

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF MARTINSVILLE

MORGAN COUNTY, INDIANA

January 1, 2023 to December 31, 2023



FILED
07/09/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Rebecca J. Tumey Ben Merida	01-01-23 to 12-31-23 01-01-24 to 12-31-24
Mayor	Kenneth W. Costin	01-01-23 to 12-31-24
President of the Board of Public Works and Safety	Kenneth W. Costin	01-01-23 to 12-31-24
President Pro Tempore of the Common Council	Phil R. Deckard II	01-01-23 to 12-31-24
Utility Office Manager	Heather Staggs	01-01-23 to 12-31-24



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 MARTINSVILLE, MORGAN 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 Martinsville (City), for the year ended December 31, 2023, and the related notes to the financial statement, which collectively comprise the City's financial statement and have issued our report thereon dated June 13, 2024, 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 item 2023-001, 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001.

City of Martinsville'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

June 13, 2024



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 MARTINSVILLE, MORGAN COUNTY, INDIANA

Report on Compliance for the Major Federal Program

Qualified Opinion

We have audited the City of Martinsville'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 federal program for the year ended December 31, 2023. 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 Opinions* 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, 2023.

Basis for Qualified Opinions

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, described in item 2023-002 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.

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.

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)

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. We consider the deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2023-002, 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.

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, 2023, and the related notes to the financial statement. We issued our report thereon dated June 13, 2024, 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

June 13, 2024

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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.

CITY OF MARTINSVILLE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2023

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 WW22-106	Indiana Office of Community and Rural Affairs	14.228	WW22.106	\$ -	\$ 700,000
Total - Department of Housing and Urban Development				-	700,000
<u>Department of Transportation</u>					
Highway Safety Cluster State and Community Highway Safety CHIRP	Morgan County	20.600	69A375183000016401NA	-	16,147
Total - Highway Safety Cluster				-	16,147
Highway Planning and Construction South Street Ohio Street Pike Street Harrison Street	Indiana Department of Transportation	20.205	DES 1702961 DES 1702962 DES 1802868 DES 1802869	- - - -	250,689 352,986 9,908 7,893
Total - Highway Planning and Construction				-	621,476
Minimum Penalties for Repeat Offenders for Driving While Intoxicated Click It To Live It	Morgan County	20.608	69A3752030000405DINL	-	3,294
Total - Department of Transportation				-	640,917

CITY OF MARTINSVILLE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2023

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 the Treasury</u>					
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds ARPA	Indiana Finance Authority	21.027	NEUIN0279	-	2,187,725
Total - Department of the Treasury				-	2,187,725
<u>Environmental Protection Agency</u>					
Drinking Water State Revolving Fund Cluster Drinking Water State Revolving Fund DW19 12 55 02	Indiana Finance Authority	66.468	DW19125502	-	2,743
Total - Drinking Water State Revolving Fund Cluster				-	2,743
Brownfields Multipurpose, Assessment, Revolving Loan Fund, and Cleanup Cooperative Agreements Brown Field Grant	Direct Grant	66.818	EPA00E03205	-	87,291
Total - Environmental Protection Agency				-	90,034
<u>Department of Homeland Security</u>					
Disaster Grants - Public Assistance (Presidentially Declared Disasters) FEMA	Indiana Department of Homeland Security	97.036	DR4704	-	155,573
Total - Department of Homeland Security				-	155,573
Total federal awards expended				\$ -	\$ 3,774,249

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

CITY OF MARTINSVILLE
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, 2023. 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 MARTINSVILLE
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; Qualified 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?	no
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:

Assistance Listings Number	Name of Federal Program or Cluster	Opinion Issued
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
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Section II - Financial Statement Findings

FINDING 2023-001

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

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2022-001.

Condition and Context

The City is required to file financial reports after the close of each fiscal year. The reports are to be filed electronically as prescribed.

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

The City filed its reports as prescribed; however, the internal controls over the federal award information entered in 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), were not effective.

The federal grant information prepared and submitted in Gateway was not properly reviewed by the City. 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 and allow correction of errors prior to submission.

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

- The Community Crossing Grant, a state award, was erroneously added, which overstated expenditures by \$565,055.
- The Highway Planning and Construction expenditures were overstated by \$265,849 due to the inclusion of expenditures that were not part of the grant.
- The COVID-19 Coronavirus State and Local Fiscal Relief Funds expenditures were understated by \$865,469 due to the grant being reported based on receipted amounts instead of actual expenditures for the period.
- Two other grants had individually immaterial errors that resulted in misstatements of expenditures of \$17,906 in total.
- Other errors included three incorrect federal grantor agencies, two incorrect pass-through entities, three incorrect program names, and two incorrect Assistance Listings Numbers.

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

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](#)."

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:

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

- (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 . . ."

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."

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 MARTINSVILLE
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. . . ."

Cause

Management of the City did not accurately report its federal expenditures. Amounts for state grants and other expenditures that were not related to its federal awards were incorrectly included on the SEFA.

Effect

Without the proper implementation of an effectively designed system of internal controls, the City cannot detect and correct misstatements of the SEFA. 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.

Section III - Federal Award Findings and Questioned Costs

FINDING 2023-002

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): NEUIN0279
Pass-Through Entity: Indiana Finance Authority
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 State and Local Fiscal Recovery Funds (SLFRF) 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 done by checking the Excluded Parties List System (EPLS), collecting a certification from that vendor, or adding a clause or condition to the covered transaction with that vendor.

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

The City's policies related to SLFRF suspension and debarment requirements included a search of Sam.gov to check the suspension, debarment, or other exclusion of vendors. However, the City's procedures did not include retaining evidence of these searches. Four vendors were identified as having transactions that equaled or exceeded \$25,000. All four vendors were selected for testing.

The four vendors, with total expenditures of \$2,168,780, were reviewed. For all four vendors, the City did not have documented audit evidence to show that the vendors were checked for suspension, debarment, or other exclusion prior to entering into the transactions.

The lack of internal controls and noncompliance were systemic issues 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). . . ."

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 do business is not excluded or disqualified. You do this by:

- (1) Checking the EPLS, or
- (2) Collecting a certification from that person if allowed by this rule, or
- (3) Adding a clause or condition to the covered transaction with that person."

Cause

The City was unable to provide documentation to demonstrate they checked Sam.gov to verify the contractors were not suspended or debarred. The lack of documentation was a direct result of its policy not addressing the how or the need to retain evidence of the Sam.gov search.

Effect

Without the proper implementation of an effectively designed system of internal controls, the City cannot ensure the vendors paid with federal funds are eligible to participate in federal programs. Any program funds the City used to pay vendors that have been suspended or debarred would be unallowable.

Noncompliance with the provisions of federal statutes, regulations, and the terms and conditions of the federal award could result in the loss of future funding to the City.

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish a proper system of internal controls and develop policies and procedures to ensure contractors and subrecipients, as appropriate, are not suspended, debarred, or otherwise excluded prior to entering contracts or subawards.

Views of Responsible Officials

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

AUDITEE-PREPARED DOCUMENTS

The subsequent documents were provided by management of the City. The documents are presented as intended by the City.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2022-001 (Auditor Assigned Reference Number)

Fiscal year in which the finding initially occurred: 2020

Current Audit Period: January 1, 2023, to December 31, 2023

Finding Subject: Preparation of the Schedule of Expenditures of Federal Awards

Summary of Finding:

Issues with the reporting of the SEFA. Community Crossing Grant is a state grant and was included erroneously, The Highway Planning and Construction expenditures were overstated, The Community Development Block Grant (CDBG) was omitted, The Drinking Water State Revolving Fund was omitted, and other errors were noted in the Federal Grantor Agencies, pass-through entities, cluster names, program names, Assistance Listing Numbers, and pass-through identifying numbers.

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

Status of Audit Finding:

Partially Corrected – the city has implemented new internal controls and procedures to better capture accurate information. We have implemented program identification within our accounting software to label the different programs but have had an issue with labeling the programs with the correct information. This has caused some programs to be labeled incorrectly and thus the reporting to be inaccurate.

Response Comments:

Going forward we have corrected our information and have updated the amounts to correctly track the receipts and disbursements for all programs. This should allow us to correctly report all information in regards to the SEFA going forward. We have also made these corrections to Gateway so we insure that all information matches.



CORRECTIVE ACTION PLAN

FINDING 2023-001

Finding Subject: Preparation of the Schedule of Expenditures of Federal Awards

Summary of Finding: Material Weakness, Noncompliance

Contact Person Responsible for Corrective Action: Ben Merida

Contact Phone Number and Email Address: (765) 342-6012 and bmerida@martinsville.in.gov

Views of Responsible Officials: We concur with the finding.

Description of Corrective Action Plan: The Clerk Treasurer's office has recently gone through an extensive restructuring process which includes better tracking of our projects and their monetary sources. This new tracking procedure enables us to track projects and their funding from start to finish. Part of this process will entail verifying project identifiers and the source/breakdown of any and all monies received by the City of Martinsville. The City of Martinsville also plans to implement a new accounts receivable policy that will enable the Clerk Treasurer's office to keep better records of any and all financial documents.

We feel the combination of these items will put the City of Martinsville in a better position to comply with all internal control standards and to be a model of governmental transparency.

Anticipated Completion Date: Immediately – June 2024



CORRECTIVE ACTION PLAN

FINDING 2023-002

Finding Subject: COVID-19 – Coronavirus State and Local Fiscal Recovery Funds – Suspension and Debarment

Summary of Finding: Material Weakness, Modified Opinion

Contact Person Responsible for Corrective Action: Ben Merida

Contact Phone Number and Email Address: (765) 342-6012 and bmerida@martinsville.in.gov

Views of Responsible Officials: We concur with the finding.

Description of Corrective Action Plan: All outgoing bid requests will include verbiage requiring any potential recipient or subrecipient to provide documentation that shows proof that they are neither suspended, debarred or otherwise excluded. Once the bids are received and prior to the awarding of a project the recipient or subrecipient's information will be verified using sam.gov. The bidding package, verifying eligibility and all supporting documentation will be provided to the Clerk Treasurer's office as they are the office of record.

We feel the combination of these items will put the City of Martinsville in a better position to comply with all internal control standards and to be a model of governmental transparency.

Anticipated Completion Date: Immediately – June 2024

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/>.