

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF LOGANSPOUT

CASS COUNTY, INDIANA

January 1, 2022 to December 31, 2022



FILED

08/10/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Duane Ullom	01-01-22 to 12-31-23
Mayor	Chris Martin	01-01-22 to 12-31-23
President of the Board of Public Works and Safety	Chris Martin	01-01-22 to 12-31-23
President Pro Tempore of the Common Council	Jacob LeDonne	01-01-22 to 12-31-23
Superintendent of Utilities	Greg Toth	01-01-22 to 12-31-23
Utility Vice President of Finance	Harold Allen	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 LOGANSPORT, CASS 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 Logansport (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 26, 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 items 2022-001 and 2022-002.

City of Logansport'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 26, 2023



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE 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 LOGANSPORT, CASS COUNTY, INDIANA

Report on Compliance for the Major Federal Program

Qualified Opinion

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

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 Opinion* 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.

Basis for Qualified Opinion

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.

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.

Matter 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 item 2022-003 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.

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

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.
- 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

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.

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

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 and 2022-004, to be material weaknesses.

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.

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

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 26, 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 26, 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.

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CITY OF LOGANSPORT
 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
<u>Department of Housing and Urban Development</u>					
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii MSRP Grant	Indiana Office of Community and Rural Affairs	14.228	MS-19-101	\$ -	\$ 523,984
Total - Department of Housing and Urban Development				-	523,984
<u>Department of the Interior</u>					
Outdoor Recreation Acquisition, Development and Planning Land Water Conservation Fund	Indiana Department of Natural Resources	15.916	P21AP10738-00	-	250,000
Total - Department of the Interior				-	250,000
<u>Department of Justice</u>					
Bulletproof Vest Partnership Program Vest Fund	Direct Grant	16.607	15-0404-0-1-754	-	2,465
Total - Department of Justice				-	2,465
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster Highway Planning and Construction NR US 24 Relinquishment FAST ACT Transportation Grant	Indiana Department of Transportation	20.205	1592373 2003025	-	6,904 106,970
Total - Highway Planning and Construction				-	113,874
Total - Highway Planning and Construction Cluster				-	113,874
Total - Department of Transportation				-	113,874
<u>Department of the Treasury</u>					
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds ARPA	Direct Grant	21.027	IN0263	-	1,670,243
Total - Department of the Treasury				-	1,670,243
<u>Environmental Protection Agency</u>					
Brownfields Multipurpose, Assessment, Revolving Loan Fund, and Cleanup Cooperative Agreements EPA 2020	Direct Grant	66.818	BF-00E02875	-	246,111
Total - Environmental Protection Agency				-	246,111
Total federal awards expended				\$ -	\$ 2,806,677

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

CITY OF LOGANSPOUR
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 LOGANSPORT
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 program:	
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 Program and type of auditor's report issued on compliance for it:

<u>Assistance Listings Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
21.027	COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	Qualified

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 Findings: Material Weakness, Noncompliance

Condition and Context

There were deficiencies in the internal control system of the City related to financial transactions and reporting.

Financial Statement

The City had not established effective internal controls over the financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the City's financial statement.

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

The City failed to properly review the financial information prepared and submitted in Gateway. Although one employee prepared and entered the financial 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 financial statement presented for audit included the following errors:

1. The City utilized two separate funds, the LMU Payroll W/H Clearing fund and the Payroll Fund, to account for the payroll clearing activity of the City and the Utilities. The receipts and disbursements of the LMU Payroll W/H Clearing fund were each overstated by \$4,543,899. The receipts and disbursements of the Payroll Fund were each overstated by \$1,152,729.
2. The City issued two Taxable Economic Development Revenue Bonds and, subsequently, loaned the proceeds to developers for projects occurring within the City. The financial activity related to the bonds was omitted from the financial statement which understated both receipts and disbursements by \$6,212,000.
3. The City passed Resolution 2022-151 Authorizing the Transfer of Funds for Police Station Renovations into the City of Logansport Project Fund at a financial institution in the name of the City (bank account). The transfer amounts of \$4,015,000 and the City's Local Income Tax Revenue Bond proceeds of \$2,100,000 were deposited into the bank account. The activity of the bank account, including interest earned and project costs, was not recorded in the ledger or on the City's financial statement. This caused receipts, disbursements, and the ending cash and investments balance to be understated by \$6,136,756; \$1,626,043; and \$4,510,713; respectively.
4. The City issued Redevelopment District Bonds, Series 2022 in the amount of \$2,250,000. The City initially recorded the receipt of the bonds into the TIF - East End fund. They later transferred the funds into newly established bank accounts created to account for the bond proceeds. The activity of these bank accounts was not posted to the ledger or financial statement until the subsequent year using these funds - the TIF LV Debt Service Reserve, the TIF LV Construction Fund, the LV Bond Issuance Expense, and the LV Bond Interest Fund. This caused receipts, disbursements, and the ending cash and investments balance for 2022 to be understated by \$2,216,250; \$115,050; and \$2,101,200; respectively.

Cash and Investments

The City had not properly designed or implemented a system of internal controls, which would include appropriate segregation of duties, that would likely be effective in preventing, or detecting and correcting, errors related to cash and investments.

Although one employee prepared the bank reconciliation, and another employee reviewed and approved the information, the internal control was not effective and did not detect that five bank accounts were omitted from the reconciliation.

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:

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

"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. . . ."

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](#)."

Cause

Management had not established a proper system of internal controls that would have ensured proper reporting of the financial statement. In addition, a proper system of internal controls over cash and investments, which would include segregation of key activities, was not designed or implemented by management of the City to ensure proper financial close and reporting.

Effect

Without a proper system of internal controls in place that operated effectively, misstatements or irregularities remained undetected. The financial statement included the errors identified in the *Condition and Context*.

Without the proper implementation of an effectively designed system of internal controls, including policies and procedures that provide segregation of duties and additional oversight as needed, the internal control system cannot be capable of effectively preventing, or detecting and correcting, errors in cash and investments.

Views of Responsible Officials

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

Auditor's Response

The prior audit was completed on March 6, 2023; however, the auditee had an opportunity to correct the error related to the payroll withholding funds on the financial statement for 2022 at the start of the audit. At the start of the audit, management of the City signed a checklist taking responsibility for the financial statement, which, among other things, indicates that the amounts in the receipt and disbursement categories are reported correctly for each fund.

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

All financial information and activity of the City shall be included on the financial statement. Although, the City did not provide any of the revenue for the Taxable Economic Development Revenue Bonds (bonds), the City issued the bonds and received the proceeds, which were immediately loaned to the developers. Therefore, the activity associated with this transaction, receipt of the funds, and immediate disbursement of the funds should have been part of the financial activity reported by the City.

Additionally, although the City transferred funds to another financial institution, the funds placed on deposit with the financial institution were in the name and possession of the City. Therefore, all activity associated with the account should be part of the City's financial statement.

Finally, the City reports on a regulatory basis of accounting and is required to report cash inflows (receipts) and cash outflows (disbursements) in the period in which they occurred. As such, the activity of the funds should have been posted at the time it occurred.

FINDING 2022-002

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

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 or correct errors prior to submission.

Due to the lack of effective internal controls, the SEFA presented for audit included the following errors:

1. The Community Development Block Grants/State's program and the Non-Entitlement Grants in Hawaii expenditures were overstated by \$317,596.
2. The Outdoor Recreation Acquisition, Development and Planning expenditures were overstated by \$204,900.
3. The COVID-19 - Coronavirus State and Local Fiscal Recovery Funds passed through to subrecipient amount was overstated by \$1,984,992.
4. The COVID-19 - Coronavirus State and Local Fiscal Recovery Funds expenditures were overstated by \$873,957.
5. Additional grants had individually immaterial errors that resulted in misstatements of expenditures of \$54,725, in total.

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

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

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. . . ."

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

"The state examiner shall require from 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 . . ."

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

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.
- (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 proper 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.

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

Section III - Federal Award Findings and Questioned Costs

FINDING 2022-003

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 and Year (or Other Identifying Number): IN0263
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Modified Opinion

Condition and Context

Prior to entering into subawards and covered transactions with federal 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 with the Clerk-Treasurer in order to review the policies and procedures in place related to suspension and debarment requirements, the Clerk-Treasurer noted that the City itself did not have any procedures, but instead relied on the North Central Indiana Regional Planning Council to ensure a potential vendor was not suspended or debarred. There was one covered transaction, a Build-Operate-Transfer (BOT) agreement, entered into during the audit period which was expected to equal or exceed \$25,000 and was paid for from State and Local Fiscal Recovery Funds.

The covered transaction in the amount of \$1,626,043 was made to the identified vendor for construction on the police station. Upon review of the agreement and other documentation it was determined a clause did not exist in the agreement, that ELPS was not checked, nor was a certification collected from the vendor; therefore, no documentation to verify the City's compliance with the suspension and debarment requirements was provided for audit.

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:

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

- (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

The system of internal controls as established by management of the City was not properly implemented to ensure that the policies and procedures in place related to suspension and debarment resulted in adequate supporting documentation being retained for audit.

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, no documentation was retained of the status of the vendor to whom payment equal to or in excess of \$25,000 was paid.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish a system of internal controls to ensure compliance and comply with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

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 - Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance, Reporting

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 and Year (or Other Identifying Number): IN0263

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance, Reporting

Audit Finding: Material Weakness

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

Condition and Context

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance

The City entered into a Build-Operate-Transfer (BOT) agreement to build the Logansport Police Station Building. As part of the BOT agreement, a participation and purchase agreement was signed between the developer and the bank. The participation and purchase agreement stated the developer was to submit a reimbursement request directly to the bank. The bank would then disburse the proceeds. For eight of ten disbursements tested, totaling \$1,626,043, the expenditure was not approved at the City level prior to payment to ensure the expenditure was for an allowable activity, was properly documented, and was within the period of performance.

Reporting

Recipients are required to submit quarterly or annual Project and Expenditure (P&E) reports to the U.S. Department of the Treasury (Treasury). The reporting periods, as well as the respective due dates are based upon type of recipient and its population, as well as the recipient's allocation amount. Information to be reported includes projects funded, expenditures, and contracts for the appropriate reporting period.

The City was classified as a metropolitan city with a population below 250,000 residents that received an allocation of less than \$10 million in State and Local Fiscal Recovery Funds (SLFRF). As such, the initial P&E report, covering the period from March 3, 2021 to March 31, 2022, was required to be submitted to the Treasury by April 30, 2022. The subsequent annual reports are to cover one calendar year and must be submitted to the Treasury by April 30 each year.

The City submitted the P&E report by April 30, 2022, as required; however, the City could not provide documentation that the report prepared by the Grant Administrator was reviewed by the Clerk-Treasurer as per their procedures to prevent, or detect and correct, errors prior to submission.

The lack of internal controls was a systemic issue 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). . . ."

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

Cause

A proper system of internal controls, which would include segregation of key functions, over SLFRF expenditures was not designed by management of the City to ensure expenses were allowed, properly documented, and paid within the specified time period. In addition, a proper system of internal controls over the P&E report was not designed by management of the City to ensure the City provided the Treasury with complete and accurate information related to the SLFRF awards. 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 design or implementation of the components of a system of internal controls, including policies and procedures that provide segregation of duties and additional oversight as needed, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance.

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 appropriate reviews, approvals, and oversight are taking place prior to payment of expenses and submission of reports.

Views of Responsible Officials

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

AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the City. The document is presented as intended by the City.



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Correct Action Plan

FINDING 2022-001

Person Responsible for Corrective Action: Duane Ullom

Contact Phone Number: 574-739-1416

Views of Responsible Official:

The errors listed in Findings 2022-001 should not require a corrective action plan. As described in error one, the payroll clearing activity stated for LU was received from the CFO of the utilities and believed to be correct at the time of submission due to prior discussions with previous State Board of Accounts auditors. The city payroll fund was submitted, as previously advised by State Board of Account auditors, and the amounts submitted were verified by myself and the chief deputy clerk of a true representation of the Payroll expenditures for the year. Additionally, this audit was performed within only a couple of months of the prior year's audit, both of which occurred after the submission date of the AFR on Gateway, thus providing no means of altering internal controls for possible issues.

Error two dealing with the Taxable Economic Development Revenue Bonds involves the city providing none of the revenue stated at \$6,212,000 in the finding. The only disbursement provided by the city for these bonds is the 75% of the property tax being returned to the developers, since there was no tax collected during 2022 there was no disbursement provided and as such nothing was stated on the Gateway report.

Error three the Transfer of Funds for the Police Station Renovation into the City of Logansport Project Fund was documented as withdraws from the LIT Public Safety fund, ARPA Fiscal Recovery fund, and the NR Health Insurance Fund. Once these funds were deposited into the First Farmers Bank, the bank then disbursed the funds as invoices were presented, as per the BOT agreement. In approving Resolution 2022-143 supporting the Build-Operate-Transfer agreement it was the understanding of the city that all payments for the construction of the Police Station from the City of Logansport Project Fund were approved to be disbursed via First Farmers Bank without further approval of the city.

Error four involving the Redevelopment District Bonds, Series 2022 occurred at the very end of December of 2022. The City Council did not have time to establish the four funds (TIF LV Debt Service Reserve, TIF LV Construction Fund, LV Bond Issuance Expense, and LV Bond Interest Fund)



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before the end of December. The funds were established at the first City Council meeting of January 2023 and the appropriate amounts were distributed from the TIF East End Fund into the four individuals accounts in the year 2023, as instructed by Baker Tilly, which was the financial adviser for the bond issuance. Since the funds from the bonds needed to be placed into an account, TIF East End was used since it was an established account. The error this created was not due to internal control but was due to timing of the occurrence and the thought the bond funds had been reported within the TIF East End fund. The bond will be correctly reported on the 2023 Gateway report.

FINDING 2022-002

Person Responsible for Corrective Action: Duane Ullom

Contact Phone Number: 574-739-1416

Views of Responsible Official:

We concur with the finding. To correct the issue, the Grants clerk will continue to monitor and report grant funds, including those administered by the North Central Indiana Regional Planning Council. The grant fund reports will then be reviewed and initialed by the Chief Deputy Clerk and Clerk-Treasurer. Any questions regarding possible issues with reporting will be referred to the State Board of Accounts and /or Department of Local Government and Finance for specific instructions as related to reporting on Gateway.

Anticipated Completion Date: August 2023

FINDING 2022-003

Person Responsible for Corrective Action: Duane Ullom

Contact Phone Number: 574-739-1416

Views of Responsible Official:

We concur with the finding. The city now understands the need for the verification of vendors. In the future the city's Grant clerk will be assigned to vet all contractors involved in federally awarded funds. The Clerk Treasurer will verify the list presented against contracts approved by the city with said contractors.

Anticipated Completion Date: August 2023



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FINDING 2022-004

Person Responsible for Corrective Action: Duane Ullom

Contact Phone Number: 574-739-1416

Views of Responsible Official:

We concur with the finding. We feel the explanation provided in Finding 2022-001 error three, provides an adequate explanation as to the occurrence as reported in the Condition and Context. To address the Reporting issue the Clerk Treasurer and Deputy Clerk Treasurer will both check for the accuracy of the P & E report prepared by the Grant Administrator and initial the paper report form to establish documentation for future audits and to confirm the accuracy of the report for submission.

Anticipated Completion Date: August 2023

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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/>.