

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF EVANSVILLE

VANDERBURGH COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED

11/23/2016

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Controller:	
Federal Finding:	
Finding 2015-001 - Internal Controls over Bank Account Reconciliations.....	6
Corrective Action Plan	7-8
Audit Results and Comments:	
Overdrawn Cash Balances	9
Separate Bank Accounts.....	9
Parking Meter Fees.....	9-10
Custody of Seized Property	10
Official Response.....	11-13
Exit Conference	14

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Russell G. Lloyd, Jr.	01-01-15 to 12-31-16
Mayor	Lloyd Winnecke	01-01-12 to 12-31-19
President of the Board of Public Works	Marty Amsler	01-01-15 to 12-31-16
President of the City Council	Dr. H. Dan Adams Missy Mosby	01-01-15 to 12-31-15 01-01-16 to 12-31-16
Director of Utilities	Allen Mounts	01-01-15 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF EVANSVILLE, VANDERBURGH COUNTY, INDIANA

This report is supplemental to our audit report of the City of Evansville (City), for the period from January 1, 2015 to December 31, 2015. 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

October 25, 2016

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CONTROLLER
CITY OF EVANSVILLE

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CITY OF EVANSVILLE
FEDERAL FINDING

FINDING 2015-001 - INTERNAL CONTROLS OVER BANK ACCOUNT RECONCILIATIONS

Condition

The City had designed adequate policies or procedures to ensure that bank reconciliations were accurate and complete; however, the City did not properly implement those controls. Three employees in the Controller's office prepared the City bank reconciliations. The City's policy is for the City Controller to review the bank reconciliations each month to verify their accuracy. Documentation of the reviews were not presented for audit. There was no evidence of segregation of duties, such as an oversight, review, or approval process.

Criteria

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)

Cause

The City did not properly implement the controls and maintain documentation of the review of the reconciliations.

Effect

The failure to establish and implement controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the City at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



City of Evansville
Office of the Controller
CIVIC CENTER COMPLEX, Room 300
ONE N. W. MARTIN LUTHER KING JR. BLVD.
EVANSVILLE, IN 47708

Lloyd Winnecke, Mayor

Russell Lloyd Jr. CPA, Controller

October 25, 2016

Indiana State Board of Accounts
302 W. Washington St. Room E-418
Indianapolis, IN 46204-2765

CORRECTIVE ACTION PLAN FOR 2015 FEDERAL AWARDS

Section II – Financial Statement Findings

***FINDING 2015-001* - INTERNAL CONTROLS OVER BANK ACCOUNT RECONCILIATIONS**

Contact Person Responsible for Corrective Action: Russell Lloyd, Jr. CPA, Controller
Contact Phone Number: 812-436-4919

Views of Responsible Official:

While the City concurs with this finding; in fact the Controller does review the bank reconciliations but did not always mark, initial or sign off to indicate the monthly bank reconciliations were reviewed. The Controller closely monitors bank balances daily within the duties of cash management and inquires responsible staff for transactions, balance changes and exceptions.

Description of Corrective Action Plan:

The City will employ additional internal controls to supervise bank account monthly reconciliations with the goal of making it easier to implement monitoring and spot balance changes and exception items. The Controller or Deputy Controller will sign off on a bank reconciliation summary monthly report listing critical data from the bank recs as needed.

In the last two years the City, Water and Wastewater Utilities (the Utilities) have used Tyler Technology Inc. MUNIS financial software treasury funds cash management and bank reconciliation system features to improve system performance to an excellent level. The City and Utilities have implemented numerous procedural enhancements and adjustments to the treasury and bank system including additional internal controls adding segregation of duties and supervisory approval of general ledger transactions and cash bank accounts.

The City will continue to review internal controls over the treasury cash management and bank reconciliation system looking for additional system improvements. The Controller and Deputy Controller will start monitoring bank account reconciliations using the new report immediately.

Anticipated Completion Date: October 31, 2016

Russell J. [Signature] CPA
(Signature)

CONTROLLER
(Title)

10-25-16
(Date)

CONTROLLER
CITY OF EVANSVILLE
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statement presented for audit contained some funds with deficits in cash as of December 31, 2015. Three of the funds (IHCDA Blight Elimination Fund Grant, Community Dev Block Grant, and Emergency Shelter Grant) are a result of those funds being set up for reimbursable grants. The reimbursements for expenditures made by the City were not received by December 31, 2015. The Accounts Receivable Clearing fund has a cash deficit balance due to the nature of the fund. The Parking Garages, Parks and Recreation, Redevelopment - Victory, Berry Plastics 2011, Golf Course, Sports Non-Reverting, and Hospitalization funds spent more than they received.

Similar comments have appeared in several prior Reports, including B43517, B44197, and B45887.

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)

SEPARATE BANK ACCOUNTS

The Vanderburgh County Solid Waste District funds were accounted for in the bank account of the City of Evansville.

Similar comments have appeared in several prior Reports, including B43517, B44197, and B45887.

When two or more governmental units are authorized by statute to have the same fiscal officer, there should be separate bank accounts and accounting records for each governmental unit unless authorized by statute, appropriate federal or state rule or regulation. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PARKING METER FEES

Parking meter fees were deposited into the General fund instead of a special fund. The City is working with the City Attorney to prepare an ordinance to be passed in the future.

Similar comments have appeared in several prior Reports, including B43517, B44197, and B45887.

CONTROLLER
CITY OF EVANSVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 36-9-12-4(a) states:

"A municipality must provide, by ordinance, that:

- (1) All license fees collected from parking meters shall be deposited with the municipal fiscal officer;
- (2) the fees shall be deposited to the credit of the municipality in a special fund; and
- (3) disbursements from the special fund may be made only on orders of the municipal words board, or board of transportation and only for the purposes listed in subsection (b)."

CUSTODY OF SEIZED PROPERTY

Funds seized by the Southwest Indiana Drug Task Force were held in the custody of the Vanderburgh County Prosecuting Attorney per a Memorandum of Understanding between the Prosecuting Attorney, the Evansville Police Office, and other local law enforcement agencies. However, there is no Court order or statutory authority in place to authorize the delegation of custody of these funds to the Prosecuting Attorney.

Indiana Code 34-24-1-2(b) states:

"When property is seized under subsection (a), the law enforcement agency making the seizure may, pending final disposition:

- (1) place the property under seal;
- (2) remove the property to a place designated by the court; or
- (3) require another agency authorized by law to take custody of the property and remove it to an appropriate location."



City of Evansville
Office of the Controller
CIVIC CENTER COMPLEX, Room 300
ONE N. W. MARTIN LUTHER KING JR. BLVD.
EVANSVILLE, IN 47708

Lloyd Winnecke, Mayor

Russell Lloyd Jr. CPA, Controller

October 31, 2016

Indiana State Board of Accounts
302 W. Washington St. Room E418
Indianapolis, IN 46204-2765

Reference: Official Response to 2015 State Board of Accounts Audit of the Financial Statements of the City of Evansville

Dear State Board Member(s):

The City of Evansville ("the City") recognizes the efforts put forth by the Indiana State Board of Accounts ("the State") performing the 2015 financial statement audit for the City. We submit below our responses to your audit results and comments. Our responses detail our understanding of the issues raised by the State and outline the City's expected course of action to explain and resolve these findings.

For purposes of this letter, we are referring to the financial statement audit for the fiscal year ending 2015. Presented in order are the audit results and comments raised by the State and addressed by the City.

OVERDRAWN CASH BALANCES

The City's long standing cash management policy is to minimize transfers between funds and to evaluate the annual accounting period as a whole, not as a series of 365 days. The City is aware that certain cash balances in particular funds may fall below zero on a given day. This is due to sporadic revenue streams and constant disbursement requests. It is the City's established policy that each department director and their correlated fund manage their budget throughout the year to ensure all funds begin and end the year with a positive cash balance.

In a situation where the City knows in advance a fund will end the period with a negative cash balance, the City may issue a temporary loan to that fund and establish repayment terms no later than June or December of the following year.

Additionally, some funds such as federal type funds and internal service funds are operated on a reimbursement basis. In these circumstances the City will incur costs and then be reimbursed. On an interim basis the fund balance may fall below zero. It is the City's policy to be aware of these instances and ensure that those funds with a negative balance are offset by receivables (reimbursements) in excess of the shortfall.

To address specific overdrawn funds as of December 31, 2015:

Downtown Parking Garage – The existing management contract with the Evansville Vanderburgh Building Authority revenues are insufficient to cover expenditures. The City is reviewing an alternative management agreement and automating the parking ticket function to reduce costs.

Parks and Recreation – The Parks and Recreation Fund property taxes and miscellaneous revenues were insufficient to cover expenditures at year end. For 2016 restructuring of the Parks Fund including eliminating positions and raising fee revenue are being implemented to eliminate the deficit.

Redevelopment - Victory – Under the existing management contract with VenuWorks of Evansville and the Evansville Vanderburgh Building Authority revenues are insufficient to cover expenditures. The City is reviewing alternative management arrangements as well as using a separate interfund transfer to eliminate the deficit.

Berry Plastics 2011 – This debt service bond fund paid additional principal in excess of the fund balance in error. This amount was corrected in 2016.

Golf Course Non-Reverting – The City and Parks District management has had to adjust to a decline in golf rounds occurring for several years. The City has initiated a restructuring of golf courses in 2014 through expense reductions and new marketing promotions but the fund continued to show negative revenue versus expenditure balances in 2015. The City is implementing additional restructuring steps including eliminating a management position; a golf greens superintendent and additional fees increases to bring the fund to a positive cash flow position with the plan to reduce the deficit over time.

Sports Non-Reverting – The City and Parks District management has had to deal with a long term trend continual decline in softball league participation over multiple years with the corresponding decline in revenue for the fund. City management will eliminate this fund as a separate entity starting in 2016 by merging it with the Parks District. A clerical position will be eliminated in this consolidation to save money.

Hospitalization - The City utilizes a self-insured health insurance and hospitalization plan with stop loss liability insurance coverage. Fund revenues have been insufficient to cover expenditures for several years. The City's management has implemented numerous dramatic changes in the employee health insurance plan for 2015 - 2017 that should lower expenditures for future employee benefits. The City increased employee premiums in 2017 and raised deductibles in 2016 and 2017 to lower costs. A new prescription drug plan utilizing additional lower cost sources will be implemented in 2017. The City Administrative Services department is working with outside consultants to review additional

ways to lower the costs of employee and retiree health insurance plan. The fund deficit will be lowered over time including using separate interfund transfers when necessary.

SEPARATE BANK ACCOUNTS

The City maintains the funds for the Vanderburgh County Solid Waste Management District (District) in the Civil City pooled cash general bank account. These funds are accounted for separately and the entity has claim on the cash that is available to that entity when needed and authorized. The City manages the transactions for the District which are few in number due to the small size of the entity. The City believes the District would spend more in bank service charges and fees using a separate checking account. The City believes the costs will outweigh any benefits to be gained by opening a separate bank account for this entity.

PARKING METER FEES

Indiana Code 36-9-12-4(2) states that parking meter receipts should be deposited into a special fund and disbursements should be made against that fund for authorized purchases.

The City, in response to the Indiana Code and City of Evansville Municipal Code Section 10.15.330 set up a new Parking Meter Fund in 2015 that took effect in the 2016 City budget. The Parking Meter department has been moved out of the General Fund. While parking receipts are projected to fall short of the matching expenditures of the parking meter department expenditures in 2016 provision has been made in the 2016 budget to allow an inter-fund transfer so the fund balance will remain positive.

CUSTODY OF SEIZED PROPERTY

Indiana Code 34-24-1-2(b) states that property seized by a law enforcement agency should be held by the agency. The Southwest Indiana Drug Task Force, a multiple agency law enforcement group entered a Memorandum of Understanding to allow the County Prosecuting Attorney to hold seized custodial funds.

The City Police Chief and City Attorney are reviewing the steps needed to correct this agreement for holding custody of funds seized by the law enforcement agency.

Please contact me at 812-436-4919 or email rlloyd@evansville.in.gov if any questions.

Respectively submitted,



Russell G. Lloyd Jr., CPA
Controller

CONTROLLER
CITY OF EVANSVILLE
EXIT CONFERENCE

The contents of this report were discussed on October 25, 2016, with Lloyd Winnecke, Mayor; Russell G. Lloyd, Jr., Controller; Jenny Collins, Chief Financial Officer of Utilities; Allen Mounts, Director of Utilities; Steve Schaefer, Chief of Staff; Missy Mosby, President of the City Council; Jonathan Weaver, City Council member; Dan McGinn, City Council member; Anna Hargis, City Council member; Dr. H. Dan Adams, City Council member; and Marty Amsler, President of the Board of Public Works.