

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

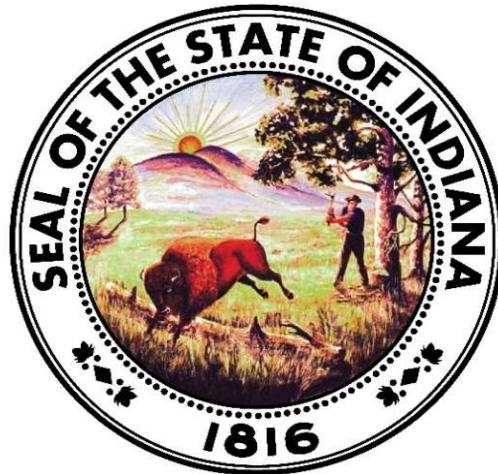
SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF RENSSELAER

JASPER COUNTY, INDIANA

January 1, 2023 to December 31, 2023



FILED
07/30/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Shelby Keys	01-01-23 to 12-31-24
Mayor	Stephen Wood Jeffrey S. Phillips	01-01-23 to 12-31-23 01-01-24 to 12-31-24
President of the Board of Public Works	Stephen Wood Jeffrey S. Phillips	01-01-23 to 12-31-23 01-01-24 to 12-31-24
President Pro Tempore of the Common Council	George Cover Noelle Weishaar	01-01-23 to 12-31-23 01-01-24 to 12-31-24
Utility Office Manager	Heather Smart	01-01-23 to 12-31-24



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE CITY OF RENSSELAER, JASPER COUNTY, INDIANA

This report is supplemental to the audit report of the City of Rensselaer (City), for the period from January 1, 2023 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.

A handwritten signature in blue ink that reads "Beth Kelley".

Beth Kelley, CPA, CFE
Deputy State Examiner

July 15, 2024

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CLERK-TREASURER
CITY OF RENSSELAER

CLERK-TREASURER
CITY OF RENSSELAER
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were deficiencies in the internal control system of the City related to financial transactions and reporting. The City had not separated incompatible activities related to receipts, disbursements, and financial reporting to ensure the accuracy, completeness, and timeliness of the recordkeeping. A segregation of duties for each of these areas had not been properly designed or implemented to prevent, or detect and correct, errors.

Receipts and Disbursements - Debt Proceed Trust Funds

The City had not properly designed or implemented internal controls over recording transactions for debt proceed trust funds financial activity to ensure the accuracy and completeness of the ledgers and financial statement.

Receipts and disbursements are to be recorded at the time of the transaction.

Due to the lack of internal controls, the ledger and financial statement's receipts and disbursements were each understated for the Water Utility 2023 SRF Construction fund and the Water Utility 2023 SRF LSLR BAN fund by \$2,413,063 and \$69,137, respectively.

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

Financial Reporting

The City had not established effective internal controls over the preparation of the Annual Financial Report (AFR) financial information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statement. The AFR was submitted without evidence of an oversight or review process to ensure the accuracy and completeness of the financial information submitted.

Furthermore, the City utilities ledgers are maintained on the accrual basis of accounting and are converted to cash basis for reporting in the AFR. The City contracted with a consultant to determine the adjustments needed to convert the accrual basis ledger to report cash basis AFR and financial statement. However, the City had not designed or implemented an oversight or review process of the consultant's adjustments to ensure the accuracy and completeness of the AFR.

Criteria

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)

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

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. . . ."

ANNUAL FINANCIAL REPORT - OTHER INFORMATION

A similar comment also appeared in prior Report B60062, entitled *SCHEDULE OF CAPITAL ASSETS*.

Condition and Context

Financial 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 did not have a system of internal controls over the preparation of the AFR entered into Gateway. The AFR was submitted without evidence of an oversight or review process to ensure the accuracy and completeness of the financial and other information submitted.

Due to the lack of internal controls, the AFR information entered into Gateway included the following errors:

Grants

The federal grant information prepared and submitted in Gateway was not properly reviewed by the City. One individual prepared and entered the federal award information into Gateway which was submitted without evidence of an oversight or review process to ensure the accuracy and completeness of the federal grant information submitted.

This resulted in the grant expenditures to be understated by \$5,087,184 due to the omission of the Water and Waste Disposal Systems for Rural Communities grant. In addition, incorrect program titles, pass-through entities, and identifying numbers were reported.

Adjustments were proposed, accepted by the City, and made to the Schedule of Expenditure of Federal Awards presented in the Federal Compliance Audit Report of the City.

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

Capital Assets

The City prepared and submitted the capital asset information into Gateway. However, the records provided did not support the capital asset information reported.

The City approved the omission of the Schedule of Capital Assets from the Financial Statement Audit Report of the City.

Criteria

The Annual Financial Report (AFR) required under IC 5-11-1-4(a) shall be filed with the state examiner not later than sixty (60) days after the close of each fiscal year. (Accounting and Uniform Guidelines Compliance Manual for Cities and Towns, Chapter 1)

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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CAPITAL ASSETS

Condition and Context

The City did not establish internal control procedures to ensure the activity and amounts contained in the capital asset listing was accurate and complete. Due to the lack of internal controls, the City's detailed listing was determined to not be accurate and complete based on the following discrepancies:

- Ten capital assets from the detailed listing were selected for physical verification. However, two of the ten assets selected could not be physically verified. The items not verified consisted of older vehicles and equipment.
- Two vehicles that were traded-in were tested for removal from the detailed listing. One vehicle had not originally been listed as a capital asset and the other was not properly removed from the detailed listing.
- The City utilities' accrual ledgers track CIP in total; however, a detailed listing by project was not included as part of the detailed capital asset listing.

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

Additionally, the City did not conduct a physical inventory of the capital assets as required.

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)

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CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS TRANSFER

Condition and Context

The Amended State Examiner Directive 2021-1 (Directive) prescribed the accounting procedures for federal assistance received through the American Rescue Plan Act of 2021 (ARPA) for Cities.

The City received an allocation from the Coronavirus State and Local Fiscal Recovery Fund (SLFRF), which was funded by the American Rescue Plan Act (ARPA).

However, the City did not have an effective internal control system in place to ensure all grant disbursements were made from the ARP COVID LCL FIS RECOVERY fund, as required by the Directive.

In August 2023, the City adopted Resolution 39-2023 which amended the intended uses of the SLFRF grant to include a Sewage Works Phosphorus Building project. In November 2023, the Common Council approved a \$189,300 transfer from the ARP COVID LCL FIS RECOVERY fund to the Sewage Utility Construction fund, for the purpose of financing the Phosphorus Improvements Project. The ARPA grant transfer to another fund was not in compliance with the Amended State Examiner Directive.

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

Criteria

The purpose of this directive is to prescribe the accounting procedures for federal assistance received through the American Rescue Plan Act of 2021 (ARPA).

Separate Fund Required. Assistance provided through the ARPA must be received into a separate fund. There are many funding provisions in this Act. A separate fund must be established for each separately identified assistance provided with ARPA in the naming title. . . .

Before money in the fund is disbursed, the fiscal body must appropriate the money in the fund for a use consistent with Section 603(c) as stated in the adopted ordinance and the plan. Only a local appropriation is needed. To ensure accountability and transparency of the use of these funds, all disbursements must be made from the ARPA grant fund; money from the ARPA fund may not be transferred to another fund of the county, city, or town. . . .

Government Services Eligible Use Category. If your unit chooses to use the ARPA funds to cover costs incurred for the provision of governmental services as provided in Section 603(c)(1)(C), you must either select the standard allowance of \$10 million or maintain detailed calculations of the reduction in revenue due to COVID-19 per the formula provided in the U.S. Treasury Final Rule. For purposes of this calculation, the most recent full fiscal year prior to the emergency is 2019.

The use of the funds for the provision of governmental services is limited to the standard allowance of \$10 million or the extent of the reduction in revenue due to the COVID-19 public health emergency per the formula provided in the U.S. Treasury Final Rule.

All disbursements for eligible uses, including government services, must be made directly from the ARPA Fund to ensure compliance with the U.S. Treasury Final Rule, uniform guidance, and conflict of interest requirements. Money may not be transferred to the General Fund or any other fund of the governmental unit.

(Amended State Examiner Directive 2021-1)

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)

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

CONTRACT

Condition and Context

The City did not have an effective internal control system in place to ensure payments complied with contract agreements and Indiana statute.

The Common Council awarded a \$897,971 contract to Town & Country Construction for the 2023 mill, patch, and resurface roadway maintenance project as a Community Crossing Project on March 27, 2023.

On June 12, 2023, the Common Council approved an amendment to the contract to add August Street for \$14,360. However, a change order was not provided to support the amendment to the contract.

Payments to the contractor totaled \$1,015,854, which was \$117,883 greater than the awarded contract amount. Change orders were not provided or approved to support the additional costs.

Criteria

Indiana Code 36-1-12-18 states:

"(a) If, in the course of the construction, reconstruction, or repair of a public work project, it becomes necessary to change or alter the original specifications, a change order may be issued to add, delete, or change an item or items in the original contract. The change order becomes an addendum to the contract and must be approved and signed by the board and the contractor.

(b) If a licensed architect or engineer is assigned to the public work project, the change order must be prepared by that person.

(c) A change order may not be issued before commencement of the actual construction, reconstruction, or repairs except in the case of an emergency. In that case, the board must make a declaration, and the board's minutes must show the nature of the emergency.

(d) The total of all change orders issued that increase the scope of the project may not exceed twenty percent (20%) of the amount of the original contract. A change order issued as a result of circumstances that could not have been reasonably foreseen does not increase the scope of the project.

(e) All change orders must be directly related to the original public work project.

(f) If additional units of materials included in the original contract are needed, the cost of these units in the change order must be the same as those shown in the original contract."

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities, Chapter 1)

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:

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

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PUBLIC PURCHASE

Condition and Context

On April 24, 2023, the Common Council opened bids for an Advanced Metering Infrastructure project. Four bids were opened as follows: Wesco for \$596,176, Indiana Municipal Power Agency Option 1 for \$554,831, Indiana Municipal Power Agency Option 2 for \$608,020, and Holland Supply Sensus for \$1,223,056.

On May 22, 2023, the Common Council awarded the bid to Wesco-Anixter for the first-year amount of \$503,975. The award amount was less than the bidder's original bid noted in the April 24, 2023 minutes. A consultant reviewed the bids with the affected City departments and emailed a recommendation for award to the President Pro Tempore of the Common Council. However, the Common Council minutes did not document how the award amount was determined and the Common Council's basis for awarding the amount.

Furthermore, the signed contract for this project did not specify the total amount to be paid nor did it include the two exhibits which would have detailed the materials and services to be provided. Therefore, it could not be determined if the payments made for this contract were within the agreed-upon costs or for the agreed-upon items or services.

Criteria

Indiana Code 5-14-1.5-4(b) states:

"As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes taken by individual members if there is a roll call.
- (5) Any additional information required under section 3.5 or 3.6 of this chapter or any other statute that authorizes a governing body to conduct a meeting using an electronic means of communication."

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities, Chapter 1)

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

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CLERK-TREASURER
CITY OF RENSSELAER
EXIT CONFERENCE

The contents of this report were discussed on July 15, 2024, with Shelby Keys, Clerk-Treasurer; Jeffrey S. Phillips, Mayor; Noelle Weishaar, President Pro Tempore of the Common Council; Kevin Arnold, Common Council member; Joshua Davis, Building Commissioner; and Heather Smart, Utility Office Manager.

REDEVELOPMENT COMMISSION
CITY OF RENSSELAER

REDEVELOPMENT COMMISSION
CITY OF RENSSELAER
AUDIT RESULT AND COMMENT

TAX INCREMENT FINANCING (TIF) ALLOCATION FUNDS

A similar comment appeared in a Management Letter addressed to the City officials for the audit period ending December 31, 2021.

Condition and Context

There were deficiencies in the internal control system of the City related to ensuring Tax Increment Financing (TIF) Allocation Funds were expensed within the restricted uses authorized by Indiana Code.

A Redevelopment Commission (Commission) has the duties set forth in Indiana Code 36-7-14-11, which provides for the investigation, selection, acquisition development, and disposal of property in "areas needing redevelopment." The powers granted to a redevelopment commission in Indiana Code 36-7-14-12-2 allow the commission to develop property in the areas needing redevelopment and to carry out other activities "for redevelopment purposes." "Redevelopment" includes activities contained in Indiana Code 36-7-1-18.

Operating Disbursements of the Commission to a financial consultant for Arbitrage Compliance report annual bond continuing disclosure. TIF Base neutralization information and notifications, and DLGF Gateway TIF management reporting totaling \$12,497 were made from TIF Allocation fund.

The Commission contributed \$468,200 from the TIF Allocation fund to the Sewage Utility for the Phosphorus Improvements Project at the Sewage Plant.

A five-year non-interest bearing loan was also authorized by the Redevelopment Commission Ordinance 03-2023 to the City's Sewage Utility. The loan of \$675,000 was made from the Tax Allocation fund to the Sewage Construction Fund. According to the August 14, 2023 Common Council minutes, the planned use for \$672,600 of the loan proceeds was the Phosphorus Improvements Project at the Sewage Plant.

The Sewage Plant is not located within the boundaries of the TIF district, and the project was for the benefit of the entire City.

These expenses and loans made were not within the restricted uses authorized in Indiana Code 36-7-14-39(b)(4).

Criteria

Indiana Code 36-7-14-39(b)(4) states in part:

". . . property tax proceeds. . . shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following:

(A) Pay the principal of and interest on any obligations payable solely from allocated tax proceeds which are incurred by the redevelopment district for the purpose of financing or refinancing the redevelopment of that allocation area.

(B) Establish, augment, or restore the debt service reserve for bonds payable solely or in part from allocated tax proceeds in that allocation area.

REDEVELOPMENT COMMISSION
CITY OF RENSSELAER
AUDIT RESULT AND COMMENT
(Continued)

(C) Pay the principal of and interest on bonds payable from allocated tax proceeds in that allocation area and from the special tax levied under section 27 of this chapter.

(D) Pay the principal of and interest on bonds issued by the unit to pay for local public improvements that are physically located in or physically connected to that allocation area.

(E) Pay premiums on the redemption before maturity of bonds payable solely or in part from allocated tax proceeds in that allocation area.

(F) Make payments on leases payable from allocated tax proceeds in that allocation area under section 25.2 of this chapter.

(G) Reimburse the unit for expenditures made by it for local public improvements (which include buildings, parking facilities, and other items described in section 25.1(a) of this chapter) that are physically located in or physically connected to that allocation area.

(H) Reimburse the unit for rentals paid by it for a building or parking facility that is physically located in or physically connected to that allocation area under any lease entered into under [IC 36-1-10](#).

(I) For property taxes first due and payable before January 1, 2009, pay all or a part of a property tax replacement credit to taxpayers in an allocation area as determined by the redevelopment commission. . . .

(J) Pay expenses incurred by the redevelopment commission for local public improvements that are in the allocation area or serving the allocation area. Public improvements include buildings, parking facilities, and other items described in section 25.1(a) of this chapter.

(K) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located:

(i) in the allocation area; and

(ii) on a parcel of real property that has been classified as industrial property under the rules of the department of local government finance. . . .

(L) Pay the costs of carrying out an eligible efficiency project (as defined in [IC 36-9-41-1.5](#)) within the unit that established the redevelopment commission. However, property tax proceeds may be used under this clause to pay the costs of carrying out an eligible efficiency project only if those property tax proceeds exceed the amount necessary to do the following: . . .

(M) Expend money and provide financial assistance as authorized in section 12.2(a)(27) of this chapter."

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REDEVELOPMENT COMMISSION
CITY OF RENSSELAER
AUDIT RESULT AND COMMENT
(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. . . ."

The allocation fund may not be used for operating expenses of the commission.

The uses of TIF funds are restricted to those set forth in the Indiana Code. The power of a redevelopment commission to expend such funds is limited to the express statutory powers as set forth in Indiana Code 36-7-14. The use of TIF funds for ongoing maintenance of redeveloped property is not an expressly or impliedly permitted use, except as provided in Indiana Code 36-7-1-18(7) for repairing and maintaining buildings acquired before redevelopment is complete. (Redevelopment Commission of the Town of Munster, Indiana, v. Indiana State Board of Accounts and Paul D. Joyce, State Examiner of State Board of Accounts, 28 N.E.3d 272 (Ind. App., 2015) trans. denied, 34 N.E.3d 251)

REDEVELOPMENT COMMISSION
CITY OF RENSSELAER
EXIT CONFERENCE

The contents of this report were discussed on July 15, 2024, with Shelby Keys, Clerk-Treasurer; Jeffrey S. Phillips, Mayor; Noelle Weishaar, President Pro Tempore of the Common Council; Kevin Arnold, Common Council member; Joshua Davis, Building Commissioner; and Heather Smart, Utility Office Manager.

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COMMON COUNCIL
CITY OF RENSSELAER

COMMON COUNCIL
CITY OF RENSSELAER
AUDIT RESULTS AND COMMENTS

UTILITY BOARD

Condition and Context

There were deficiencies in the internal control system of the City related to the Utility Board required responsibilities.

The City established a Utility Board in accordance with Indiana Code 8-1.5-3-4 in 1991. Per City Code 34.52, the Utility Board consists of the Common Council members, whose term on the Utility Board coincides with their term as a member of the Common Council. The responsibilities of the Utility Board include, but not limited to, submitting a budget of its financial needs to the next year in the detail required by the municipal legislative body, recommendation to the legislative body reasonable and just rates and charges for services to the patrons of each utility, and making monthly reports to the fiscal officer of the receipts and disbursements of money belonging to each utility and an annual report of the condition of the utility.

The Utility Board did not meet as a Utility Board to exercise its powers and duties to operate the Utilities in accordance with Indiana Code 8-1.5-3-4. Instead, the Common Council acted during its meetings for all City services, including the Utilities.

Criteria

Indiana Code 8-1.5-3-4 states in part:

"(a) The board has general supervisory powers over the utilities under its control, with responsibility for the detailed supervision of each utility to be vested in its superintendent, who is responsible to the board for the business and technical operation of the utility. The board shall:

- (1) fix the number and compensation of employees;
- (2) adopt rules governing the appointment of employees including making proper classifications and rules to:
 - (A) determine the eligibility of applicants;
 - (B) determine by competitive examination the relative fitness of applicants for positions;
 - (C) establish eligible lists arranged according to the ratings secured;
 - (D) provide for the appointment of those having the highest ratings; and
 - (E) provide for the promotion of employees;
- (3) subject to [IC 36-4-9-2](#), appoint a superintendent or manager of each utility under its control who is responsible to the board for the business and technical operation of the utility; the board shall make the appointment on the basis of fitness to manage the particular utility to which he is to be assigned, taking into account his executive ability and his knowledge of the utility industry;

COMMON COUNCIL
CITY OF RENSSELAER
AUDIT RESULTS AND COMMENTS
(Continued)

- (4) subject to [IC 36-4-9-12](#), hire attorneys when required for the operation of the utility;
 - (5) hire professional or expert personnel when required for the operation of the utility;
 - (6) submit a budget of its financial needs for the next year in the detail required by the municipal legislative body;
 - (7) recommend to the legislative body reasonable and just rates and charges for services to the patrons of each utility;
 - (8) appropriate, lease, rent, purchase, and hold all real and personal property of the utility;
 - (9) enter upon lands for the purpose of surveying or examining the land to determine the location of any plant or appurtenances;
 - (10) award contracts for:
 - (A) the purchase of capital equipment;
 - (B) the construction of capital improvements; or
 - (C) other property or purposes that are necessary for the full and efficient construction, management, and operation of each utility;
 - (11) adopt rules for the safe, economical, and efficient management and protection of each utility;
 - (12) deposit at least weekly with the municipal fiscal officer all money collected from each utility to be kept in a separate fund subject to the order of the board; and
 - (13) make monthly reports to the fiscal officer of the receipts and disbursements of money belonging to each utility and an annual report of the condition of the utility.
- (b) The board may purchase by contract electricity, water, gas, power, or any other commodity or service for the purpose of furnishing the commodity or service to the patrons of the municipally owned utility or to the municipality itself. . . ."

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. . . .

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(Continued)

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. . . ."

CONTRACT

Condition and Context

The City did not have an effective internal control system in place to ensure payments complied with contract agreements and Indiana statute.

The Common Council awarded a \$897,971 contract to Town & Country Construction for the 2023 mill, patch, and resurface roadway maintenance project as a Community Crossing Project on March 27, 2023.

On June 12, 2023, the Common Council approved an amendment to the contract to add August Street for \$14,360. However, a change order was not provided to support the amendment to the contract.

Payments to the contractor totaled \$1,015,854, which was \$117,883 greater than the awarded contract amount. Change orders were not provided or approved to support the additional costs.

Criteria

Indiana Code 36-1-12-18 states:

"(a) If, in the course of the construction, reconstruction, or repair of a public work project, it becomes necessary to change or alter the original specifications, a change order may be issued to add, delete, or change an item or items in the original contract. The change order becomes an addendum to the contract and must be approved and signed by the board and the contractor.

(b) If a licensed architect or engineer is assigned to the public work project, the change order must be prepared by that person.

(c) A change order may not be issued before commencement of the actual construction, reconstruction, or repairs except in the case of an emergency. In that case, the board must make a declaration, and the board's minutes must show the nature of the emergency.

(d) The total of all change orders issued that increase the scope of the project may not exceed twenty percent (20%) of the amount of the original contract. A change order issued as a result of circumstances that could not have been reasonably foreseen does not increase the scope of the project.

(e) All change orders must be directly related to the original public work project.

(f) If additional units of materials included in the original contract are needed, the cost of these units in the change order must be the same as those shown in the original contract."

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities, Chapter 1)

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AUDIT RESULTS AND COMMENTS
(Continued)

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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PUBLIC PURCHASE

Condition and Context

The City did not have an effective internal control system in place to ensure records reflect how the purchase and installation of equipment and software that provides for two-way communication with utility meters and other devices was properly procured.

On April 24, 2023, the Common Council opened bids for an Advanced Metering Infrastructure project. Four bids were opened as follows: Wesco for \$596,176, Indiana Municipal Power Agency Option 1 for \$554,831, Indiana Municipal Power Agency Option 2 for \$608,020, and Holland Supply Sensus for \$1,223,056.

On May 22, 2023, the Common Council awarded the bid to Wesco-Anixter for the first-year amount of \$503,975. The award amount was less than the bidder's original bid noted in the April 24, 2023 minutes, and the minutes did not document how the award amount was determined.

Furthermore, the signed contract for this project did not specify the total amount to be paid nor did it include the two exhibits which would have detailed the materials and services to be provided. Therefore, it could not be determined if the payments made for this contract were within the agreed-upon costs or for the agreed-upon items or services.

Criteria

Indiana Code 5-14-1.5-4(b) states:

"As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes taken by individual members if there is a roll call.
- (5) Any additional information required under section 3.5 or 3.6 of this chapter or any other statute that authorizes a governing body to conduct a meeting using an electronic means of communication."

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AUDIT RESULTS AND COMMENTS
(Continued)

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities, Chapter 1)

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."

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EXIT CONFERENCE

The contents of this report were discussed on July 15, 2024, with Shelby Keys, Clerk-Treasurer; Jeffrey S. Phillips, Mayor; Noelle Weishaar, President Pro Tempore of the Common Council; Kevin Arnold, Common Council member; Joshua Davis, Building Commissioner; and Heather Smart, Utility Office Manager.