

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MADISON

JEFFERSON COUNTY, INDIANA

January 1, 2022 to December 31, 2022



**FILED**

08/23/2023



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Rick Berry Kathleen M. Rampy	01-01-22 to 02-06-22 02-07-22 to 12-31-23
Mayor	Bob G. Courtney	01-01-22 to 12-31-23
President of the Board of Public Works and Safety	Bob G. Courtney	01-01-22 to 12-31-23
President Pro Tempore of the Common Council	Kathleen M. Rampy Curtis Chatham Carla Krebs	01-01-22 to 02-06-22 02-07-22 to 12-31-22 01-01-23 to 12-31-23
Utility Office Manager	Rob Holt	01-01-22 to 12-31-23



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF MADISON, JEFFERSON COUNTY, INDIANA

This report is supplemental to the audit report of the City of Madison (City), for the period from January 1, 2022 to December 31, 2022. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the City. It should be read in conjunction with the Financial Statement Audit Report of the City, which provides our opinions on the City's financial statement. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Beth Kelley, CPA, CFE  
Deputy State Examiner

August 14, 2023

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CLERK-TREASURER  
CITY OF MADISON

CLERK-TREASURER  
CITY OF MADISON  
AUDIT RESULTS AND COMMENTS

**ANNUAL FINANCIAL REPORT**

*Condition and Context*

Financial, supplemental, and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. The City had not established effective internal controls over the AFR information entered into Gateway, which resulted in the following errors:

*Financial Data*

1. Transactions related to the Madison Plaza TIF bond issue were not recorded in the records or reported in the City's financial statement. Failure to record and report the Madison Plaza TIF bond transactions resulted in the understatement of receipts, disbursements, and ending cash and investments balances in the amount of \$4,953,349, \$1,832,832, and \$3,120,517, respectively.
2. Transactions related to the Super ATV TIF bond issue were not recorded in the records or reported in the City's financial statement. Failure to record and report the Super ATV TIF bond transactions resulted in the understatement of receipts, disbursements, and ending cash and investments balances in the amount of \$2,865,002, \$2,865,001, and \$1, respectively.

Adjustments were proposed, accepted by the City, and made to the financial statement and to the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Required Supplementary Information in the Financial Statement Audit Report.

*Leases and Debt*

1. The City incorrectly reported a capital lease as notes and loan payable resulting in the ending principal and balance of the notes and loans payable being overstated by \$4,900,000, and the annual lease payment for capital leases being understated by \$201,000.
2. The City incorrectly reported the ending principal balance on three notes and loans payable by a net amount of \$187,107.
3. The City incorrectly reported the principal due within one year on four notes and loans payable by a net amount of \$158,174.

Adjustments were proposed, accepted by the City, and made to the Schedule of Leases and Debt presented as Other Information in the Financial Statement Audit Report.

*Grant Information*

1. The Drinking Water State Revolving Fund Cluster expenditures were understated by \$1,023,248.
2. The COVID-19 - Coronavirus State and Local Fiscal Recovery Funds expenditures were understated by \$315,804.

CLERK-TREASURER  
CITY OF MADISON  
AUDIT RESULTS AND COMMENTS  
(Continued)

3. The Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii expenditures were overstated by \$229,500.
4. The Airport Improvement Program, COVID-19 - Airports Programs, and Infrastructure Investment and Jobs Act Programs grants were omitted, which resulted in the expenditures being understated by \$180,127.
5. Several additional grants had individually immaterial errors, that resulted in misstatements of expenditures of \$80,539, in total.
6. Other errors included incorrect pass-through entity names, program names, and identifying numbers.

Audit adjustments were proposed, accepted by the City, and made to the Schedule of Expenditures of Federal Awards presented in the Federal Compliance Audit 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. . . ."

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](#)."

**MONTHLY AND ANNUAL UPLOADS**

A similar comment appeared in prior Report B60374, entitled *MONTHLY GATEWAY UPLOADS*.

CLERK-TREASURER  
CITY OF MADISON  
AUDIT RESULTS AND COMMENTS  
(Continued)

*Condition and Context*

The files and governmental unit information that are required to be uploaded monthly include the bank reconcilements, approved Common Council minutes, and the funds ledger, summarizing total receipts, disbursements, and balances by fund.

Annual upload requirements include the year-end bank statement, year-end outstanding check list, year-end investments, detail of receipt activity, detail of disbursement activity, current year salary ordinance, and an annual vendor history report.

Except for uploading the January 2022 Common Council minutes, the City did not comply with the State Examiner Directive and failed to upload all of the remaining monthly and annual files on the Indiana Gateway for Government Units financial reporting system for 2022.

*Criteria*

This amended directive is effective starting with December 2020 monthly files. The upload of December 2020 monthly files will be due February 15, 2021, and by the 15<sup>th</sup> of each month thereafter unless the State Board of Accounts (SBOA) establishes a different date. This is effective for 2020 annual files which will be due for upload March 1, 2021, for calendar year end units. . . . Thereafter, annual files must be uploaded no later than March 1<sup>st</sup> . . . for the prior year end unless the SBOA establishes a different date.

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients.

(Amended State Examiner Directive 2018-1)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**FINANCIAL TRANSACTIONS AND REPORTING**

A similar comment also appeared in prior Report B60374, entitled *FINANCIAL TRANSACTIONS AND REPORTING*.

*Condition and Context*

The City had not established an adequate system of internal controls related to financial transactions and reporting. Internal controls were either not in place or not effective for the following audit areas: financial close and reporting, cash and investments, receipts, and disbursements.

*Financial Close and Reporting*

The City had not established 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 Annual Financial Report (AFR) and financial statement.

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AUDIT RESULTS AND COMMENTS  
(Continued)

The City failed to properly review the financial information prepared and submitted in Gateway to ensure all transactions of the City had been properly recorded and reported. The Clerk-Treasurer prepared and entered the financial information into Gateway; however, there were no internal controls in place, such as an oversight, review, or approval process to ensure financial transactions and the AFR and financial statements were accurate.

Due to the lack of effective internal controls, the financial statement and financial records presented for audit omitted two TIF Bond funds.

*Cash and Investments*

The City had not established internal controls over the monthly reconciliation of the depository balance to the financial records.

There was no evidence provided for audit that a system of internal controls was in place to ensure monthly reconciliations were being performed timely and being reviewed by someone other than the person who prepared the reconciliation.

The following items were noted:

1. Monthly reconciliations for the months of March 2022 through December 2022 were not performed timely. The December 2022 reconciliation was not completed and presented for audit until May 2023.
2. The December 2022 monthly reconciliations included reconciling items dating as far back as March 2022 that had not been investigated and resolved as of May 2023.
3. Transactions were not always made from the correct bank account. As of December 31, 2022, identified cash in the amount \$1,352,482 was in the wrong bank accounts.
4. The December 2022 monthly reconciliation showed a variance of \$216,945 between the ledger balance and the reconciled depository balances.

*Receipts*

The City had not established internal controls over receipts. One employee was responsible for issuing and recording receipts without a documented oversight, review, and approval process to ensure all receipts had been posted and classified correctly.

Due to the lack of internal controls, the following errors were noted:

1. Identified deposits of \$276,182 were not recorded in the unit records.
2. Three distributions from the Auditor of State totaling \$68,826 were not recorded timely.
3. A receipt in the amount of \$236,479 was recorded in the ledger twice and was not detected and corrected in a timely manner.

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AUDIT RESULTS AND COMMENTS  
(Continued)

*Disbursements*

The City's policies and procedures related to payroll disbursements included three steps. First, the department heads approved and signed the payroll schedule and vouchers prior to submission to the Clerk-Treasurer. Second, the Clerk-Treasurer audited and certified the payroll claims. Finally, the payroll disbursements were presented to the Board of Public Works and Safety for their approval.

Testing revealed that for 11 of 14 hourly employees tested, there was no evidence of the department head's approval or signature prior to submission to the Clerk-Treasurer. In addition, after January 2022, payroll schedules and vouchers were not certified by the Clerk-Treasurer indicating audit and approval of the payroll schedules and vouchers. Finally, the payroll disbursements were not presented to the Board of Public Works and Safety for their approval.

Due to the lack of effective internal controls payroll disbursements totaling \$44,815 were not properly posted to the ledger and remained uncorrected as of May 2023.

*Criteria*

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Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

CLERK-TREASURER  
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AUDIT RESULTS AND COMMENTS  
(Continued)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim.
- (2) the invoice or bill is approved by the officer or person receiving the goods and services.
- (3) the invoice or bill is filed with the governmental entity's fiscal officer.
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

CLERK-TREASURER  
CITY OF MADISON  
EXIT CONFERENCE

The contents of this report were discussed on August 14, 2023, with Kathleen M. Rampy, Clerk-Treasurer; Bob G. Courtney, Mayor; Mindy McGee, Deputy Mayor; Carla Krebs, President Pro Tempore of the Common Council; Melissa K. Enstrom, Deputy Clerk; and Shannon Williams, Deputy Clerk.