

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF LAWRENCE

MARION COUNTY, INDIANA

January 1, 2023 to December 31, 2023



FILED
08/28/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Tyler Douthit Humphrey Nagila	01-01-23 to 12-31-23 01-01-24 to 12-31-24
Mayor	Steve Collier Deborah Whitfield	01-01-23 to 12-31-23 01-01-24 to 12-31-24
President of the Board of Public Works	Doug Reeser James Perron	01-01-23 to 12-31-23 01-01-24 to 12-31-24
President of the Common Council	William Tyrrell Giles Betty Robinson	01-01-23 to 12-31-23 01-01-24 to 12-31-24
President of the Utility Service Board	Steve Hall Tracy Boyd	01-01-23 to 12-31-23 01-01-24 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 LAWRENCE, MARION 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 Lawrence (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 August 15, 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 items 2023-001 and 2023-002, 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 instances of noncompliance or other matters that are 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 Lawrence'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

August 15, 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 LAWRENCE, MARION COUNTY, INDIANA

Report on Compliance for the Major Federal Program

Qualified Opinion

We have audited the City of Lawrence'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 Opinion

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.

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)

Matters 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, as described in items 2023-003 and 2023-004 for Procurement and Suspension and Debarment and Reporting. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

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.

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)

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City's response to the noncompliance 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 compliance, and, accordingly, we express no opinion on the response.

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.

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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2023-003 and 2023-004, 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.

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)

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 August 15, 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

August 15, 2024

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.

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CITY OF LAWRENCE
 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 Justice</u>					
Bulletproof Vest Partnership Program Bullet Proof Vest Grant	Direct Grant	16.607	FY 22	\$ -	\$ 9,250
Edward Byrne Memorial Justice Assistance Grant Program 2022 Byrne Grant	Direct Grant	16.738	O-BJA-2021_35004	-	20,918
Total - Department of Justice				-	30,168
<u>Department of Transportation</u>					
Highway Planning and Construction Safe Routes to School	City of Indianapolis	20.205	DES#1298645	-	44,040
Total - Department of Transportation				-	44,040
<u>Department of the Treasury</u>					
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds SLFRF (ARPA) State Water Infrastructure Fund	Direct Grant Indiana Finance Authority	21.027	FY 21 SWIF221049	-	1,134,984 1,922,844
Total - Department of the Treasury				-	3,057,828
<u>Environmental Protection Agency</u>					
Brownfields Multipurpose, Assessment, Revolving Loan Fund, and Cleanup Cooperative Agreements Brownfield	Direct Grant	66.818	BF-OOE02707	-	26,571
Total - Environmental Protection Agency				-	26,571
Total federal awards expended				\$ -	\$ 3,158,607

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

CITY OF LAWRENCE
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 LAWRENCE
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; Unmodified 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?	none reported
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

Section II - Financial Statement Findings

FINDING 2023-001

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

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 had not established effective internal controls over the AFR information related to grant reporting entered into Gateway, which was the source of the Schedule of Expenditures of Federal Awards (SEFA). This resulted in the City omitting the following COVID-19 - Coronavirus State and Local Fiscal Recovery Funds from the grant reporting:

- SLFRF (ARPA) in the amount of \$1,134,984.
- The State Water Infrastructure Fund in the amount of \$1,922,844.

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

Adjustments were proposed, approved 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:
 - (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:

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

- (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:

"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 had not established a system of internal controls that would have ensured proper reporting of the SEFA. 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. The City was adjusting to employee turnover and changes in employee responsibilities at the end of 2023 and the beginning of 2024. In addition, the City Controller was new to the position as of January 1, 2024, and was not familiar with how to prepare a SEFA.

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

Effect

Without a proper system of internal controls in place that operated effectively, material misstatements of the SEFA remained undetected. 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.

FINDING 2023-002

Subject: Internal Controls over Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition and Context

Financial information is required to be entered annually into the Indiana Gateway for Government Units financial reporting system, which is the source of the City's Annual Financial Report (AFR) or financial statement.

The AFR was prepared and submitted by one employee without evidence of an oversight and review process to prevent, or detect and correct, errors on the SEFA.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

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

Cause

Management of the City had not established an effective system of internal controls that included segregation of duties over the filing of the AFR. 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. The City was adjusting to employee turnover and changes in employee responsibilities at the end of 2023 and the beginning of 2024. In addition, the City Controller was new to the position as of January 1, 2024, and was not familiar with the necessity for segregation of duties over the filing of the AFR.

Effect

Without a proper system of internal controls in place that operated effectively, material misstatements of the financial statements could have occurred and remained undetected.

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 2023-003

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): FY 21
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2022-002.

Condition and Context

The City received a State and Local Fiscal Recovery Funds (SLFRF) allocation of \$11,167,161. During the audit period, the City expended funds under the revenue loss category and the infrastructure investment category.

Prior to entering into subawards and covered transactions with 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 nonprocurement transaction (i.e., grant agreement) that are expected to equal or exceed \$25,000. The verification is to be done by checking the Excluded Parties List System (EPLS), collecting a certification from that person, or adding a clause or condition to the covered transaction with that person. Due to the U.S. Department of the Treasury's determination that the revenue loss eligible use category does not give rise to subawards, the County was only required to comply with suspension and debarment requirements related to covered transactions.

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

The City did not have a formal written policy covering the suspension and debarment requirements. A population of three covered transactions for goods or services that equaled or exceeded \$25,000 paid from SLFRF funds during the audit period were identified. All three vendors with covered transactions were selected for testing. The contract for one of the vendors, who received payments from the City during 2023 totaling \$435,290, included a suspension and debarment clause in the contract. For the remaining two vendors, who received payments from the City during 2023 totaling \$536,500 and \$134,979, evidence was not provided that the City verified the vendors' suspension and debarment status prior to entering into the covered transactions. The City did not provide a formal policy or have procedures in place to verify that contractors engaged in covered transactions are neither suspended nor debarred or otherwise excluded or disqualified from participating in federal assistance programs or activities.

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:

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

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 of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies. At the time the City entered into the contracts tested, the City was unaware of the requirements for verifying whether or not vendors were suspended or debarred.

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

Effect

Without the proper implementation of an effectively designed system of internal controls, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. As a result, vendors to whom payments equal to or in excess of \$25,000 were not verified to be not suspended, debarred, or otherwise excluded. Payments to vendors that are suspended or debarred would be unallowable and could be recovered by the awarding agency.

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that management of the City 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 into any 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.

FINDING 2023-004

Subject: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Reporting
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): FY 21
Compliance Requirement: Reporting
Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2022-003.

Condition and Context

Recipients are required to submit quarterly or annually Project and Expenditure (P&E) reports to the U.S. Department of the Treasury (Treasury). The reporting periods, as well as the respective due dates, are based upon type of recipient and its population, as well as the recipient's allocation amount. Information to be reported includes projects funded, expenditures, and contracts for the appropriate reporting period.

Recipients are required to submit quarterly or annually P&E reports to the Treasury. The reporting periods, as well as the respective due dates, are based upon type of recipient and its population, as well as the recipient's allocation amount. Information to be reported includes projects funded, expenditures, and contracts for the appropriate reporting period.

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

The City was classified as a metropolitan City with a population below 250,000 residents that received an allocation of more than \$10 million in State and Local Fiscal Recovery Funds. As such, the City was required to submit four quarterly P&E reports during the audit period.

The reports to be submitted during 2023 were for quarters ending December 31, 2022, March 31, 2023, June 30, 2023, and August 31, 2023.

The City did not provide audit evidence that the P&E report for the quarter ended December 31, 2022, was prepared and submitted. Additionally, a single employee prepared and submitted the remaining three P&E reports without evidence of oversight and review.

The lack of internal controls was a systemic issue throughout the audit period. The noncompliance was related to the P&E report for the quarter ended December 31, 2022.

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 35.4(c) states in part: "*Reporting and requests for other information.* During the period of performance, recipients shall provide to the Secretary periodic reports providing detailed accounting of the uses of funds, . . ."

Coronavirus State and Local Fiscal Recovery Funds Compliance and Reporting Guidance, page 10, states in part:

". . . **10. Reporting.** All recipients of federal funds must complete financial, performance, and compliance reporting as required and outlined in Part 2 of this guidance. Expenditures may be reported on a cash or accrual basis, as long as the methodology is disclosed and consistently applied. Reporting must be consistent with the definition of expenditures pursuant to 2 CFR 200.1. Your organization should appropriately maintain accounting records for compiling and reporting accurate, compliant financial data, in accordance with appropriate accounting standards and principles. . . ."

Cause

A proper system of internal controls was not designed by management of the City, which would include segregation of key functions. 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 of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies. The City was not aware the P&E report for the quarter ending December 31, 2022, had not been filed.

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

Effect

Without the proper design or implementation of the components of a system of internal controls, including policies and procedures that provide segregation of duties and additional oversight as needed, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. As a result, a quarterly report was not filed with the Treasury.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that management of the City design and implement a proper system of internal controls, including policies and procedures that would provide segregation of duties to ensure appropriate reviews, approvals, and oversight of federal reports are taking place. We also recommended that all quarterly reports be filed timely with the awarding agency.

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 DOCUMENTS

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



City of

LAWRENCE

CONTROLLER'S OFFICE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2022-001

Fiscal year in which the finding initially occurred: 2022
Current Audit Period: 2023

Finding Subject: Financial Transactions and Reporting

Summary of Finding: A proper system on internal controls, which would include appropriate segregation of duties, should be designed and implemented at various levels to effectively prevent, or detect and correct, errors. Deficiencies in the internal control system related to self-insurance disbursements were identified. The City contracts with a third-party administrator for self-insurance claims. The third-party administrator bills the City weekly and provides a detailed listing of payments. The City does not review the detailed listing to confirm or ensure that medical invoices paid were only for City employees or others covered by the City's insurance plan.

Status of Audit Finding: Corrected

Response Comments: No additional comments are necessary per the summary schedule instructions

FINDING 2022-002

Fiscal year in which the finding initially occurred: 2022
Current Audit Period: 2023

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

Summary of Finding: - Upon inquiry of the City in order to review the procedures in place for verifying that an entity with which it plans to enter into a covered transaction is not suspended, debarred, or otherwise excluded, the City disclosed they had no procedures in place related to the suspension and debarment requirements. A population of four covered transactions for goods or services that equaled or exceeded \$25,000 paid from SLFRF funds during the audit period was identified. All four transactions, totaling \$1,767,482, were selected for testing. For three of the four transactions, totaling \$317,312, the City did not verify the vendors suspension and debarment status prior to payment due to the City not having any policies or procedures in place to verify that contractors were neither suspended nor debarred, or otherwise excluded or disqualified from participating in federal assistance programs or activities. The other vendor in the population did include a suspension and debarment clause in the contract; however, the City was not aware the clause was a part of the contract. We recommended that management of the City 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 into any contracts or subawards.

Status of Audit Finding: Not Corrected

Response Comments: We agree with this finding. The City will create a policy and procedure to ensure compliance with Federal procurement laws. Additionally, our updated policy shall ensure that the City

adheres to all Procurement procedures outlined in Federal awards received by the City. This policy will ensure that contractors and subrecipients are not suspended, debarred, or otherwise excluded prior to entering any contracts or subwards.

FINDING 2022-003

Fiscal year in which the finding initially occurred: 2022

Current Audit Period: 2023

Finding Subject: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Reporting

Summary of Finding: The City had not properly designed or implemented a system of internal controls, which would include appropriate segregation of duties that would likely be effective in preventing, or detecting and correcting, noncompliance. Recipients are required to submit quarterly or annually Project and Expenditure (P&E) reports to the U.S. Department of the Treasury (Treasury). The reporting periods, as well as the respective due dates, are based upon type of recipient and its population, as well as the recipient's allocation amount. Information to be reported includes projects funded, expenditures, and contracts for the appropriate reporting period. We recommended that management of the City design and implement a proper system of internal controls, including policies and procedures that would provide segregation of duties to ensure appropriate reviews, approvals, and oversight are taking place.

Status of Audit Finding: Not Corrected

Response Comments: We agree with this finding. The City will create a policy and procedure to ensure appropriate segregation of duties and reviews, approvals and oversight are in place for Financial reporting. This policy will require that two staff members from the Controller's office prepare the quarterly Project and Expenditure report (P&E report). One staff member shall be responsible for preparing the report and the other will complete a review and submission of the report.



City of

LAWRENCE

CONTROLLER'S OFFICE

CORRECTIVE ACTION PLAN

FINDING 2023-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards

Contact Person Responsible for Corrective Action: Humphrey Nagila

Contact Phone Number: 317-542-4554

Views of Responsible Official: We agree with this finding.

The City will create a policy and procedure to ensure compliance with Preparation of the Schedule of Expenditures of Federal Awards. Additionally, our updated policy shall ensure that the City adheres to all Internal Control procedures outlined in Indiana Code 5-11-1-27(e). This policy will ensure segregation of duties.

Anticipated Completion Date: 12/31/2024



City of

LAWRENCE

CONTROLLER'S OFFICE

FINDING 2023-002

Subject: Internal Controls over the submission of the Gateway Annual Financial Report
Contact Person Responsible for Corrective Action: Humphrey Nagila
Contact Phone Number: 317-542-4554

Views of Responsible Official: We agree with this finding.

The City will create a policy and procedure to ensure compliance with The Indiana State Board of Accounts Internal Controls over the submission of the Gateway Annual Financial Report. Additionally, our updated policy shall ensure that the City adheres to all Internal Control procedures outlined in Indiana Code 5-11-1-27(e). This policy will ensure segregation of duties.

Anticipated Completion Date: 12/31/2024

9001 East 59th Street, Suite 300
Lawrence, Indiana 46216
317.542.4447



City of

LAWRENCE

CONTROLLER'S OFFICE

FINDING 2023-003

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

Contact Person Responsible for Corrective Action:

Humphrey Nagila Contact Phone Number: 317-542-4554

Views of Responsible Official: We agree with this finding.

The City will create a policy and procedure to ensure compliance with Federal procurement laws. Additionally, our updated policy shall ensure that the City adheres to all procurement procedures outlined in Federal awards received by the City. This policy will ensure that contractors and subrecipients are not suspended, debarred, or otherwise excluded prior to entering any contracts or subawards.

Anticipated Completion Date: 12/31/2024

9001 East 59th Street, Suite 300
Lawrence, Indiana 46216
317.542.4447



City of

LAWRENCE

CONTROLLER'S OFFICE

FINDING 2023-004

Subject: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Reporting
Contact Person Responsible for Corrective Action: Humphrey Nagila
Contact Phone Number: 317-542-4554

Views of Responsible Official: We agree with this finding.

The City will create a policy and procedure to ensure appropriate segregation of duties and reviews, approvals, and oversight are in place for reporting. This policy will require that two staff members from the Controller's Office prepare the quarterly Project and Expenditure report (P&E report). One staff member shall be responsible for preparing the report and the other will complete a review and submission of the report.

Anticipated Completion Date: 12/31/2024

9001 East 59th Street, Suite 300
Lawrence, Indiana 46216
317.542.4447

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/>.