

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

COMPLIANCE EXAMINATION REPORT

OF

CITY OF FRANKFORT

CLINTON COUNTY, INDIANA

January 1, 2023 to December 31, 2023



**FILED**  
09/24/2024



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Carol J. Bartley	01-01-23 to 12-31-24
Mayor	Judith Sheets	01-01-23 to 12-31-24
President of the Board of Public Works and Safety	Judith Sheets	01-01-23 to 12-31-24
President Pro Tempore of the Common Council	Eric Woods	01-01-23 to 12-31-24
City Court Judge	Matthew Beardsley	01-01-23 to 12-31-24
President of the Utility Service Board	Kent Brewer	01-01-23 to 12-31-24
General Manager of Utilities	Todd Corrie	01-01-23 to 12-31-24
Utility Office Manager	Stacy Uitts (Vacant) Karen Milam	01-01-23 to 06-30-23 07-01-23 to 07-31-23 08-01-23 to 12-31-24



INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE FOR THE U.S. DEPARTMENT OF THE  
TREASURY CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS PROGRAM (SLFRF)  
REQUIREMENTS FOR AN ALTERNATIVE SLFRF COMPLIANCE EXAMINATION ENGAGEMENT

TO: THE MANAGEMENT OF THE CITY OF FRANKFORT, CLINTON COUNTY, INDIANA

We were engaged to examine the City of Frankfort's (City) compliance with the compliance requirements "activities allowed or unallowed" and "allowable costs/cost principles" (the specified requirements) as described in Part IV "Requirements for an Alternative Compliance Examination Engagement for Recipients That Would Otherwise be Required to Undergo a Single Audit or Program-Specific Audit as a Result of Receiving SLFRF Awards" of the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) section of the 2023 OMB *Compliance Supplement* (referred to herein as "Requirements for an Alternative SLFRF Compliance Examination Engagement") during the period January 1, 2023 to December 31, 2023.

Management of the City is responsible for the City's compliance with the specified requirements. Our responsibility is to express an opinion on the City's compliance with the specified requirements based on our examination.

We are required to be independent and meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

Our examination does not provide a legal determination on the City's compliance with the specified requirements referenced above.

As described in the accompanying Schedule of Findings and Responses, we were unable to obtain audit evidence supporting the City's compliance with the activities allowed or unallowed and allowable costs/cost principles requirements, as described in item 2023-001. As a result, we were unable to determine whether the City complied with the requirements applicable to the Alternative SLFRF Compliance Examination Engagement.

Because of the limitation on the scope of our examination discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the City's compliance with the compliance requirements "activities allowed or unallowed" and "allowable costs/cost principles" as described in Part IV "Requirements for an Alternative Compliance Examination Engagement for Recipients That Would Otherwise be Required to Undergo a Single Audit or Program-Specific Audit as a Result of Receiving SLFRF Awards" of the SLFRF section of the 2023 OMB *Compliance Supplement* during the period January 1, 2023 to December 31, 2023.

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE FOR THE U.S. DEPARTMENT OF THE  
TREASURY CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS PROGRAM (SLFRF)  
REQUIREMENTS FOR AN ALTERNATIVE SLFRF COMPLIANCE EXAMINATION ENGAGEMENT  
(Continued)

**Other Reporting Required by *Government Auditing Standards***

In accordance with Government Auditing Standards, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud; and noncompliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the City's compliance with the specified requirements and any other instances that warrant the attention of those charged with governance. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We were engaged to express an opinion on the City's compliance with the specified requirements and not for the purpose of expressing an opinion on the internal control over the specified requirements or on compliance and other matters; accordingly, we express no such opinions.

Certain findings, identified as item 2023-001, that are required to be reported under Government Auditing Standards were identified. Those findings, along with the views of responsible officials, are described in the attached Schedule of Findings and Responses.

**Intended Purpose**

The purpose of this examination report is solely to express an opinion on whether the City complied, in all material respects, with the specified requirements referenced above during the period January 1, 2023 to December 31, 2023. Accordingly, this report is not suitable for any other purpose.



Beth Kelley, CPA, CFE  
Deputy State Examiner

September 16, 2024

CITY OF FRANKFORT  
SCHEDULE OF FINDINGS AND RESPONSES

***FINDING 2023-001***

Subject: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Activities Allowed or Unallowed and Allowable Costs/Cost Principles  
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): FY2023  
Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles  
Audit Findings: Material Weakness, Modified Opinion

*Condition and Context*

Recipients may use COVID-19 - Coronavirus State and Local Fiscal Recovery Funds (SLFRF) award funds for any eligible expenses subject to the restrictions set forth in sections 602 and 603 of the Social Security Act as added by section 9901 of the American Rescue Plan Act of 2021 and amended by the Consolidated Appropriations Act of 2023. The SLFRF program provides substantial flexibility for each recipient to meet local needs within seven separate eligible use categories. Recipients may use SLFRF award funds to:

- Respond to the COVID-19 public health emergency and its negative economic impacts;
- Respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of eligible employers that have eligible workers who are performing essential work;
- Provide government services, to the extent COVID-19 caused a reduction in revenues collected in the most recent full fiscal year of the recipient;
- Make necessary investments in water, sewer, or broadband infrastructure;
- Provide emergency relief from natural disasters or their negative economic impacts;
- Fund eligible Surface Transportation projects; and
- Fund Title I projects that are eligible activities under the Community Development Block Grant and Indiana Community Development Block Grant programs.

As part of sound management of the federal award, the City was responsible for implementing a system of internal controls that would ensure compliance with the applicable requirements. The City did not properly design or implement such a system.

The City elected to receive the standard revenue loss allowance, allowing it to claim its total SLFRF allocation of \$3,586,171 as revenue loss to use for government services. On February 28, 2022, the City entered into a Build-Operate-Transfer (BOT) Agreement for two projects; one for the purpose of constructing an aquatic center, and the other to build a police station. The funding for these projects was made up of a combination of bond proceeds, community donations, and SLFRF award funds. All sources of funding for the projects were pooled into two separate bank accounts in 2022, and the funds were subsequently expended in 2023 for the purpose of completing these projects.

CITY OF FRANKFORT  
SCHEDULE OF FINDINGS AND RESPONSES  
(Continued)

During the engagement period, expenditures for both the aquatic center and police station projects were made from their respective bank accounts. However, since the pooling of funds into the bank account commingled receipts and the City did not ensure there was an appropriate system of internal controls in place to account for the federal expenditures separately from the bond proceeds and community donations expenditures, we were unable to determine a population of federal expenditures. Without a population of expenditures, we were unable to determine the City's compliance with the Activities Allowed or Unallowed and the Allowable Costs/Cost Principles compliance requirements. As such, the \$1,913,587 of SLFRF award funds moved to the project specific bank accounts is considered questioned costs.

The lack of internal controls and appropriate documentation to test the compliance requirements was isolated to the situation described above.

*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). . . ."

2 CFR 200.302 states in part:

"(a) Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. . . ."

(b) The financial management system of each non-Federal entity must provide for the following . . .

- (1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the Assistance Listings title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.
- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.328 and 200.329. . . .
- (3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, financial obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

CITY OF FRANKFORT  
SCHEDULE OF FINDINGS AND RESPONSES  
(Continued)

(4) Effective control over, and accountability for, all funds, property, and other assets. . . ."

*Cause*

A proper system of internal controls was not designed by management of the City. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the City's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies. Due to the lack of internal controls, the City was unable to differentiate expenditures made from federal and nonfederal funds once it commingled bond proceeds, community donations, and federal grant awards in the BOT bank accounts.

*Effect*

Without the proper implementation of an effectively designed system of internal controls, the City cannot identify the expenditures paid with federal grant funds. As such, the City cannot ensure, nor can we determine, that expenditures of the grant were not unallowable and adhered to established practices and policies of the City.

*Questioned Costs*

We identified \$1,913,587 in known questioned costs as noted above in the *Condition and Context*.

*Recommendation*

We recommended that management of the City establish a system of internal controls to ensure that grant award funds are accounted for and tracked in a designated grant fund or in such a manner that the federal expenditures are accounted for separately from other nonfederal funds. All activity of the federal grant should be accounted for separately with supporting documentation for each transaction.

*Views of Responsible Officials*

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

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AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the City. The document is presented as intended by the City.



City of Frankfort

Carol J. Bartley  
CLERK-TREASURER

301 E. Clinton St. • Frankfort, IN 46041-1955

## CORRECTIVE ACTION PLAN

### **FINDING 2023-001**

**Finding Subject:** COVID-19 Coronavirus State and Local Fiscal Recovery Funds - Activities Allowed or Unallowed and Allowable Costs/Cost Principles

#### **Summary of Finding:**

The City elected to receive the standard revenue loss allowance, allowing it to claim its total SLFRF allocation of \$3,586,171 as revenue loss to use for government services. On February 28, 2022, the City entered into a Build-Operate-Transfer (BOT) Agreement for two projects; one for the purpose of constructing an Aquatic Center, and the other to build a Police Station. The funding for these projects was made up of a combination of bond proceeds, community donations, and SLFRF funds. All sources of funding for the projects were pooled into two separate bank accounts in 2022, and the funds were subsequently expended in 2023 for the purpose of completing these projects.

During the engagement period, expenditures for both the Aquatic Center and Police Station projects were made from their respective bank accounts. However, since the pooling of funds into the bank account commingled receipts, and the City did not ensure there was an appropriate system of internal control in place to account for the federal expenditures separately from the bond proceeds and community donations expenditures, we were unable to determine a population of federal expenditures. Without a population of expenditures, we were unable to determine the City's compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements. As such, the \$1,913,587 of SLFRF award funds moved to the project specific bank accounts is considered questioned costs.

The lack of controls and appropriate documentation to test the compliance requirements was isolated to the situation described above.

We recommended that management of the City establish a system of internal controls to ensure that grant award funds are accounted for and tracked in a designated grant fund or in such a manner that the federal expenditures are accounted for separately from other non-federal funds. All activity of the federal grant should be accounted for separately with supporting documentation for each transaction.

**Contact Person Responsible for Corrective Action: Carol Bartley**

**Contact Phone Number and Email Address: 765-654-5715    cbartley@frankfort-in.gov**

#### *Per Uniform Guidance:*

2 CFR § 200.511(a) – “The auditee is responsible for follow-up and corrective action on all audit findings. . .The auditee must also prepare a corrective action plan for current year audit findings. . . The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements which are required to be reported in accordance with GAGAS.”

2 CFR § 200.511(c) – “At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in § 200.516, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.”

**Views of Responsible Officials:**

We concur with the finding.

We will ensure that our internal control policy is updated to reflect that any Federal awards will not be comingled, but instead accounted for in a designated grant fund, and accounted for separately, including documentation.

We must note that these funds were placed in a designated trustee financial institution along with bond funds for two city projects. The bond trustee bank representatives, legal and financial advisors all advised that we should place all funds in the trustee account to be distributed alongside the bond funds.

**Description of Corrective Action Plan:**

Our current internal controls policy will be reviewed and updates to include language specifying that all Federal award funds will be tracked and designated separately from all other funds.

**Anticipated Completion Date:**

December 31, 2024

*Per Uniform Guidance:*

2 CFR § 200.511(a) – “The auditee is responsible for follow-up and corrective action on all audit findings. . .The auditee must also prepare a corrective action plan for current year audit findings. . . The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements which are required to be reported in accordance with GAGAS. ”

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## 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/>.