

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF LAFAYETTE

TIPPECANOE COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
05/27/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	J. Michael Jones	01-01-14 to 12-31-16
Mayor	Tony Roswarski	01-01-12 to 12-31-19
President of the Board of Public Works	Gary Henriott	01-01-14 to 12-31-16
President of the Common Council	Steve Meyer Lauren Ahlersmeyer Ronald Campbell	01-01-14 to 12-31-14 01-01-15 to 12-31-15 01-01-16 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF LAFAYETTE, TIPPECANOE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Lafayette (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 Finding 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 Finding, identified in the above referenced audit report, is 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 Finding 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 7, 2016

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CONTROLLER
CITY OF LAFAYETTE

CONTROLLER
CITY OF LAFAYETTE
FEDERAL FINDING

FINDING 2014 -001 - PREPARATION OF THE FINANCIAL STATEMENTS

Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the City's audited financial statements and then determining how those identified risks should be managed. The City has identified risks to the preparation of reliable financial statements and has designed controls over the preparation of the financial statements, including notes to the financial statements, to prevent or detect material misstatements. However, it was determined that these controls were not effective due to a change in personnel and temporary under-staffing in the Controller's Office. This resulted in controls which were not effective in detecting all misstatements within the financial statements and notes to the financial statements.

The Deputy City Controller, a position which was vacant for over seven months, was responsible for preparing the financial statements and notes. The City Controller reviewed the financial statements and notes to the financial statements; however, material audit adjustments were necessary as follows:

1. Interest Expense and Accrued Interest Payable were overstated in the Wastewater Utility on the Proprietary Fund financial statements by \$1,065,150.
2. The Construction Commitments note was incomplete and not reflective of the 2014 activity.
3. The Capital Assets note understated the Governmental Activities Construction in Progress increases and decreases by \$1,503,271.
4. The Long-Term Liabilities note understated the Governmental Activities Revenue Bonds Interest debt service requirements to maturity by \$7,492,218.
5. The Risk Management note failed to disclose the City's membership in a Medical Trust - Public Entity Risk Pool.
6. The Pension Plans note and Required Supplementary Information required multiple revisions to properly disclose the pensions and financial statement restatements for the adoption of changes made by Indiana Public Retirement System (INPRS).

Audit adjustments were proposed, accepted by the City Controller, and made to the financial statements, notes to the financial statements and required supplementary information.

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)



April 5, 2016

Corrective Action Plan

FINDING NO. 2014-001

Contact Person: Mike Jones
Title of Contact Person: Controller
Phone Number: 765-807-1011

Corrective Action Planned:

We would like to address each of the six points noted in the finding individually. Overall the City of Lafayette believes that the internal controls that exist are in fact sufficient to properly present a fair and accurate picture of its operations. The fact that our cash was correct and tied out is testament to that. However, in the time period when the financials were being prepared several one-time circumstances occurred.

First and foremost, the City is replacing its ERP software and the first milestone was going live with the new financial package at the same time we were preparing statements from our legacy system. This is a very large and complex software package as witnessed by the over one year of planning we had been going through to that point. At the same time, the Deputy Controller had taken another position and left the employment of the City. Thus, with limited staff, a myriad of tasks with the new software, running several modules of the old software, preparing for implementation of other modules of the new software, my review was not complete. These circumstances will not be occurring again.

Item 1 is the result of a timing issue between the bank that is our paying agent for this bond and the methodology employed by all of our other bond paying agents. We transfer funds from operations to debt service accounts before the end of the year. On the first day of the year the bond paying agent takes the funds from debt service and pays bondholders. In this instance the bond paying agent paid the interest before 12/31/14 for the convenience of the bank. We have a meeting set up with the bank to rectify this so that this situation will not happen again.

Items 2, 3, and 4 relate to the supporting notes. Our financial statement was in fact correct but I did not see that the inclusion of those proper numbers to the supplemental schedules either in part or in total, was completed satisfactorily. Worksheets have been redone and with the new

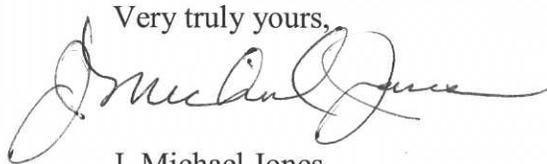
software there won't be the need to run several reports to produce information for proper note disclosure.

Item 5 concerns our health insurance trust participation. We have been a member of the IACT Medical Trust since 2009. I was not aware nor has it ever been mentioned by the SBOA in any of the audits prior to 2014 that my note was deficient. It will be added as long as we are a member of the Trust.

Item 6 was due to the complexity and confusion created by the implementation of GASB 68. Although we attended several webinars and read the information that was available we did not have the information in our note section properly reported. We will have a financial analyst review our note in the future before inclusion into the notes.

Anticipated Completion Date: Currently in Progress.

Very truly yours,

A handwritten signature in cursive script, appearing to read "J. Michael Jones".

J. Michael Jones
Controller

CONTROLLER
CITY OF LAFAYETTE
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

The Annual Financial Report for 2014, due March 1, 2015, was not filed electronically until April 2, 2015.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

APPROPRIATIONS

The expenditures of the Local Road and Street and Police Continuing Education funds were in excess of budgeted appropriations by \$45,666 and \$38,610, respectively.

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."

Amounts claimed for expenditures from the Local Law Enforcement Continuing Education Fund must be appropriated prior to expenditure either through the normal budget process or by additional appropriation [IC 33-37-8-4] (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)



April 15, 2016

Mr. Paul Joyce, CPA
Chief Examiner
State Board of Accounts
302 W. Washington Street Rm E 418
Indianapolis, IN 46204-2765

RE: Official Audit Response

Dear Mr. Joyce:

As we did last year the City of Lafayette is writing a brief response to the 2014 Audit results and comments. Overall the City of Lafayette concluded 2014 on a positive note as we have positive fund balances in all our operational funds.

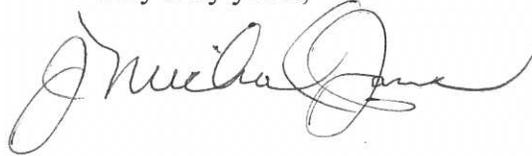
In the notes you will find that the City did spend in excess of budget in two funds. All of the amounts were deemed not material and were covered by cash balances. In the Police Education fund our corporate attorney had concluded, in an opinion letter, that the fund per I.C. code 5-2-8-2(d) can expend funds without the appropriation going before Council. To eliminate the confusion over this we will present this to Council for additional appropriation in the future. The Local Roads and Streets fund was the other fund that was overspent. We did in fact ask and receive an additional appropriation for this fund. However, due to delays, which included weather and because of incorrect infrastructure drawings, which were old, the project was delayed. Due to those factors an unanticipated change order was given but was received very late in the year.

Lastly I would like to address the findings. The finding concerns the internal controls of the City of Lafayette in producing the financials. I want to stress that the City does indeed have internal controls and they are quite stringent. The City did experience a one-time "perfect storm" of circumstances during the end of the fiscal year while trying to close the books and prepare the statement. The City was involved in a massive software conversion of its entire ERP system which is at this time approximately sixty percent complete. During this time my Deputy Controller left the employment of the City and we could not fill the position for the rest of the year. Our old system could not download reports into Excel and all supporting worksheets for the report had to be produced by copying the financial statement information into those embedded worksheet files. Because of these conditions the worksheets did contain some errors. These errors in any other set of circumstances would have been caught and corrected but the massive time requirements of the new software, some of those errors went unchecked. We now

have the Deputy Controller position filled and the financial module of the new software is in place and the City does not expect this set of circumstances to occur in the future.

Thank you for the opportunity to respond to the comments.

Very truly yours,

A handwritten signature in black ink, appearing to read "J. Michael Jones". The signature is fluid and cursive, with a large initial "J" and a long, sweeping tail.

J. Michael Jones
Controller

CONTROLLER
CITY OF LAFAYETTE
EXIT CONFERENCE

The contents of this report were discussed on April 7, 2016, with J. Michael Jones, Controller; Tony Roswarski, Mayor; Gary Henriott, President of the Board of Public Works; Ronald Campbell, President of the Common Council; Cindy Murray, City Clerk; Edward Chosnek, Corporation Counsel; and Timothy Clary, Deputy Controller.