

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MARION

GRANT COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
01/15/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Tameria N. Miller (Vacant) Retha S. Hicks	01-01-14 to 08-05-14 08-06-14 to 09-06-14 09-07-14 to 12-31-15
Mayor	Wayne W. Seybold	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Bryan K. Harris	01-01-14 to 12-31-15
President of the Common Council	Henry L. Smith Joselyn M. Whitticker	01-01-14 to 12-31-14 01-01-15 to 12-31-15
Utilities Director	John C. Binkerd	01-01-14 to 12-31-15



STATE OF INDIANA
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TO: THE OFFICIALS OF THE CITY OF MARION, GRANT COUNTY, INDIANA

This report is supplemental to our audit report of the City of Marion (City), for the period from January 1, 2014 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Finding, identified in the above referenced audit report, is included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Finding and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

October 5, 2015

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FEDERAL FINDING

***FINDING 2014-001 - INTERNAL CONTROLS OVER REPORTING
OF EXPENDITURES OF FEDERAL AWARDS***

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: (a) two federal programs were overstated by a total of \$461,397; (b) two federal programs were omitted from the schedule totaling \$137,969; (c) one federal program was understated by \$2,751; (d) two state grants of \$11,250 were included; (e) information such as grantor agency, program title, pass-through entity, Catalog of Federal Domestic Assistance (CFDA) number, and pass-through identifying number were either incorrectly reported or omitted for some grant awards. Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

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FEDERAL FINDING
(Continued)

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. 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 award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual 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 shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."



CORRECTIVE ACTION PLAN

FINDING 2014-001

Contact Person Responsible for Corrective Action: Retha S. Hicks
Contact Phone Number: 765.382.3779

Description of Corrective Action Plan:

Deputy Controller will assist the Controller to administer the City's grants and assist in entering the grant information into Gateway for the Annual Report. The deputy will be compiling all of the Grant Files throughout the year and the Controller will review them.

Anticipated Completion Date: in place currently.

Retha S. Hicks, Controller

Date: 8/12/2015

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AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statement presented in the Financial Statement and Federal Single Audit Report included the following funds with overdrawn cash balances at December 31, 2014.

<u>Fund</u>	<u>Amount Overdrawn</u>
Park Non Reverting	\$ 45,058
CEDIT	49,709
1925 Police Pension	9,216
1937 Fire Pension	43,470
Animal Control Non Reverting	209,423
Insurance Reserve	3,355,064

A similar comment appeared in prior Report B43989.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The State Board of Accounts audit position is that the special nonreverting operating fund provides a means of funding a "particular activity" with a reasonable fee. Each such activity is to be more or less self-supporting. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

General Ordinance No. 29-2004, An Ordinance Governing the Operation of the City Insurance Fund states:

"Section IV. If the funds are totally depleted the Council will appropriate adequate funds to replenish the fund minimum balance."

"Section V. The fund minimum balance should be no less than the recommended amount used for self-funded programs which is normally four (4) months contributions."

ANNUAL FINANCIAL REPORT - SUPPLEMENTAL SCHEDULES

Per our review, the Schedule of Capital Assets and the Schedule of Payables and Receivables, included in the Annual Financial Report for 2014, did not properly reflect the financial activity of the City. Proper amounts could not be determined; therefore, a Schedule of Capital Assets nor a Schedule of Payables and Receivables were presented for December 31, 2014.

A similar comment appeared in prior Report B43989.

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CITY OF MARION
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. 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."

LOAN FROM MARION UTILITIES IN ANTICIPATION OF TAXES TO BE COLLECTED

A loan of \$1,000,000 was made on September 11, 2012, from the Marion Utilities to the City in anticipation of taxes to be levied and collected. The loan was made to allow the City to meet its cash flow obligations. The loan was not repaid on or before 30 days after the last day for the payment of the anticipated taxes, which were received December 6, 2012. The loan remains outstanding as of August 1, 2015.

A similar comment appeared in Report B43989.

Indiana Code 8-1.5-3-12 states in part:

"(a) A municipality may, by ordinance of its legislative body, borrow money from a utility owned by the municipality for any of the following purposes:

(1) Current purposes in anticipation of taxes levied and to be collected during the current or following year . . .

(d) A loan under this section: . . .

(3) is due:

(A) on or before thirty (30) days after the last day for the payment of anticipated taxes, in the case of a loan made under subsection (a)(1); . . ."

TEMPORARY TRANSFER OF FUNDS NOT RETURNED

A \$700,000 temporary transfer was made from the Marion Utilities to the General Fund on April 4, 2013. The transfer was made to allow the City to meet its cash flow obligations. Resolution No.10-2013, adopted by the Common Council April 2, 2013, authorized the transfer per Indiana Code 36-1-8-4. The amount was not returned to the Marion Utilities by the approved date of June 30, 2013, and has not been returned as of August 1, 2015.

A similar comment appeared in Report B43989.

Indiana Code 36-1-8-4 states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

CONTROLLER
CITY OF MARION
AUDIT RESULTS AND COMMENTS
(Continued)

- (3) . . . the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period."

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs . . ."

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Year	Excess Amount Expended
Parks and Recreation	2014	\$ 12,285
Cumulative Capital Development	2014	1,315

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

FUND SOURCES AND USES

The City disbursed \$7,577 from the Local Road and Street fund for repair and maintenance within the Splash House. These disbursements should have been made from the Park Non Reverting fund.

Indiana Code 8-14-2-5 states that:

"Money from the local road and street account shall be used exclusively by the cities, towns and counties for:

- (1) engineering, land acquisition, construction, resurfacing, maintenance, restoration, or rehabilitation of both local and arterial road and street systems;
- (2) the payment of principal and interest on bonds sold primarily to finance road, street and thoroughfare projects;
- (3) any local costs required to undertake a recreational or reservoir road project under IC 8-23-5; or
- (4) the purchase, rental, or repair of highway equipment. . . ."

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CITY OF MARION
AUDIT RESULTS AND COMMENTS
(Continued)

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

RECORD OF HOURS WORKED

The current Controller, on average, spends 16 hours a week working from the Controller's Office in the Marion City Hall. The current Controller is paid \$1,776.50 bi-weekly for her services and also receives health insurance coverage through the City. The current Controller also performs contractual services for other Indiana local governments.

Records of hours worked were not maintained for the Controller position for the pay periods beginning September 7, 2014, and through the pay period ending December 27, 2014. Hours worked or paid leave time claimed during that period were not documented, thus preventing verification of compliance with the city "Personnel Policy and Procedure Manual." An understanding existed between the Mayor and the current Controller that allowed the current Controller to perform the duties of that position, while being exempted from the working requirements as defined in the "Personnel Policy and Procedure Manual."

Indiana Code 5-11-9-4 requires that records be maintained showing which hours are worked each day for employees employed by more than one political subdivision or in more than one position by the same public agency. This requirement can be met by indicating the number of hours worked on each Employee's Service Record, General Form No. 99A and/or General Form No. 99B.

The Federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form 99A, Employees' Service Record
General Form 99B, Employee's Earnings Record
General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPORTING DOCUMENTATION

During the testing of credit card purchases, we noted 17 separate purchases totaling \$2,441 that lacked supporting documentation such as receipts or invoices. Due to the lack of supporting documentation, we could not verify the purpose of the disbursements.

A similar comment appeared in prior Report B43989.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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CITY OF MARION
AUDIT RESULTS AND COMMENTS
(Continued)

OFFICIAL BOND

No evidence was presented for audit to indicate that the former Controller obtained an individual surety bond.

A similar comment appeared in prior Report B43989.

Indiana Code 5-4-1-18 states in part:

"(a) Except as provided in subsection (b), the following city, town, county, or township officers and employees shall file an individual surety bond:

(1) City judges, controllers, clerks, and clerk-treasurers. . . .

(b) The fiscal body of a city, town, county, or township may by ordinance authorize the purchase of a blanket bond or a crime insurance policy endorsed to include faithful performance to cover the faithful performance of all employees, commission members, and persons acting on behalf of the local government unit, including those officers described in subsection (a)."

INTERNAL CONTROLS

We found several instances where internal controls were deemed to be inadequate which could impair the City's ability to prevent and detect errors related to its recordkeeping. These instances included the following:

- a. Management of the City has not established as effective internal control system over accounting for capital assets which would include controls over the recording of additions, disposals, and balances.
- b. The City did not have a proper system of internal control in place related to financial reporting as it pertains to the preparation of the Schedule of Expenditures of Federal Awards (SEFA).

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OFFICIAL RESPONSE
CITY OF MARION, INDIANA
October 13, 2015

ANNUAL REPORT – SUPPLEMENTAL SCHEDULES

Staff changes resulted in the breakdown in the Capital Asset documentation. The necessary guidelines and process for the recording of capital assets has been re-instituted as of June, 2015.

LOAN FROM MARION UTILITIES IN ANTICIPATION OF TAXES TO BE COLLECTED

The City administration and Marion Municipal Utilities have been in discussion of instituting a Payment In Lieu of Taxes (PILOT) to offset the repayment of the loan. The City pays MMU for the utilities used. MMU should pay their portion of property taxes to the City.

TEMPORARY TRANSFER OF FUNDS NOT RETURNED

See above response.

APPROPRIATIONS

The State Board of Accounts Auditor suggested using the previous year's "Schedule of expenditures of Federal awards" to assist with next year's schedule. The Controller's office is now keeping files on all grant awards also to assist with the report.

FUND SOURCES AND USES

The Controller's office will try to question the supervisor's directions with the assigning of appropriations more efficiently.

RECORD OF HOURS WORKED

On the average Retha Hicks spends three days in the office at 9 to 9.5 hours each day (27 to 28.5 hours). The Personnel Manual states the office employees weekly hours are 35. The other 8 to 6.5 hours Ms. Hicks works from her home via remote desktop. An agreement with Mayor Wayne Seybold was given to the Auditor. She was not aware of the record keeping of her time coming from an elected position but has rectified this in 2015.

SUPPORTING DOCUMENTATION

The purchases that lacked support have all been supported by documentation except for 3 which were charges (fees) directly applied via computer (remotely). The staff person has been personally notified to make sure they follow up on the issue and receive documentation if at all possible.

OFFICIAL BOND

Prior Controller was terminated for failure to obtain bond.

INTERNAL CONTROLS

Prior comments and actions implemented on Capital Assets and SEFA section of this Official Response will address this issue.

The City of Marion's administration and staff have implemented several cost saving applications every year to combat the loss of revenue. The review of the city's property insurance this year saved the city several thousand dollars. The review of the bank fees reduced costs by 50%. The Mayor instituted a procurement card program which will produce a rebate to the city for every dollar spent.

Respectfully submitted,

Mayor Wayne Seybold

Retha S. Hicks, Controller

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EXIT CONFERENCE

The contents of this report were discussed on October 5, 2015, with Wayne W. Seybold, Mayor; Retha S. Hicks, Controller; Joselyn M. Whitticker, President of the Common Council; and Tameria N. Miller, former Controller.