

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

**Paul D. Joyce, CPA
State Examiner**

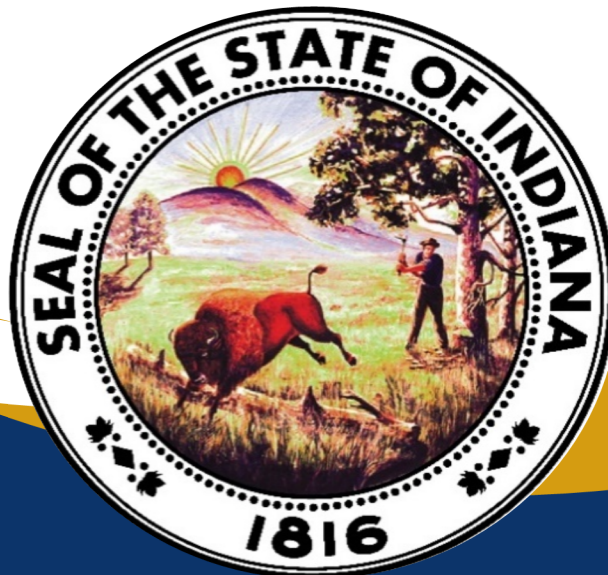
SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF NAPPANEE

ELKHART COUNTY, INDIANA

January 1, 2022 to December 31, 2023



FILED
12/16/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jeffrey P. Knight	01-01-22 to 12-31-24
Mayor	Philip W. Jenkins	01-01-22 to 12-31-24
President of the Board of Public Works and Safety	Philip W. Jenkins	01-01-22 to 12-31-24
President of the Common Council	Philip W. Jenkins	01-01-22 to 12-31-24



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INDIANA STATE BOARD OF ACCOUNTS

302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769
Telephone: (317) 232-2513
Fax: (317) 232-4711
www.in.gov/sboa

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

This report is supplemental to the audit report of the City of Nappanee (City), for the period from January 1, 2022 to December 31, 2023. 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/.

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

November 26, 2024



CLERK-TREASURER
CITY OF NAPPANEE

CLERK-TREASURER
CITY OF NAPPANEE
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Condition and Context

Internal controls were not in place to ensure the City complied with laws, regulations, and uniform compliance guidelines. Noncompliance was identified over the following as detailed further in the comments below.

- Fund Sources and Uses
- Certification on Internal Controls
- Capital Assets

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. . . ."

FUND SOURCES AND USES

A similar comment also appeared in prior Report B60452, entitled *FUND SOURCES AND USES*.

Condition and Context

The City received Federal Highway Planning and Construction grant funds in 2023 from the Indiana Department of Transportation and recorded the funds into the Motor Vehicle Highway (MVH) Fund. The City should have established a separate fund to properly record the financial activity for the grant.

Criteria

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

Indiana Code 36-1-8-12(a) states:

"If a political subdivision other than a school corporation receives state grant money requiring local matching money, the political subdivision shall create a special fund and deposit the grant money and matching money into the special fund. The money in the fund may be used only for the purposes of the grant."

When funds are provided by the federal government either directly to a city or town or through a state agency for any program or project, the following procedures should be followed:

A separate Fund for each grant is required.

(Cities and Towns Bulletin and Uniform Compliance Guidelines, June 2020)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

A similar comment also appeared in prior Report B60452, entitled *CERTIFICATION ON INTERNAL CONTROL STANDARDS*.

Condition and Context

The City certified on the Indiana Gateway for Government Units financial reporting system that employees were trained on internal control standards. There were three new seasonal employees hired in 2022 and three new employees hired in 2023 that handled cash and did not receive the internal control training; therefore, the certification was incorrect.

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 as set forth in the uniform compliance guidelines. 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](#)."

CAPITAL ASSETS

Condition and Context

The City did not properly maintain its detailed listing of capital assets ledger. Out of ten assets tested, one asset, a 2004 ambulance that was refurbished in 2014, was not removed from the detailed listing of capital assets after they were disposed of prior to December 31, 2023. In addition, a complete physical inventory was not taken at least every two years by the City.

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

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)



Jeff Knight
Clerk - Treasurer
jknight@nappanee.org

OFFICIAL RESPONSE

Date: December 3, 2024

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

Re: Funding Sources and Uses – Establishing Separate Federal Highway Planning Construction Grant Fund from MVH

I concur with the audit findings regarding the need to establish a separate fund for each specific project that the City undertakes. In this particular case I was unaware that the grant funds were federal dollars as the funds came via INDOT. Subsequently it was brought to my attention. However, I will be more cognizant of this for future projects in order to determine where the funds are coming from and have a separate fund established for the project.

Jeffrey P Knight
Clerk-Treasurer, City of Nappanee

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574.773.2112 • www.nappanee.org

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Jeff Knight
Clerk - Treasurer
jknight@nappanee.org

OFFICIAL RESPONSE

Date: December 3, 2024

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

Re: Certification of Internal Controls

I concur with the audit findings that I certified internal controls incorrectly. When submitting our 2022 AFR I thought we were in compliance and subsequently found out (during the audit in 2022) that we were not compliant. After the 2022 audit, we had a process in place to be instituted in 2023. I thought the process had been followed but found out the process hadn't been communicated clearly to the department heads and thus when seasonal employees were hired by the Park Department in 2023, the internal controls process was not followed.

As of March 1, 2024, an online process has been established by our HR Department whereby the training will take place and the confirmations will be handled through the ADP time system. This will be handled prior to the employee taking on the responsibilities of their position.

Jeffrey P Knight
Clerk-Treasurer, City of Nappanee

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CLERK-TREASURER
CITY OF NAPPANEE
EXIT CONFERENCE

The contents of this report were discussed on November 26, 2024, with Jeffrey P. Knight, Clerk-Treasurer; Philip W. Jenkins, Mayor; and Amy Rosa, Deputy Mayor.



COMMON COUNCIL
CITY OF NAPPANEE

COMMON COUNCIL
CITY OF NAPPANEE
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROLS

A similar comment also appeared in prior Report B60452, entitled *TRAINING ON INTERNAL CONTROL STANDARDS*

Condition and Context

Due to a lack of internal controls, the City did not ensure that all employees were trained on the internal control standards as required by their policy. The City did not provide proper training on internal control standards for all six employees tested.

Criteria

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

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

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

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:

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Jeff Knight
Clerk - Treasurer
jknight@nappanee.org

OFFICIAL RESPONSE

Date: December 3, 2024

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

Re: Training on Internal Controls

I concur with the audit findings regarding the need for better Training on Internal Controls. Due to the timing of the audit in 2022 (after the seasonal employees had been hired and the season was over) we could not resolve the issue in 2022. However, in 2023 we thought we had put a process in place between our HR Department and various departments to make sure this didn't recur. There was not clear communication between HR and the department heads thus causing a lack of follow-through.

As of March 1, 2024, an online process has been established by our HR Department whereby the training will take place and the confirmations will be handled through the ADP time system. This will be handled prior to the employee taking on the responsibilities of their position.

Jeffrey P Knight
Clerk-Treasurer, City of Nappanee

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