

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF ROCKPORT

SPENCER COUNTY, INDIANA

January 1, 2019 to December 31, 2022



FILED
10/13/2023

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Certification on Internal Control Standards	6
Internal Controls	6-7
Annual Financial Report	7-9
Accounting of COVID-19 Grants	9-11
Capital Assets	12
Exit Conference	13
Common Council:	
Audit Result and Comment:	
Training on Internal Control Standards	16
Exit Conference	17

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Susie Roberts	01-01-19 to 12-31-19
	Cathy Kirkpatrick	01-01-20 to 05-12-23
	(Vacant)	05-13-23 to 05-24-23
	K. Rochelle Seneff	05-25-23 to 12-31-23
Mayor	Gay Ann Harney	01-01-19 to 12-31-19
	Don Winkler	01-01-20 to 04-17-23
	Connie L. Hargis (acting)	04-18-23 to 05-12-23
	Cathy Kirkpatrick	05-13-23 to 12-31-23
President of the Board of Public Works	Gay Ann Harney	01-01-19 to 12-31-19
	Don Winkler	01-01-20 to 04-17-23
	Connie L. Hargis (acting)	04-18-23 to 05-12-23
	Cathy Kirkpatrick	05-13-23 to 12-31-23
President Pro Tempore of the Common Council	Connie L. Hargis	01-01-19 to 12-31-23



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE CITY OF ROCKPORT, SPENCER COUNTY, INDIANA

This report is supplemental to the audit report of the City of Rockport (City), for the period from January 1, 2019 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 Statements Audit Report of the City, which provides our opinions on the City's financial statements. This report may be found at 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

September 28, 2023

(This page intentionally left blank.)

CLERK-TREASURER
CITY OF ROCKPORT

CLERK-TREASURER
CITY OF ROCKPORT
AUDIT RESULTS AND COMMENTS

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The City certified for 2020, 2021, and 2022 on the Indiana Gateway for Government Units financial reporting system that all personnel defined by Indiana Code 5-11-27(c) had received training on internal control standards adopted by the City; however, during the engagement, it was determined that all required personnel had not received training concerning the internal control standards.

Criteria

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](#)."

INTERNAL CONTROLS

A similar comment also appeared prior Report B53225, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

There were deficiencies in the internal control system of the City related to financial close and reporting, cash and investments, and receipts.

Financial Close and Reporting

The City had designed internal control procedures over financial close and reporting that required the Annual Financial Report submitted in the Indiana Gateway for Government Units financial reporting system to be reviewed by the Common Council prior to submission; however, there was no audit evidence that this review took place during the audit period.

Cash and Investments

The City had designed internal control procedures over cash and investments which required the monthly bank reconciliations, prepared by the Clerk-Treasurer, to be reviewed by the Deputy Clerk-Treasurer; however, there was no audit evidence that the internal control was implemented during the audit period. Additionally, the internal controls, if implemented, were not effective to ensure that all bank accounts were reconciled. During the audit period, it was determined that accounts related to the Bank of New York Mellon were not always part of the monthly reconciliation process.

Receipts

The City had designed internal control procedures over receipts requiring the Deputy Clerk-Treasurer and Utility Clerk to each prepare daily collections and deposit tickets, then they were to review and reconcile the other person's information. There was no audit evidence that the internal control was implemented during the audit period.

CLERK-TREASURER
CITY OF ROCKPORT
AUDIT RESULTS AND COMMENTS
(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 5-13-6-1(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."

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

The City failed to properly review the financial information entered into the AFR. The AFR contained the following errors:

1. The BONY Sew Bond 2015 fund receipts were overstated by \$25,030, disbursements were understated \$255,761 and ending cash and investments balance was overstated by \$280,791 for the year 2021.
2. The BONY Sew Bond 2015 fund receipts and ending cash and investments balance were each understated by \$121 for the year 2022.
3. The BONY Sewer Bond Debt Svc Res fund receipts and ending cash and investments balance were each understated by \$3,409 for the year 2022.

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

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

Grant Schedule

The City failed to properly review the grant information submitted in Gateway. The City's internal control procedures were not effective and did not detect and allow correction of the following errors prior to submission:

1. The ALN 14.228 expenditures were overstated by \$1,000,000 in 2019.
2. The ALN 20.205 expenditures were understated by \$103,787, \$46,063, and \$64,872 in 2019, 2020, and 2021, respectively.
3. The ALN 20.600 expenditures were understated by \$1,559, \$5,434, and \$5,759 in 2019, 2020, and 2021, respectively.
4. The ALN 21.100 expenditures were overstated by \$1,162,299 in 2022.

Capital Assets

The City did not provide records to support the amounts reported in Gateway for capital assets as of December 31, 2019, 2020, 2021, or 2022. We were unable to determine the accuracy of the information reported. Therefore, a Schedule of Capital Assets was not presented as Other Information in the Financial Statement Audit Report.

Leases and Debt

The City did not properly report its debt during the audit period as follows:

1. The Sewage Works Revenue Bonds of 2015 ending principal balance was understated by \$76,524 as of December 31, 2022.
2. The Rockport Waterworks Refunding Rev Bonds of 2005 ending principal balance was overstated by \$338,677, and principal due within one year was overstated by \$110,000 as of December 31, 2022. These bonds were paid off in 2022.
3. The Water Rev Bonds 2017 ending principal balance was understated by \$270,984, and principal due within one year was overstated by \$14,120 as of December 31, 2022.

In addition, the City's records did not support the ending principal balance or principal due within one year for the bonds reported for 2019, 2020, or 2021.

Adjustments were proposed, accepted by the City, and made to the Schedule of Leases and Debt as of December 31, 2022, that was presented as Other Information in the Financial Statement Audit Report of the City.

CLERK-TREASURER
CITY OF ROCKPORT
AUDIT RESULTS AND COMMENTS
(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 the 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 components 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](#)."

ACCOUNTING OF COVID-19 GRANTS

Condition and Context

The City did not properly account for the COVID-19 - Coronavirus Relief Fund (CRF) in accordance with State Examiner Directive 2020-3 (Directive).

During 2020, the City received reimbursement for public health and safety payroll expenses in the amount of \$69,851. The reimbursement was receipted into the Cares Act 2020 fund (CARES fund). However, the City established fund 264 - Cares Act 2020 instead of following the *Accounting and Appropriation of COVID-19 Grants* memo dated April 29, 2020, which indicated the City could utilize any fund number between 150-175. Additionally, fund number 264 was reserved for a different specified CARES purpose as outlined in the *Cares Act Fund Numbers* memo dated April 20, 2020.

Additionally, once receipted, the funds were not accounted for as provided in the Directive. The expenditures upon which the reimbursement was based should have been recorded in the CARES fund or the reimbursed amount transferred through the claims process to the General Fund which would have allowed the money to be expended for any general unit purpose. Either of these two methods would have allowed for the proper processing and recording of subsequent expenditures.

The reimbursement remained in the Cares Act 2020 fund as of December 31, 2020.

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

In March 2021, the City established fund 150 - CARES Act COVID-19 fund. Once the fund was established the City transferred the balance in fund 264 to fund 150. The City inappropriately spent directly out of the fund, causing the expenditure activity to be incorrectly identified to the CARES reimbursement. The balance as of December 31, 2022, was \$64,785. Any balance remaining should be claimed to the General Fund so that any expenditures will be properly accounted for.

Criteria

Each local unit of government that receives an allocation from the Coronavirus Relief Fund administered by IFA shall establish a separate CARES grant fund with a fund number consistent with memorandum *Accounting and Appropriation of COVID-19 Grants, April 29, 2020* (updated September 29, 2020).

All Reimbursements received from IFA shall be receipted into a separate CARES grant fund that is specific to IFA reimbursements. . . .

Transactions for public health and safety payroll costs must be accounted for through one of these two prescribed options.

Option One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. The reimbursed amount for public health and safety payroll costs originally incurred in the general fund (or other fund) will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the general fund (or other fund) cash balance and re-appropriate the general fund (or other fund) in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the general fund (or other fund), it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once option one is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

Option Two. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. A claim will be created against the separate CARES grant fund for the reimbursed amount in favor of the general fund. This claim must be supported by documentation of the public health and safety payroll costs that have been expensed from the general fund or other funds.

The amount of the claim will be receipted into the general fund cash balance. Normal appropriation procedures will apply to these funds.

Once option two is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. This option requires a resolution or ordinance as detailed in the memorandum *CARES Reimbursement of Public Health and Safety Payroll Costs, September 30, 2020*. . . .**

Transaction for other permitted costs reimbursed by IFA must be accounted for through one of the following prescribed frameworks.

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

Framework One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. Reimbursed disbursements originally incurred in another fund will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the fund cash balance and re-appropriate the fund in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the original fund, it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

Framework Three. If you have created a negative balance in your CARES fund based on expenditures made in anticipation of receipt of reimbursement for allowable expenditures where invoices have already been submitted to IFA then leave as is and receipt reimbursement when received, bringing the balance in the separate CARES grant fund to zero. Going forward, expend any anticipated allowable expenditures from a fund with an appropriation and follow framework one. If a negative balance in the CARES grant fund is not fully reimbursed, then the unreimbursed amount will require a reverse entry and posting of the expenditure to the general or other appropriate fund within an appropriated line item.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

(State Examiner Directive 2020-3)

To properly track assistance from the Provider Relief Fund, use the following Fund Number and Name: . . .

Cities and Towns

Fund Number and Name

264 CARES Provider Relief Fund . . .

(Cares Act Fund Numbers memo dated April 20, 2020)

. . . In anticipation of several separate funds being necessary, the following fund numbering system should be followed: . . .

Cities/Towns: 150-175 . . .

(Accounting and Appropriations of COVID-19 Grants memo dated April 29, 2020 (updated September 29, 2020))

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

CAPITAL ASSETS

Condition and Context

The City did not have a complete detailed listing of all capital assets owned, which reflected their acquisition value. Additionally, a physical inventory had not been taken in the last two years.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
CITY OF ROCKPORT
EXIT CONFERENCE

The contents of this report were discussed on September 28, 2023, with Cathy Kirkpatrick, Mayor; K. Rochelle Seneff, Clerk-Treasurer; Susie Roberts, former Clerk-Treasurer; and Connie L. Hargis, President Pro Tempore of the Common Council.

(This page intentionally left blank.)

COMMON COUNCIL
CITY OF ROCKPORT

COMMON COUNCIL
CITY OF ROCKPORT
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

The Clerk-Treasurer that was in office from January 1, 2020, through December 31, 2022, did not receive training over internal control standards that were adopted by the City.

Criteria

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

COMMON COUNCIL
CITY OF ROCKPORT
EXIT CONFERENCE

The contents of this report were discussed on September 28, 2023, with Cathy Kirkpatrick, Mayor; K. Rochelle Seneff, Clerk-Treasurer; Susie Roberts, former Clerk-Treasurer; and Connie L. Hargis, President Pro Tempore of the Common Council.