

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF ELKHART

ELKHART COUNTY, INDIANA

January 1, 2014 to December 31, 2014



**FILED**  
12/29/2016



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Stephen J. Malone Jeffrey L. Spalding	01-01-14 to 12-31-15 01-01-16 to 12-31-16
Mayor	Dick Moore Timothy Neese	01-01-12 to 12-31-15 01-01-16 to 12-31-19
President of the Board of Public Works	Michael C. Machlan Carol McDowell	01-01-14 to 12-31-15 01-01-16 to 12-31-16
President of the Common Council	Ronald D. Troyer Brian A. Thomas	01-01-14 to 12-31-14 01-01-15 to 12-31-16



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF ELKHART, ELKHART COUNTY, INDIANA

This report is supplemental to our audit report of the City of Elkhart (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 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/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

December 1, 2016

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CONTROLLER  
CITY OF ELKHART

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CITY OF ELKHART  
FEDERAL FINDINGS

**FINDING 2014-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

*Condition*

There were multiple deficiencies in the internal control system of the City related to financial transactions and reporting.

1. *Lack of Segregation of Duties:* The City had not separated incompatible activities related to cash reconcilements or the preparation of the Annual Financial Report (AFR).
  - a. Cash reconcilements were prepared by employees in the Controller and Clerk's offices. There was no evidence that the completed reconcilements were reviewed by a second employee of those offices.
  - b. Disbursements made from City funds by electronic funds transfer (EFT), journal entry, or other means, were created and recorded in the ledger by the Controller's Office personnel. Claims were not prepared for these disbursements nor were they included within a schedule or docket presented to the Board of Public Works for their approval.
  - c. The City established a bank account for the Lerner Theatre. Transactions within this bank account were not being recorded on the City Funds Ledger or any Ledger, a reconciliation was not being prepared for this bank account during the year, and complete financial transactions were not being properly reported on the AFR. There was no review by management of the activity in this account.
  - d. One person was responsible for preparing and submitting the AFR without oversight, review, or approval. There was no documented evidence that the AFR was actually reviewed by a second person prior to submission.
2. *Monitoring of Controls:* The City had not developed a process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the City to monitor and assess the quality of the system of internal control.
  - a. The AFR was not reviewed; therefore, the omission of \$2,743,413 State Revolving Fund transactions in the WWTP Revenue Fund #4 was not detected. This resulted in the understatement of receipts and disbursements.
  - b. The Controller's office did not complete a reconciliation of all funds of the City to all bank accounts and investments of the City. The bank reconciliation that was completed included numerous adjusting entries dating back to May 2014 that remain uncorrected as of August 2016. The December 31, 2014, reconciliation included unidentified immaterial differences.

*Criteria*

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.

CONTROLLER  
CITY OF ELKHART  
FEDERAL FINDINGS  
(Continued)

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)

*Cause*

Management of the City had not established a proper system of internal control that would have ensured proper reporting on the AFR. An evaluation of the City's system of internal control had not been conducted and management had not conducted a risk assessment related to the City's financial reporting and transactions.

*Effect*

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the City at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

*Views of Responsible Officials*

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

**FINDING 2014-002 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

*Condition*

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).

During the audit of the SEFA, there were the following errors:

1. Expenditures reported for Clean Water State Revolving Fund Cluster were overstated by \$2,406,457.
2. Vendor transactions were erroneously included in the SEFA.
3. Equitable Sharing Program was omitted from the SEFA.
4. Ten grants listed either an incorrect pass-through agency or were listed as direct grants from the federal government when they actually were received from a pass-through.

Audit adjustments were proposed, accepted by the City, and made to the SEFA.

*Criteria*

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.

CONTROLLER  
CITY OF ELKHART  
FEDERAL FINDINGS  
(Continued)

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. . . ."

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."

*Cause*

Management had not established a system of internal control that would have ensured proper reporting of the SEFA.

CONTROLLER  
CITY OF ELKHART  
FEDERAL FINDINGS  
(Continued)

*Effect*

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Condition*.

*Views of Responsible Officials*

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

The Honorable  
Timothy Neese  
Mayor

Jeffrey L. Spalding  
City Controller



City Controller's Office  
229 S. Second St.  
Elkhart, IN 46516

574.294.5471  
Fax: 574.294.8491

## CORRECTIVE ACTION PLAN

### **FINDING 2014-001**

Contact Person Responsible for Corrective Action: Jeff Spalding, Controller or Jamie Arce, Deputy Controller  
Contact Phone Number: 574-294-5471 x2014 or (574) 294-5471 x202

Views of Responsible Official: The City concurs with the finding.

#### Description of Corrective Action Plan:

1a.) The City will create a bank reconciliation summary report, to be prepared and signed by the Deputy Controller. That summary report, along with detailed support documents, will then be presented to the Controller for review and approval. Once approved, the Controller will sign and date the report.

1b.) The City will end the practice of posting electronic funds transfer (EFT) payments as journal entries. Instead, all EFT payments will be posted through the City's accounts payable system. By doing so, all EFT payments will be included on the accounts payable summary reviewed and approved by the Board of Public Works.

1c.) Initially the City will create a sub-fund (within the Lerner Theatre Fund) to account for the transactions of the Lerner Theatre Show Clearing bank account. The City will also begin exploring the legal requirements associated with the handling of those monies to determine whether or not a separate agency fund must be established for this purpose or alternatively, if the City may legally disavow any obligation to accounting for these transactions.

1d.) For 2014, the Controller both entered and submitted the City's Annual Financial Report (AFR) into the Gateway system. Going forward, the Deputy Controller will be responsible for entering AFR data into Gateway. The Controller will then review that data and submit it to the State Board of Accounts (SBOA) via Gateway.

2a.) For 2014, gaps in accounting processes resulted in a failure to post all State Revolving Fund (SRF) transactions in the City's accounting system. To avoid this problem in the future, the City's Utility Finance Manager will be required to submit transactions for all revenues and disbursements of SRF monies throughout the year. If that is done properly then no discrepancies with the SRF bank accounts will exist at the time of entry data for the City's Annual Financial Report (AFR). Since the Utility Finance Manager must have accurate data to manage the City's SRF funds, that position is highly motivated to account for these transactions accurately.

2b.) The City will begin to include the following monies in the bank reconciliation process: a) Lerner Theater Show Clearing Account; b) Clerk's Court Fees Account; c) Clerk's Bail Bond Account; and d) Clerk's Trust Account. For the Lerner Show Clearing Account, the Controller's Office will include it in its regular bank reconciliation process. For the three (3) Clerk's bank accounts, the Deputy Controller will verify that those bank reconciliations have been completed and report the status on the bank reconciliation summary report submitted to the Controller.

For the numerous unrectified adjusting entries which have been carried as reconciling items, the City will identify the accuracy of as many as possible. For those that are determined to be inaccurate, they will be reversed in a single or a few reconciling journal entries.

The Honorable  
**Timothy Neese**  
Mayor

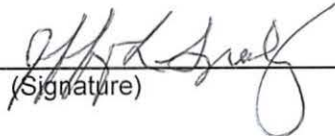
**Jeffrey L. Spalding**  
City Controller



*City Controller's Office*  
229 S. Second St.  
Elkhart, IN 46516

574.294.5471  
Fax: 574.294.8491

Anticipated Completion Date: December 2016 and January 2017.

  
\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
Controller  
(Title)

\_\_\_\_\_  
November 28, 2016  
(Date)

The Honorable  
**Timothy Neese**  
Mayor

**Jeffrey L. Spalding**  
City Controller



*City Controller's Office*  
229 S. Second St.  
Elkhart, IN 46516

574.294.5471  
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## CORRECTIVE ACTION PLAN

### **FINDING 2014-002**

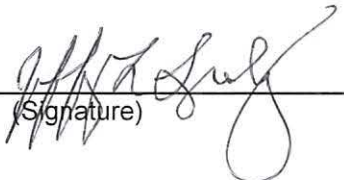
Contact Person Responsible for Corrective Action: Jeff Spalding, Controller or Jamie Arce, Deputy Controller  
Contact Phone Number: 574-294-5471 x2014 or (574) 294-5471 x202

Views of Responsible Official: The City concurs with the finding.

### Description of Corrective Action Plan:

The City has had a Grant Writer position for a number of years. We will begin leveraging that position to also collect and organize all data associated with grants received by the City that must be reported on the Schedule of Expenditures of Federal Awards (SEFA). That individual is quite familiar with grant accounting and reporting requirements established by Federal agencies. He will use that knowledge to ensure that the SEFA is prepared accurately going forward.

Anticipated Completion Date: December 2016 and January 2017.

  
\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
Controller  
(Title)

\_\_\_\_\_  
November 28, 2016  
(Date)

CONTROLLER  
CITY OF ELKHART  
EXIT CONFERENCE

The contents of this report were discussed on December 1, 2016, with Jeffrey L. Spalding, Controller; Jamie Arce, Deputy Controller; Richard Shively, Pam Kurpogweit, and Mary Olson, Council members.

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COMMUNITY AND REDEVELOPMENT  
CITY OF ELKHART

COMMUNITY AND REDEVELOPMENT  
CITY OF ELKHART  
FEDERAL FINDING

***FINDING 2014-003 - INTERNAL CONTROLS OVER CDBG - ENTITLEMENT GRANTS CLUSTER***

Federal Agency: Department of Housing and Urban Development

Federal Program: CDBG - Entitlement Grants Cluster

CFDA Number: 14.218

Federal Award Numbers and Years (or Other Identifying Numbers): B-11-MN-18-0002,  
B-12-MC-18-0015,  
B-13-MC-18-0015

Pass-Through Entity: Direct grant

*Condition*

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Program Income and Reporting.

*Program Income*

The City had not designed or implemented internal control procedures to ensure compliance with the requirements for Program Income. The City did not have controls in place to ensure that program income was properly reported to the grantor agency or subsequently deducted from future reimbursement requests.

*Reporting*

The City had not designed or implemented internal control procedures to ensure compliance with the requirements for Reporting. There were no procedures in place to verify the information being submitted on required reports was complete and adequate. The City had indicated that a monthly reconciliation between the ledger and the Community Development department's grant records took place; however, there was a lack of evidence that process had occurred.

*Context*

This applies to all the program income received by the City during 2014, and to each of the financial and performance reports required by the Department of Housing and Urban Development.

COMMUNITY AND REDEVELOPMENT  
CITY OF ELKHART  
FEDERAL FINDING  
(Continued)

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

*Cause*

Management had not developed a system of internal controls that segregated key functions.

*Effect*

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

*Views of Responsible Officials*

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



## CORRECTIVE ACTION PLAN

### **FINDING 2014-003**

Contact Person Responsible for Corrective Action: Crystal Welsh, Director of Development Services  
Contact Phone Number: 574-294-5471 x 124

Views of Responsible Official: The City agrees with the finding related to internal controls over program income for programs under the US Department of Housing and Urban Development.

#### Description of Corrective Action Plan:

The Community, Economic and Redevelopment Department as of July 1, 2016 has instituted the following internal controls regarding to program income related to programs under the US Department of Housing and Urban Development.

All program income received for CDBG, NSP-1 and NSP-3 is forwarded to Laura Miller, CD Specialist for Housing to be receipted into the City's INCODE.

Laura Miller provides Joe Halter, CD Specialist for Compliance, with the receipt that is produced from INCODE so that he can report that Program Income into either IDIS for CDBG or DRGR for NSP-1 or NSP-3.

Joe Halter is responsible for all draws of funds for the CDBG, NSP-1 and NSP-3 programs.

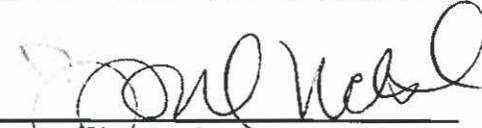
When he is creating a draw request in the IDIS system – it identifies if Program Income is available for use at that time. If there is Program Income available Joe Halter uses those funds first and then funds the remaining request from the oldest Grant funds first. The draw request is approved by either Laura Miller or Crystal Welsh. When staff is completing the Consolidate Annual Performance and Evaluation Report (CAPER) a Program Income report from INCODE and IDIS are created and compared for consistency.

When he is creating a draw request in DRGR – the system required the use of any Program Income prior to requesting Grant funds. The draw request is approved by either Laura Miller or Crystal Welsh. When staff is completed the Quarterly Program Reports (QPR) in DRGR) a Program Income report from INCODE and DRGR are created and compared for consistency.

The CDBG program submits a FS425 quarterly cash report to HUD. This report is prepared by Joe Halter, approved and signed by Crystal Welsh and then submitted by Joe Halter to US HUD.

The NSP program submits Quarterly Progress Reports through the DRGR system. These reports are prepared by Joe Halter and reviewed by Crystal Welsh before submittal.

Anticipated Completion Date: July 1, 2016

  
\_\_\_\_\_  
(Signature)  
Director  
\_\_\_\_\_  
(Title)  
11/14/16  
\_\_\_\_\_  
(Date)

COMMUNITY AND REDEVELOPMENT  
CITY OF ELKHART  
EXIT CONFERENCE

The contents of this report were discussed on December 1, 2016, with Jeffrey L. Spalding, Controller; Jamie Arce, Deputy Controller; Richard Shively, Pam Kurpgeweit, and Mary Olson, Council members.