on March 14, 2016, with David Aebersold, Common Council member; Dave Barksdale, Common Council member; Scott Blair, Common Council member; and Robert Caesar, Common Council member.

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REDEVELOPMENT COMMISSION
CITY OF NEW ALBANY

REDEVELOPMENT COMMISSION
CITY OF NEW ALBANY
FEDERAL FINDING

***FINDING 2014-002 - 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.

1. Lack of Segregation of Duties: The City has not separated incompatible activities related to financial close and reporting. At year end, a fund equity report is printed out, along with the revenue ledger and disbursements ledger, that is the basis for preparing the City's Annual Financial Report. The financial information is entered by the Controller into the Gateway system, a financial reporting system established by the state to allow governmental units to file Annual Financial Reports. Information entered into the Gateway system is reviewed by the Controller to ensure that it agrees with the ledger. When the information agrees, the Controller submits the Annual Financial Report. There was no documentation presented to indicate that someone other than the Controller reviewed or approved the Annual Financial Report prior to submission. The failure to establish these controls could enable material mis-statements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.
2. Transaction Recording: The City has not developed controls to ensure all financial transactions of the Redevelopment Commission are timely and accurately recorded in the City's records. The City previously transferred its Green Valley Road Fire Station to the Redevelopment Commission. The Redevelopment Commission subsequently sold the property for economic development purposes and received net proceeds of \$1,495,897 from the sale. The net proceeds were wired to a financial institution and with authorization from representatives of the Redevelopment Commission the proceeds were disbursed for the following expenses related to the purchase/construction of the City's Daisy Lane Fire Station:
 - A. Scheduled loan payment on the new Daisy Lane Fire Station in the amount of \$208,061.
 - B. Principal reduction on loan for new Daisy Lane Fire Station in the amount of \$800,406.
 - C. Additional contribution to the project fund for the construction on the new Daisy Lane Fire Station in the amount of \$487,430.

REDEVELOPMENT COMMISSION
CITY OF NEW ALBANY
FEDERAL FINDING
(Continued)

Representatives of the Redevelopment Commission failed to provide the Controller with the information and documentation of the above transactions. As a result of the City not having controls in place over financial transactions of the Redevelopment Commission, the City failed to record the net proceeds of \$1,495,897 from the sale of the Green Valley Road Fire Station and the \$1,495,897 in disbursements as outlined above. Audit adjustments were proposed, accepted by the City, and made to the financial statement presented in this report. These adjustments resulted in a financial statement that is materially correct.

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)

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)



City of New Albany

City Controller


CORRECTIVE ACTION PLAN

FINDING 2014-002

Contact Person Responsible for Corrective Action: Irving Joshua
Contact Phone Number: 812-948-5333

Description of Corrective Action Plan:

(2) The proceeds from the Kroger acquisition and purchase from the City for the former fire house on Green Valley Road in the amount of \$1,495,897 were wired at closing directly to River Valley Bank to comply with the request of the New Albany Redevelopment Commission to pay down the obligations of the construction loan balance for the new Daisy Lane Firehouse and properties. The Commission has established a policy for future similar transactions that will provide the Controller's Office with closing and/or wiring instructions in order to properly record receipting, disbursing, and accounting over similar transactions.



(Signature)
President of Redevelopment

(Title)
02/23/2016

(Date)

REDEVELOPMENT COMMISSION
CITY OF NEW ALBANY
AUDIT RESULT AND COMMENT

USE OF TAX INCREMENT FINANCING (TIF) FUNDS

The City has established TIF allocation funds as authorized by Indiana Code 36-7-14-39. A review of expenditures paid from the TIF allocation funds during 2014 noted disbursements that were considered unallowable, such as repairs and/or maintenance of facilities and structures, and operating type expenses.

The City used TIF funds for ongoing maintenance of properties that have already been redeveloped. These include paving cart paths at Cherry Valley Golf Course in the amount of \$47,180 and mulching and weeding the flower beds and around trees in downtown for \$1,340.

The City used TIF funds for operating expenses of the Redevelopment Commission in the amount of \$1,725 for cell phone service, copier lease payments, training and travel expenses, and record storage fees.

Indiana Code 36-7-14-39(b)(3) states in part:

". . . property tax proceeds . . . shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following:

- (A) Pay the principal of and interest on any obligations payable solely from allocated tax proceeds which are incurred by the redevelopment district for the purpose of financing or refinancing the redevelopment of that allocation area.
- (B) Establish, augment, or restore the debt service reserve for bonds payable solely or in part from allocated tax proceeds in that allocation area.
- (C) Pay the principal of and interest on bonds payable from allocated tax proceeds in that allocation area and from the special tax levied under section 27 of this chapter.
- (D) Pay the principal of and interest on bonds issued by the unit to pay for local public improvements that are physically located in or physically connected to that allocation area.
- (E) Pay premiums on the redemption before maturity of bonds payable solely or in part from allocated tax proceeds in that allocation area.
- (F) Make payments on leases payable from allocated tax proceeds in that allocation area under section 25.2 of this chapter.
- (G) Reimburse the unit for expenditures made by it for local public improvements (which include buildings, parking facilities, and other items described in section 25.1(a) of this chapter) that are physically located in or physically connected to that allocation area.

REDEVELOPMENT COMMISSION
CITY OF NEW ALBANY
AUDIT RESULT AND COMMENT
(Continued)

(H) Reimburse the unit for rentals paid by it for a building or parking facility that is physically located in or physically connected to that allocation area under any lease entered into under IC 36-1-10.

(I) For property taxes first due and payable before January 1, 2009, . . .

(J) Pay expenses incurred by the redevelopment commission for local public improvements that are in the allocation area or serving the allocation area. Public improvements include buildings, parking facilities, and other items described in section 25.1(a) of this chapter.

(K) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located:

(i) in the allocation area; and

(ii) on a parcel of real property that has been classified as industrial property under the rules of the department of local government finance . . .

(L) Pay the costs of carrying out an eligible efficiency project (as defined in IC 36-9-41-1.5) within the unit that established the redevelopment commission. . . .

The allocation fund may not be used for operating expenses of the commission."

Payments or transfers which are not authorized by statute, ordinance, resolution, or court order must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

The uses of TIF funds are restricted to those set forth in the Indiana Code. The power of a redevelopment commission to expend such funds is limited to the express statutory powers as set forth in Indiana Code 36-7-14. The use of TIF funds for ongoing maintenance of redeveloped property is not an expressly or impliedly permitted use, except as provided in Indiana Code 36-7-1-18(7) for repairing and maintaining buildings acquired before redevelopment is complete. (Redevelopment Commission of the Town of Munster, Indiana, v. Indiana State Board of Accounts and Paul D. Joyce, State Examiner of State Board of Accounts, 28 N.E.3d 272 (Ind. App., 2015) trans. denied, 34 N.E.3d 251)



New Albany Redevelopment Commission

DEPARTMENT OF REDEVELOPMENT
ROOM 325, CITY-COUNTY BUILDING
311 HAUSS SQUARE

NEW ALBANY, INDIANA 47150-3586

Phone: 1.812.948.5333

Fax: 1.812.948.6803

March 22, 2016

State Board of Accounts

RE: Tax Increment Finance Comments 2014 Audit

To Whom It Concerns:

The New Albany Redevelopment Commission is authorized under Indiana Code 36-7-4 to expend funds for redevelopment of properties within the respective allocation area. The Commission disagrees with the State Board of Accounts determination that funds expended to build cart paths at Cherry Valley Golf Course were ongoing operating expenses. Cherry Valley Golf Course never had surfaced cart paths on the property. The Commission determined that the use of funds to construct new pathways on the course was an appropriate allocation and a public improvement at this site, similar to actions taking in other areas of the City to construct new sidewalks or replace roadways. The other expenses were inadvertently paid with a TIF fund and should have been allocated to another fund for those costs. The Commission has implemented additional controls to ensure expense for maintenance and operating are allocated to the proper funds.

Sincerely,

David Duggins, Director



REDEVELOPMENT COMMISSION
CITY OF NEW ALBANY
EXIT CONFERENCE

The contents of this report were discussed on March 9, 2016, with Dave Duggins, Economic Development and Redevelopment Director; Irving Joshua, President of the Redevelopment Commission; Linda S. Moeller, Controller; Jeff Gahan, Mayor; Pat McLaughlin, President of the Common Council; and Shane Gibson, Corporate Council.

The contents of this report were also discussed on March 14, 2016, with David Aebersold, Common Council member; Dave Barksdale, Common Council member; Scott Blair, Common Council member; and Robert Caesar, Common Council member.

WASTEWATER UTILITY
CITY OF NEW ALBANY

WASTEWATER UTILITY
CITY OF NEW ALBANY
AUDIT RESULT AND COMMENT

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 for the year 2014.

Resolution SB-14-05 was passed by the Sewer Board on December 11, 2014, setting the salaries for the for employees of the Wastewater Utility for 2015.

All compensation and benefits paid to officials and employees must be included in the salary ordinance adopted by the governing 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)



City of New Albany, Indiana

Shane Gibson
Corporate Counsel

March 22, 2016

State Board of Accounts

RE: Wastewater Utility Finding Audit 2014

To Whom It Concerns:

The Waste Water Utility is governed by the New Albany Sewer Board. The Sewer Board has authority to set budgets and salaries for employees of the Utility. The State Board of Accounts issued findings that the Board failed to pass a resolution setting salaries for 2014. The Board did pass a resolution for 2015 salaries in the 2014 budgetary process but due to an oversight no such resolution was done for 2014. The Sewer Board did, however, pass the appropriate budget for the time period of 2014 which incorporated the approved salaries of the employees. The Sewer Board has implemented procedures to pass the appropriate resolutions for salaries of employees and the budget at the same time in the future.

Sincerely,

A handwritten signature in blue ink, reading "Shane L. Gibson". The signature is fluid and cursive, with the first name "Shane" being more prominent.

Shane L. Gibson

Sewer Board Attorney and Corporate Counsel

WASTEWATER UTILITY
CITY OF NEW ALBANY
EXIT CONFERENCE

The contents of this report were discussed on March 9, 2016, with Jeff Gahan, Mayor and President of the Sewer Board; Linda S. Moeller, Controller; Pat McLaughlin, President of the Common Council; and Shane Gibson, Corporate Council.

The contents of this report were also discussed on March 14, 2016, with David Aebersold, Common Council member; Dave Barksdale, Common Council member; Scott Blair, Common Council member; and Robert Caesar, Common Council member.