

STATE BOARD OF ACCOUNTS
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INDIANAPOLIS, INDIANA 46204-2769

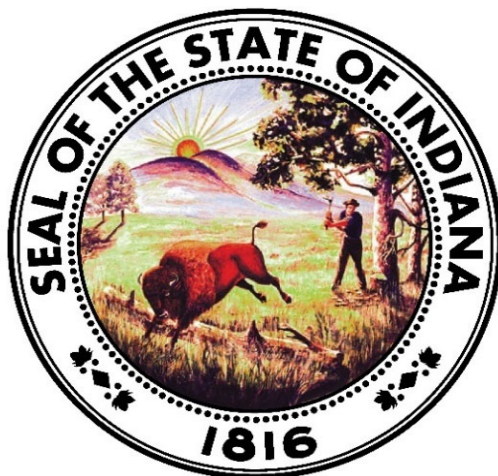
FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF ELKHART

ELKHART COUNTY, INDIANA

January 1, 2022 to December 31, 2022



FILED

08/04/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Jamie Arce	01-01-22 to 12-31-23
Mayor	Rod Roberson	01-01-22 to 12-31-23
President of the Board of Public Works	Michael C. Machlan	01-01-22 to 12-31-23
President of the Common Council	Arvis Dawson	01-01-22 to 12-31-23
Clerk of the City Court	Debra Barrett	01-01-22 to 12-31-23



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the City of Elkhart (City), for the year ended December 31, 2022, and the related notes to the financial statement, which collectively comprise the City's financial statement and have issued our report thereon dated July 24, 2023, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, as described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002, that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2022-002.

City of Elkhart's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement, and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth Kelley, CPA, CFE
Deputy State Examiner

July 24, 2023



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited the City of Elkhart's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022. The County's major federal programs are identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinion on CDBG - Entitlement Grants Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified and Unmodified Opinions* section of our report, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the CDBG - Entitlement Grants Cluster for the year ended December 31, 2022.

Qualified Opinion on COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

In our opinion, except for the noncompliance described in the *Basis for Qualified and Unmodified Opinions* section of our report, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the COVID-19 - Coronavirus State and Local Fiscal Recovery Funds for the year ended December 31, 2022.

Unmodified Opinion on the Other Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2022.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on CDBG - Entitlement Grants Cluster

As described in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding the CDBG - Entitlement Grants Cluster, as described in items 2022-005 for Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Program Income and 2022-007 for Reporting. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Matters Giving Rise to Qualified Opinion on COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

As described in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding 21.027 COVID-19 - Coronavirus State and Local Fiscal Recovery Funds, as described in items 2022-003 for Subrecipient Monitoring and 2022-004 for Procurement and Suspension and Debarment. Compliance with such requirement is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance, but is not absolute assurance, and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2022-006. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2022-003, 2022-004, 2022-005, 2022-006, and 2022-007, to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards require the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statement of the City, as of and for the year ended December 31, 2022, and the related notes to the financial statement. We issued our report thereon dated July 24, 2023, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with accounting principles generally accepted in the United States of America, and an unmodified opinion was issued regarding the presentation in accordance with the regulatory basis of accounting. Our audit was performed for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.



Beth Kelley, CPA, CFE
Deputy State Examiner

July 24, 2023

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the City. The schedule and notes are presented as intended by the City.

CITY OF ELKHART
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2022

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
Department of Housing and Urban Development					
CDBG - Entitlement Grants Cluster					
Community Development Block Grants/Entitlement Grants	Direct	14.218			
Community Development Block Grants/Entitlement Grants			B-19-MC18-0015	\$ -	\$ 80,446
Community Development Block Grants/Entitlement Grants			B-20-MC-20-0015	-	98,800
Community Development Block Grants/Entitlement Grants			B-21-MC-18-0015	118,357	305,650
Community Development Block Grants/Entitlement Grants			B-22-MC-18-0015	<u>2,360</u>	<u>89,559</u>
Subtotal - Community Development Block Grants/Entitlement Grants				<u>120,716</u>	<u>574,455</u>
COVID-19 - Community Development Block Grants/Entitlement Grants	Direct	14.218			
Community Development Block Grants/Entitlement Grants			B-20-MW-18-0015	<u>205,622</u>	<u>263,589</u>
Total - Community Development Block Grants/Entitlement Grants				<u>326,338</u>	<u>838,044</u>
Total - CDBG - Entitlement Grants Cluster				<u>326,338</u>	<u>838,044</u>
Fair Housing Assistance Program State and Local	Direct	14.401			
Fair Housing Assistance Program State and Local			FF205K205036	-	33,969
Fair Housing Assistance Program State and Local			FF205K215036	<u>-</u>	<u>15,113</u>
Total - Fair Housing Assistance Program State and Local				<u>-</u>	<u>49,082</u>
Total - Department of Housing and Urban Development				<u>326,338</u>	<u>887,126</u>
Department of Justice					
COVID-19 - Coronavirus Emergency Supplemental Funding Program	Indiana Criminal Justice Institute	16.034			
Coronavirus Emergency Supplemental Funding Program			2020-VD-BX1530	<u>-</u>	<u>31,575</u>
Bulletproof Vest Partnership Program	Direct	16.607			
Bulletproof Vest Partnership Program			FY2020	-	46
Bulletproof Vest Partnership Program			FY2021	<u>-</u>	<u>8,092</u>
Total - Bulletproof Vest Partnership Program				<u>-</u>	<u>8,138</u>
Equitable Sharing Program	Direct	16.922			
Department of Justice Asset Forfeiture Program			FY2020	<u>-</u>	<u>7,679</u>
Total - Department of Justice				<u>-</u>	<u>47,392</u>
Department of Transportation					
Highway Planning and Construction Cluster					
Highway Planning and Construction	Indiana Department of Transportation	20.205			
Bristol Street Widening			A249-19-L180113	<u>-</u>	<u>29,207</u>
Total - Highway Planning and Construction Cluster				<u>-</u>	<u>29,207</u>
Highway Safety Cluster					
State and Community Highway Safety	Elkhart County	20.600			
DUI Taskforce Grant/Operation Seatbelt			CHIRP-2020-00027	-	2,141
DUI Taskforce Grant/Operation Seatbelt			CHIRP-2020-00027	<u>-</u>	<u>17,057</u>
Total - Highway Safety Cluster				<u>-</u>	<u>19,198</u>

CITY OF ELKHART
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2022

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
Airport Improvement Program, COVID-19 - Airports Programs, and Infrastructure Investment and Jobs Act Programs	Direct	20.106			
Airport Improvement Taxiway D-4 Standards Corrections Feasibility Study			AIP Project 3-18-0018-039-2022	-	19,200
Airport Improvement Project Wildlife Control and Security Fence - Final Phase 3 (Construction)			AIP Project 3-18-0018-33-2020	-	6,612
Airport Improvement Rehabilitate Runway 9-27 Lighting Construction			AIP Project 3-18-0018-36-2021	-	300,749
Airport Rescue Grant			AIP Project 3-18-0018-37-2021	-	59,000
Subtotal - Airport Improvement Program, COVID-19 - Airports Programs, and Infrastructure Investment and Jobs Act Programs				-	385,561
COVID-19 - Airport Improvement Program, COVID-19 - Airports Programs, and Infrastructure Investment and Jobs Act Programs	Direct	20.106			
Coronavirus Aid Relief and Economic Security Act Airport Grant			AIR Project 3-18-0018-34-2021	-	92,000
Total - Airport Improvement Program, COVID-19 - Airports Programs, and Infrastructure Investment and Jobs Act Programs				-	477,561
Total - Department of Transportation				-	525,966
<u>Department of the Treasury</u>					
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	Direct	21.027			
American Rescue Plan			CY2021	-	979,364
Total - Department of the Treasury				-	979,364
<u>Small Business Administration</u>					
COVID-19 - Shuttered Venue Operators Grant Program	Direct	59.075			
Shuttered Venue Operators Grant Program			SBAHQ21SV007988.2	-	526,042
Total - Small Business Administration				-	526,042
<u>Environmental Protection Agency</u>					
Clean Water State Revolving Fund (CWSRF) Cluster	Indiana Finance Authority	66.458			
Capatilization Grants for Clean Water State Revolving Funds					
Waste Water Treatment Plant Expansion			FY2022	-	6,756,779
Total - Clean Water State Revolving Fund (CWSRF) Cluster				-	6,756,779
Total - Environmental Protection Agency				-	6,756,779
<u>Department of Homeland Security</u>					
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Indiana Department of Homeland Security	97.036			
COVID-19 - Emergency Response			125342	-	109,638
Hazard Mitigation Grant	Indiana Department of Homeland Security	97.039			
Hazard Mitigation Grant Program			FY2020	-	30,610
Total - Department of Homeland Security				-	140,248
Total federal awards expended				<u>\$ 326,338</u>	<u>\$ 9,862,917</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF ELKHART
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2022. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the City, it is not intended to and does not present the financial position of the City.

B. Other Significant Accounting Policies

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

Note 2. Indirect Cost Rate

The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF ELKHART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Programs and type of auditor's report issued on compliance for each:

Assistance Listings Number	Name of Federal Program or Cluster	Opinion Issued
21.027	CDBG - Entitlement Grants Cluster COVID-19 - Coronavirus State and Local Fiscal Recovery Funds Clean Water State Revolving Fund (CWSRF) Cluster	Qualified Qualified Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? no

Section II - Financial Statement Findings

FINDING 2022-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2021-001.

CITY OF ELKHART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Condition and Context

The City Controller's office prepared month-end reconciliements, which were reviewed and approved by the appropriate officials. The month-end reconciliation compared the City's bank balances to a fund report. The reconciliements reported no variances. However, the City's financial statement is derived from a system report titled Treasurer's fund ledger. The City Controller's office had not designed or implemented an internal control to prevent, or detect and correct, errors to ensure the combined bank accounts reconcile to this report, which is source of the City's financial statement.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Cause

Management of the City had not established a proper system of internal controls related to financial transactions that would have ensured appropriate reconciling of the combined bank accounts.

Effect

The failure to establish a system of internal 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 internal controls may not be either designed properly or operating effectively to provide reasonable assurance that internal controls will prevent, or detect and correct, 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 ELKHART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2022-002

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2021-002.

Condition and Context

The City had not established effective internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the City's Schedule of Expenditures of Federal Awards (SEFA).

The City failed to properly review the federal grant information prepared and submitted in Gateway. Although one employee prepared and entered the federal award information into Gateway, and another employee reviewed and approved the information entered, the internal control was not effective and did not detect and allow correction of errors prior to submission.

Due to the lack of effective internal controls, the SEFA presented for audit overstated the Capitalization Grants for Clean Water State Revolving Funds grant expenditures by \$2,658,775. Other errors included incorrect program names and pass-through entities.

Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

CITY OF ELKHART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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

"The state examiner shall require from every audited entity 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](#)."

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control . . ."

2 CFR 200.1 states in part:

". . . *Internal controls* for non-Federal entities means:

- (1) Processes designed and implemented by non-Federal entities to provide reasonable assurance regarding the achievement of objectives in the following categories:
 - (i) Effectiveness and efficiency of operations;
 - (ii) Reliability of reporting for internal and external use; . . ."

2 CFR 200.508 states in part:

"The auditee must: . . .

- (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 . . ."

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards*. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502. 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 Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal 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 must be included.

CITY OF ELKHART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (3) Provide total Federal awards expended for each individual Federal program and the Assistance Listings Number or other identifying number when the Assistance Listings information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502(b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414."

Cause

Management had not established a system of internal controls that would have ensured proper reporting of the SEFA.

Effect

Without a proper system of internal controls in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Condition and Context*.

Views of Responsible Officials

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

Section III - Federal Award Findings and Questioned Costs

FINDING 2022-003

Subject: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Subrecipient Monitoring
Federal Agency: Department of the Treasury
Federal Program: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds
Assistance Listings Number: 21.027
Federal Award Number or Year (or Other Identifying Number): CY2021
Compliance Requirement: Subrecipient Monitoring
Audit Findings: Material Weakness, Modified Opinion

Condition and Context

The City received a total State and Local Fiscal Recovery Funds (SLFRF) allocation of \$18,042,360. The City enlisted a non-profit, Heart City Health Center, Inc., to assist with public health information and paid them \$50,000. The payment was made under the Responding to Public Health and Economic Impacts of COVID-19 eligible use category. Documentation to support the payment included an invoice from the Heart City Health Center, Inc., Board of Works Resolution 21-R-19, and Ordinance 5861.

CITY OF ELKHART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The Board of Works approved Resolution 21-R-19 on December 28, 2021. The resolution states in part, "Heart City Health Center is a separate legal entity from the City of Elkhart and as a separate legal entity, requires the formation of a subrecipient agreement to transfer funds from the City's ARPA Coronavirus State and Local Fiscal Recovery Funds allocation to Heart City Health . . . now, therefore be it resolved, the Board of Public Works approves Heart City Health Center Inc. as a subrecipient of fifty thousand dollars in ARPA state and local fiscal recovery funds, and authorizes the Department of Law to prepare an appropriate subrecipient agreement for execution by the Board of Works and Heart City Health Center Inc. for the purposes approved herein . . ."

The City provided SLFRF award funds to the Heart City Health Center, Inc. to carry out a program on the City's behalf, making the Heart City Health Center, Inc. a subrecipient of the City, as noted in their resolution, and, therefore, subject to subrecipient monitoring. The City was unable to provide a copy of the subaward agreement or other supporting documentation to show evaluation of the subrecipient's risk of noncompliance or monitoring activities demonstrating compliance with the subrecipient monitoring requirement.

The lack of internal controls and noncompliance were systemic issues throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 200.331(a) states in part:

"*Subrecipients.* A subaward is for the purpose of carrying out a portion of a Federal award and creates a Federal assistance relationship with the subrecipient. . . . Characteristics which support the classification of the non-Federal entity as a subrecipient include when the non-Federal entity:

- (1) Determines who is eligible to receive what Federal assistance;
- (2) Has its performance measured in relation to whether objectives of a Federal program were met;
- (3) Has responsibility for programmatic decision-making;
- (4) Is responsible for adherence to applicable Federal program requirements specified in the Federal award; and . . ."

CITY OF ELKHART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2 CFR 200.332 states in part:

"All pass-through entities must:

(a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward . . .

(1) Federal award identification.

(i) Subrecipient name (which must match the name associated with its unique entity identifier);

(ii) Subrecipient's unique entity identifier;

(iii) Federal Award Identification Number (FAIN);

(iv) Federal Award Date (see the definition of *Federal award date* in § 200.1 of this part) of award to the recipient by the Federal agency;

(v) Subaward Period of Performance Start and End Date;

(vi) Subaward Budget Period Start and End Date;

(vii) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;

(viii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current financial obligation;

(ix) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;

(x) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);

(xi) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;

(xii) Assistance Listings number and Title; the pass-through entity must identify the dollar amount made available under each Federal award and the Assistance Listings Number at time of disbursement;

(xiii) Identification of whether the award is R&D; and

(xiv) Indirect cost rate for the Federal award (including if the de minimis rate is charged) per § 200.414.

(2) All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award;

CITY OF ELKHART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (3) Any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the Federal awarding agency including identification of any required financial and performance reports;
- (4)
 - (i) An approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal Government. If no approved rate exists, the pass-through entity must determine the appropriate rate in collaboration with the subrecipient, which is either:
 - (A) The negotiated indirect cost rate between the pass-through entity and the subrecipient; which can be based on a prior negotiated rate between a different PTE and the same subrecipient. If basing the rate on a previously negotiated rate, the pass-through entity is not required to collect information justifying this rate, but may elect to do so;
 - (B) The de minimis indirect cost rate.
 - (ii) The pass-through entity must not require use of a de minimis indirect cost rate if the subrecipient has a Federally approved rate. Subrecipients can elect to use the cost allocation method to account for indirect costs in accordance with § 200.405(d).
- (5) A requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements as necessary for the pass-through entity to meet the requirements of this part; and
- (6) Appropriate terms and conditions concerning closeout of the subaward. . . .
- (b) Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring . . .
- (d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:
 - (1) Reviewing financial and performance reports required by the passthrough entity.
 - (2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and written confirmation from the subrecipient, highlighting the status of actions planned or taken to address Single Audit findings related to the particular subaward.
 - (3) Issuing a management decision for applicable audit findings pertaining only to the Federal award provided to the subrecipient from the pass-through entity as required by § 200.521.

CITY OF ELKHART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (4) The pass-through entity is responsible for resolving audit findings specifically related to the subaward and not responsible for resolving crosscutting findings. . . ."

Cause

The system of internal controls as established by management of the City was not properly designed nor implemented. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the City's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

Effect

Without the proper implementation of an effectively designed system of internal controls, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. The City was responsible for providing a subaward agreement and monitoring the non-profit. Noncompliance with the provisions of federal statutes, regulations, and the terms and conditions of the federal award could result in the loss of future federal funding to the City.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that management of the City design and implement a proper system of internal controls and develop policies and procedures to ensure subrecipients are provided with an adequate subaward agreement and monitored as appropriate.

Views of Responsible Officials

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

FINDING 2022-004

Subject: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Suspension and Debarment
Federal Agency: Department of the Treasury
Federal Program: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds
Assistance Listings Number: 21.027
Federal Award Number or Year (or Other Identifying Number): CY2021
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Modified Opinion

Condition and Context

The City received a total State and Local Fiscal Recovery Funds (SLFRF) allocation of \$18,042,360. During the audit period, transactions expended under the Responding to Public Health and Economic Impacts of COVID-19 eligible use category, totaling \$248,899, were subject to suspension and debarment provisions.

CITY OF ELKHART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Prior to entering into subawards and covered transactions with SLFRF award funds, recipients are required to verify that such contractors and subrecipients are not suspended, debarred, or otherwise excluded. "Covered transactions" include, but are not limited to, contracts for goods and services awarded under a non-procurement transaction (i.e., grant agreement) that are expected to equal or exceed \$25,000. The verification is to be done by checking the Excluded Parties List System (EPLS), collecting a certification from that person or adding a clause or condition to the covered transaction with that person.

Upon inquiry of the City in order to review procedures in place for verifying an entity with which it plans to enter into a covered transaction is not suspended, debarred, or otherwise excluded, the City was unable to provide a specific policy related to suspension and debarment requirements. Two covered transactions for the City's public health communication campaign that equaled or exceeded \$25,000 were selected for testing. For the noted transactions, the City did not verify the vendor's suspension and debarment status prior to payment due to the City not having any policies or procedures in place to verify that contractors were neither suspended nor debarred, or otherwise excluded or disqualified, from participating in federal assistance programs or activities.

The lack of internal controls and noncompliance were systemic issues throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

31 CFR 19.300 states:

"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 if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person."

Cause

A proper system of internal controls was not designed by management of the City. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the City's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

CITY OF ELKHART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Effect

Without the proper implementation of an effectively designed system of internal controls, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. As a result, vendors to whom payments equal to or in excess of \$25,000 were paid were not verified to be not suspended, debarred, or otherwise excluded.

Noncompliance with the provisions of federal statutes, regulations, and the terms and conditions of the federal award could result in the loss of future federal funding to the City.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that management of the City establish a proper system of internal controls, including strengthening their policies and procedures to ensure contractors and subrecipients, as appropriate, are not suspended, debarred, or otherwise excluded prior to entering into any contracts or subawards.

Views of Responsible Officials

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

FINDING 2022-005

Subject: CDBG - Entitlement Grants Cluster - Activities Allowed or Unallowed,
Allowable Costs/Cost Principles, Program Income

Federal Agency: Department of Housing and Urban Development

Federal Programs: Community Development Block Grants/Entitlement Grants, COVID-19
- Community Development Block Grants/Entitlement Grants

Assistance Listings Number: 14.218

Federal Award Numbers and Years (or Other Identifying Numbers): B-19-MC-18-0015, B-20-MC-20-0015,
B-20-MW-18-0015, B-21-MC-18-0015,
B-22-MC-18-0015

Compliance Requirements: Activities Allowed or Unallowed, Allowable
Costs/Cost Principles, Program Income

Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2021-003.

CITY OF ELKHART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Condition and Context

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Program Income - Use

Payroll

The City charged employee salaries for Community Development Block Grants/Entitlement Grants (grant) activities to the grant based on fixed percentages. Adequate time and effort records were not maintained to support the percentages charged to the federal award.

Two employees were paid from the grant funds during the audit period:

- The first employee's salary and benefits were being paid 50 percent from federal grant funds. However, documentation to support the distribution of the employee's pay (i.e., time and effort logs) did not begin until November 19, 2022. The amount paid from the beginning of the audit period until November 19, 2022, was \$48,677. As this amount was not adequately supported, it is considered questioned costs.
- The second employee was paid 100 percent from the federal grant. The City made a payroll correction to remove the employee's pay for the months of July through December. After the payroll adjustment, there was a remaining amount of payroll and benefits of \$5,611 for the period of July through December charged to the grant which lacked supporting documentation that the costs were appropriate for the grant. This amount, \$5,611, is considered questioned costs.

Vendor

Late fees and taxes were paid from the federal grant funds. A total of \$51 was paid in late fees and sales tax during the audit period. This amount was determined to be a questioned cost.

Program Income - Determining or Assessing and Recording

Program income is gross income earned by a non-federal entity that is directly generated by a supported activity or earned as a result of the federal award during the period of performance. Program income is to be recorded in the unit's financial system along with the Housing and Urban Development (HUD) nationwide database, the Integrated Disbursement and Information System (IDIS).

The City recorded program income in the accounting ledger for the sale of a Neighborhood Stabilization Property. After determining an approval process would be necessary to consider this program income, a request was sent to the HUD. Prior to receiving permission to include the sale as program income to the federal grant, an adjustment was made to transfer this program income to another fund. It was later recorded in the IDIS as program income but was never adjusted back into the unit's federal grant fund designated for this grant.

The internal controls in place were not effective to ensure the amounts recorded in the accounting ledger and the amounts recorded in the IDIS agree and are accurate.

The lack of internal controls and noncompliance were systemic issues throughout the audit period.

CITY OF ELKHART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 200.430(i)(1) states in part:

"Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

(ii) Be incorporated into the official records of the non-Federal entity;

(iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities . . .

(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. . . ."

24 CFR 570.504(a) states: "*Recording program income*. The receipt and expenditure of program income as defined in § 570.500(a) shall be recorded as part of the financial transactions of the grant program."

24 CFR 570.504(b)(2) states in part:

"If the recipient chooses to retain program income, that program income shall be disposed of as follows: . . .

(ii) Substantially all other program income shall be disbursed for eligible activities before additional cash withdrawals are made from the U.S. Treasury. . . ."

Cause

A proper system of internal controls was not designed by management of the City. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the City's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

CITY OF ELKHART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Effect

Without the proper implementation of an effectively designed system of internal controls, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. As a result, payments were made that resulted in questioned costs.

Noncompliance with the provisions of federal statutes, regulations, and the terms and conditions of the federal award could result in the loss of future federal funding to the City.

Questioned Costs

There were known questioned costs of \$54,288.

Recommendation

We recommended that management of the City design and implement a proper system of internal controls, including policies and procedures that would provide segregation of duties to ensure appropriate reviews, approvals, and oversight are taking place over payroll, benefits, and vendor payments, as well as the proper recording of program income for the grant.

Views of Responsible Officials

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

FINDING 2022-006

Subject: CDBG - Entitlement Grants Cluster - Period of Performance
Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants
Assistance Listings Number: 14.218
Federal Award Number and Year (or Other Identifying Number): B-22-MC-18-0015
Compliance Requirement: Period of Performance
Audit Findings: Material Weakness, Other Matters

Condition and Context

A non-federal entity may charge to the federal award only allowable costs incurred during the period of performance and any costs incurred before the federal awarding agency or pass-through entity made the federal award that were authorized by the federal awarding agency or pass-through entity.

Grant number B-22-MC-18-0015 had a period of performance which began on July 1, 2022. Two of the four claims tested, or 50 percent, were for services provided prior to the beginning of the period of performance. The City did not receive approval from the federal awarding agency to charge costs incurred before the period of performance to the federal grant.

The lack of internal controls and noncompliance were isolated to grant B-22-MC-18-0015.

CITY OF ELKHART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 200.1 states in part:

". . . *Period of performance* means the total estimated time interval between the start of an initial Federal award and the planned end date, which may include one or more funded portions, or budget periods. Identification of the period of performance in the Federal award per § 200.211(b)(5) does not commit the awarding agency to fund the award beyond the currently approved budget period. . . ."

Cause

A proper system of internal controls was not designed by management of the City. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the City's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

Effect

Without the proper implementation of an effectively designed system of internal controls, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. As a result, costs incurred before the beginning of the period of performance were charged to the grant.

Noncompliance with the provisions of federal statutes, regulations, and the terms and conditions of the federal award could result in the loss of future federal funding to the City.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that management of the City design and implement a proper system of internal controls, including policies and procedures that would provide segregation of duties to ensure costs charged to the grant occur within the proper period of performance.

Views of Responsible Officials

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

CITY OF ELKHART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2022-007

Subject: CDBG - Entitlement Grants Cluster - Reporting
Federal Agency: Department of Housing and Urban Development
Federal Programs: Community Development Block Grants/Entitlement Grants, COVID-19
- Community Development Block Grants/Entitlement Grants
Assistance Listings Number: 14.218
Federal Award Numbers and Years (or Other Identifying Numbers): B-19-MC-18-0015, B-20-MC-20-0015,
B-20-MW-18-0015, B-21-MC-18-0015,
B-22-MC-18-0015
Compliance Requirement: Reporting
Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2021-004.

Condition and Context

Financial Reporting

For each CDBG award, the City is required to submit financial reports to Housing and Urban Development (HUD). The financial reports to be submitted are a quarterly CDBG Cash on Hand (PR29) report and an annual CDBG Financial Summary (PR26).

The Community Development Specialist prepared the annual PR26 and quarterly PR29 reports without evidence of a review or an approval process to ensure accuracy of the reports submitted. During the audit period, there were three PR26 reports and six PR29 reports due. Four reports were selected for testing, two PR26 reports and two PR29 reports. One of the two PR26 reports was not supported by the City's records, and one of the two PR29 reports contained errors when reporting cash on hand.

Performance Reporting

The City is required to enter HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons report (Section 3) activities on the closeout screens in the Integrated Disbursement and Information System (IDIS), as well as within the Consolidated Annual Performance and Evaluation Report (CAPER). The Section 3 report was not submitted on the closeout screens in the IDIS as part of the closeout process. The City did submit the Section 3 information within the CAPER; however, the Section 3 information was not supported by the City's records. The City was not able to provide documentation supporting the Section 3 information in the CAPER.

Special Reporting for Federal Funding Accountability and Transparency Act (FFATA)

Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$30,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through the FSRS.

CITY OF ELKHART
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (Continued)

There were two subawards that required submission in the FSRS during the audit period. The due date for the information was August 31, 2022, and November 30, 2022, respectively. The information was completed and submitted by the City; however, there was no documentation of the review or oversight process in place to ensure the accuracy of the information submitted.

<u>Transactions Tested</u>	<u>Subaward Not Reported</u>	<u>Report Not Timely</u>	<u>Subaward Amount Incorrect</u>	<u>Subaward Missing Key Elements</u>
2	0	2	0	0

<u>Dollar Amount of Tested Transactions</u>	<u>Subaward Not Reported</u>	<u>Report Not Timely</u>	<u>Subaward Amount Incorrect</u>	<u>Subaward Missing Key Elements</u>
\$ 296,625	\$ -	\$ 296,625	\$ -	\$ -

The lack of internal controls and noncompliance were systemic issues throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 200.302(b) states in part:

"The financial management system of each non-Federal entity must provide for the following:

...

- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.328 and 200.329. . . ."

CITY OF ELKHART
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Cause

A proper system of internal controls was not designed by management of the City. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the City's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

Effect

Without the proper implementation of an effectively designed system of internal controls, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. As a result, required reports were not accurate nor submitted timely.

Noncompliance with the provisions of federal statutes, regulations, and the terms and conditions of the federal award could result in the loss of future federal funding to the City.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that management of the City design and implement a proper system of internal control, including policies and procedures that would provide segregation of duties to ensure required reports are submitted timely and accurately.

Views of Responsible Officials

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

AUDITEE-PREPARED DOCUMENTS

The subsequent documents were provided by management of the City. The documents are presented as intended by the City.

Rod Roberson
Mayor

Jamie Arce
City Controller



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

574.294.5471
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FINDING 2021-001

Fiscal year in which the finding initially occurred: 2020

Status of Audit Finding:

The status of this audit finding is ongoing. The City has successfully updated it's ERP system from Incode 9 to ERP Pro 10 as described as part of the prior year corrective action plan for finding 2020-001. The migration to the new system was effective May 2022. As expected, this upgrade has provided stability in fund cash balances that had previously still been variable. City staff continue to monitor fund cash balances on an ongoing basis and address issues when and if they arise. Given that the variations of the fund balances have now stabilized the City is attempting to identify possible corrective action that can be taken by identifying errors prior to requesting permission to adjust from the State Board of Accounts and the Elkhart City Council

Rod Roberson
Mayor

Jamie Arce
City Controller



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Elkhart, IN 46516

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Fax: 574.294.8491

FINDING 2021-002

Fiscal year in which the finding initially occurred: 2021

Status of Audit Finding: In progress

As described in the City's corrective action plan for finding 2021-002 the City has worked with the Indiana Finance Authority to ensure the appropriate contacts are provided any grant related correspondence, which was the core issue in the under reporting of the Clean Water State Revolving Loan Funds. Management felt that appropriate controls were put in place to correct the issue; however, a weakness in understanding of the reporting requirements for the SEFA resulted in the City including "in-transit" transactions that were recorded on the City's general ledger but had not cleared the bank. Management will update its reporting processes to include clear direction on the reporting requirements.

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FINDING 2021-003

Fiscal year in which the finding initially occurred: 2020

Status of Audit Finding: In progress

Due to the timing of the prior audit bleeding into program year 2022 the city was not able to fully complete the steps identified in the corrective action plan. The current process requires affected employees to submit to the assistant director of community development a weekly time and effort log for each pay period which records the allocation the employees' time in alignment with the federally funded program. The assistant director of community development reviews the time and effort logs for accuracy, signs and dates the log.

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FINDING 2021-004

Fiscal year in which the finding initially occurred: 2020

Status of Audit Finding: In progress

Management is still working on the development and design of controls. Staff has verified with HUD that the correct method to prepare the IDIS PR29 Cash on Hand Quarterly reports in the IDIS (Integrated Disbursement and Information System) is to use data from the PR07 Drawdown Report by Voucher Number-Voucher Submitted to Loccs (EN – entitlement funds) and PR09 Receipt Fund Type Detail Report (PI-program income details). The community development specialist will prepare the Cash on Hand Quarterly report in IDIS and create a file which shall include the quarterly report, the PR07, PR09 and the spreadsheets for each draw/voucher that details each vendor, payment etc. that is being reimbursed with the draw. The assistant director of community development will review the information and acknowledge the information before submission in the IDIS system. A digital file will be created for each Cash on Hand Quarterly report file.

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CORRECTIVE ACTION PLAN

FINDING 2022-001 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Jamie Arce, Controller
Contact Phone Number: 574-322-4863

Views of Responsible Official:

Management agrees with the finding.

Description of Corrective Action Plan:

The City will take the following to steps to resolve this longstanding issue:

- Continue to monitor the difference and address differences in a timely manner.
- Staff will review historical transactions to locate material sources of the reconciliation error and adjust as appropriate.
- If the City is unable to locate the source(s) of error management will request permission from the State Board of Accounts to begin the process of adjusting the balance to be correct.

Anticipated Completion Date: December 31, 2023

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CORRECTIVE ACTION PLAN

FINDING 2022-002 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Jamie Arce, Controller
Contact Phone Number: 574-322-4863

Views of Responsible Official:

Management agrees with the finding.

Description of Corrective Action Plan:

The material source of the overstatement is a result of management including transactions in transit in the City's general ledger but not yet issued by the Indiana Finance Authority. After working with the Audit team and gaining a better understanding of the reporting requirements management will draft a reporting policy and meet with staff members involved in the reporting of federal awards.

Anticipated Completion Date: December 31, 2023

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CORRECTIVE ACTION PLAN

FINDING 2022-003 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Jamie Arce, Controller
Contact Phone Number: 574-322-4863

Views of Responsible Official:

Management agrees with the finding.

Description of Corrective Action Plan:

The City will review its existing policies and procedures surrounding adequate supporting documentation and will update policy as required.

Training on this requirement will be provided to all City Staff involved in procurement.

Anticipated Completion Date: October 31, 2023

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CORRECTIVE ACTION PLAN

FINDING 2022-004 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Jamie Arce, Controller
Contact Phone Number: 574-322-4863

Views of Responsible Official:

Management agrees with the finding.

Description of Corrective Action Plan:

The City will strengthen its existing policies and procedures by taking the following steps.

- Update existing purchasing policy to include language specific to addressing suspension and debarment as defined by 31 CFR 19.300
- City Staff responsible for the use of federal funds will be trained on this requirement.
- City Department of Law will include appropriate language in any contract that utilizes federal funds.

Anticipated Completion Date: October 31, 2023

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CORRECTIVE ACTION PLAN

FINDING 2022-005

Contact Person Responsible for Corrective Action:
Mary K. Kaczka, Assistant Director, Community Development

Contact Phone Number:
574-322-4472

Views of Responsible Official:

We concur with the finding.

Description of Corrective Action Plan:

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Program Income – Use

Management has taken or will take the following steps related to the weaknesses identified in payroll and vendor payments:

Payroll: Employee time and effort logs were implemented as part of our corrective action plan for finding 2021-003. Due to the timing of the previous finding Management was unable to fully implement the action plan for the 2022 audit year.

Time and effort logs are required to be completed by staff whose salaries and wages are paid from more than one Federal award as defined by 2 CFR 200.430(i)(1)(vii). Time and effort logs include allocation of time by program activity and general ledger account number. The time and effort log is acknowledged by the employee and the supervisor as part of the bi-weekly payroll process.

Vendor: Late fees and taxes: Management will review existing claims process with staff and strengthen as necessary. Management will communicate with staff involved with the payment of claims that the payment of late fees or taxes the unit is exempt from are ineligible uses of federal funds.

Program Income: Determining or Assessing and Recording:

Management will address the program income weaknesses as follows:

CDBG staff meets with city controller staff monthly and will expand its existing reconciliation to include program income receipted by the city and recorded in IDIS.

Anticipated Completion Date: August 31, 2023

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CORRECTIVE ACTION PLAN

FINDING 2022-006

Contact Person Responsible for Corrective Action:
Mary K. Kaczka, Assistant Director, Community Development

Contact Phone Number:
574-322-4472

Views of Responsible Official:

We concur with the finding.

Description of Corrective Action Plan:

Management will take the following steps to address the period of performance weakness that have been identified:

Staff involved with posting or reviewing of claims in both the city ledger and IDIS will be trained on the requirements of 2 CFR 200.343(b) regarding allowable costs during the period of performance.

Changes to the claims process has been implemented in which CDBG staff includes the grant number and program year on the face of the invoice or claim sheet in addition to general ledger account number. Invoices are processed for claim packets by department office service staff and reviewed for accuracy and completeness by management. This change in process will assist in reconciliation between the City Ledger and IDIS.

Anticipated Completion Date: August 31, 2023

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CORRECTIVE ACTION PLAN

FINDING 2022-007

Contact Person Responsible for Corrective Action:
Mary K. Kaczka, Assistant Director, Community Development

Contact Phone Number:
574-322-4472

Views of Responsible Official:

We concur with the finding.

Description of Corrective Action Plan:

Financial Reporting:

Management has developed the following process to correct for the lack of evidence for review or approval for reports that are submitted:

Staff responsible for preparing the report in IDIS and management responsible for review for accuracy and completeness will both sign appropriate documentation detail (PR 5 and PR 7, draw spread sheets, draw vouchers) supporting the Cash on Hand Report and the IDIS report.

CDBG staff has consulted with HUD CPD staff for additional training on how to complete the PR 26 report. The training assisted staff in filing two (2) past due reports and resulted in changes to the reporting process utilized by staff.

Performance Reporting:

Management will address the performance reporting weaknesses by taking the following steps:

The assistant director of community development will document the segregation of duties for the completion and submittal of the CAPER before submission to HUD. Documentation will consist of a clear and understandable workflow on City workpapers, and final submissions, evidenced by signature (ink or digital stamp), email string other generally acceptable audit trail.

Additionally, as part of continuing education, CDBG staff participated in a workshop organized by our CDBG consultant this past June, 2023 to better understand the Section 3 reporting requirements.

Special Reporting for Federal Funding Accountability and Transparency Act (FFATA):

Management will address the weaknesses identified in Special Reporting for Federal Funding Accountability and Transparency (FFATA) by taking the following actions:

Management will review and strengthen the current process in place for identification and timely submission of projects that qualify for FFATA reporting. Completed reports will show evidence of segregation of duty for completion, and review and approval.

Anticipated Completion Date: August 31, 2023

OTHER REPORTS

In addition to this report, other reports may have been issued for the City. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.