

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MONTICELLO

WHITE COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED
07/06/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	James D. Mann	11-25-14 to 12-31-19
Mayor	Kenneth P. Houston	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Grace Oilar Andy Harmon Grace Oilar	01-01-15 to 12-31-15 01-01-16 to 12-31-16 01-01-17 to 12-31-17
President Pro Tempore of the Common Council	Doug Pepple	01-01-15 to 12-31-17
Superintendent of Water Utility	Rodney Pool	01-01-15 to 12-31-17
Superintendent of Wastewater Utility	Joseph Mowrer David Downey	01-01-15 to 11-30-16 12-01-16 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE CITY OF MONTICELLO, WHITE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Monticello (City), for the period from January 1, 2015 to December 31, 2015. 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 Findings, identified in the above referenced audit report, are 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 Findings and Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

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

April 11, 2017

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CLERK-TREASURER
CITY OF MONTICELLO

CLERK-TREASURER
CITY OF MONTICELLO
FEDERAL FINDINGS

FINDING 2015-001 - FINANCIAL TRANSACTIONS AND REPORTING

Condition

The City had not established effective internal controls over the financial information entered into the Indiana Gateway for Government Units financial reporting system (Gateway), which is the source of the Annual Financial Report (AFR), the financial statement, and the Schedule of Expenditures of Federal Awards.

1. Lack of Segregation of Duties: The City had not separated incompatible activities related to receipts and financial close and reporting. The City's Deputy Clerks processed City and utility receipts without oversight, review, or approval by another individual prior to the posting of receipts to their accounting system. The Clerk-Treasurer processed the financial close and reporting of the City's financial information into Gateway without oversight, review, or approval by another individual prior to submission.
2. Monitoring of Controls: The City had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting would have required the City to monitor and assess the quality of their system of internal control.
3. Preparation of Financial Statement: The City had not identified risks to the preparation of a reliable financial statement and, as a result, failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements. In addition, management of the City had not established a process for final review of the financial statement after compilation, resulting in misstatements.

Due to the lack of controls over the input of financial information entered into Gateway, the following material errors occurred on the AFR and the financial statement:

1. Several funds contained investment transactions, which overstated receipts and disbursements by \$1,175,000.
2. \$750,000 of expenditures was incorrectly posted to the Total Monies on Deposit memorandum account, rather than to the TIF ALLOCATION fund.
3. The following funds were not included in the City's financial statement, which understated receipts, disbursements, and the ending cash and investment balance by \$15,177,079, \$3,290,554, and \$11,886,525, respectively:
 - A. 14 Sewer SRF Construction Account
 - B. 15 Sewer SRF Construction Account A
 - C. 15 Sewer SRF Construction Account B

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

CLERK-TREASURER
CITY OF MONTICELLO
FEDERAL FINDINGS
(Continued)

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. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same action. Separating the ability to record, authorize, and approve the transactions along with the handling of the related asset reduces the risk of error or fraudulent actions. It also reduces the risk of management override. . . .

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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; . . .

- Accurate and timely recording of transactions. . . ."

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."

Cause

Management had not established a system of internal control that would have ensured proper reporting of the financial activity for the City.

Effect

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

CLERK-TREASURER
CITY OF MONTICELLO
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

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

FINDING 2015-002 - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Condition

The City had not established effective internal controls over the financial information entered into the Indiana Gateway for Government Units financial reporting system (Gateway), which is the source of the Annual Financial Report (AFR), the financial statement, and the Schedule of Expenditures of Federal Awards (SEFA). Due to the lack of controls over the input of financial information entered into Gateway, the following material errors occurred on the SEFA:

1. Outdoor Recreation_Acquisition, Development and Planning federal expenditures were understated \$39,963.
2. Highway Planning and Construction federal expenditures were understated \$119,475.
3. State and Community Highway Safety federal expenditures were overstated \$1,000,427.
4. Capitalization Grants for Clean Water State Revolving Funds federal expenditures were understated \$795,393.

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

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; . . .

- Accurate and timely recording of transactions. . . ."

CLERK-TREASURER
CITY OF MONTICELLO
FEDERAL FINDINGS
(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."

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 Financial statements. . . ."

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 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA 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 Basis for determining Federal awards expended, paragraph (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 Indirect (F&A) costs."

CLERK-TREASURER
CITY OF MONTICELLO
FEDERAL FINDINGS
(Continued)

Cause

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

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.



City of Monticello

Jim Mann, Clerk Treasurer

clerktreasurer@monticelloin.gov

Office: 574.583.5712

Fax: 574.583.9244



Michelle Mills, Deputy Clerk Treasurer

Mary Black, 2nd Deputy/Payroll Clerk

CORRECTIVE ACTION PLAN

FINDING 2015-001

Contact Person Responsible for Corrective Action: James D Mann
Contact Phone Number: 574-583-5712

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The City has been made aware of the internal control weakness and will begin to identify the key details as it relates to documenting internal control procedures. The City's Deputy Clerks and Utility Department Staff have started cross checking procedures where daily collections are not managed by one person only. Daily revenue documents are now created, signed off and kept in a binder. The Utility Office has started posting a Daily Deposit Report following the same guidelines. The Clerk Treasurer will have one of the Deputies review financial information prior to finalizing the Gateway reporting process. Investments which were not logged into the City's Accounting System are now entered and functional. Records from the SRF Construction Account A and B will be kept up on the City's Accounting System. City Council representatives will review and approve monthly Payroll and Bank Reconciliation documentation.

Anticipated Completion Date: 3-1-2018.

James D Mann
(Signature)

Clerk Treasurer
(Title)

4-11-17
(Date)



City of Monticello

Jim Mann, Clerk Treasurer

clerktreasurer@monticelloin.gov

Office: 574.583.5712

Fax: 574.583.9244



Michelle Mills, Deputy Clerk Treasurer

Mary Black, 2nd Deputy/Payroll Clerk

CORRECTIVE ACTION PLAN

FINDING 2015-002

Contact Person Responsible for Corrective Action: James D Mann
Contact Phone Number: 574-583-5712

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The City has been made aware of this internal control weakness and will begin to identify the key details as it relates to documenting internal control procedures. The City's Deputy Clerks and Utility Department Staff have started cross checking procedures where daily collections are not managed by one person only. Daily revenue documents are now created, signed off and kept in a binder. The Utility Office has begun to post a Daily Deposits Report following the same guidelines. The Clerk Treasurer will have one of the Deputies review financial information prior to finalizing the Gateway reporting process for the Department of Local Government Finance.

Anticipated Completion Date: 3-1-2018

James D Mann
(Signature)

Clerk Treasurer
(Title)

4-11-17
(Date)

CLERK-TREASURER
CITY OF MONTICELLO
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCE

The financial statement presented for audit included the CONSTITUTION PLAZA FUND with an overdrawn cash balance of \$1,367 at December 31, 2015.

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 unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

INTEREST ON INVESTMENTS

Interest earned on certain investments was automatically added to the principal and not recorded in the records. This caused underreporting of interest receipts and the investment balances.

Interest on investments should not be added automatically to the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



City of Monticello

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Michelle Mills, Deputy Clerk Treasurer

Mary Black, 2nd Deputy/Payroll Clerk

April 19, 2017

Lisa David
State Board of Accounts
302 W Washington Street
Room E418
Indianapolis, IN 46204

Dear Lisa,

On Tuesday, April 11, 2017 we had an exit interview with Andy Williams and Mike Doll on the matter of the City of Monticello's 2015 financial records.

We acknowledge the feedback provided on the documents we reviewed with Andy and Mike. Our intentions are to further identify, analyze and mitigate the risks regarding the preparation of the financial statement. Once this has been completed we also plan to design and document standards that will reduce prospective errors to the preparation of future financial statements.

We have appreciated the strong level of professionalism demonstrated by the entire team of State Board of Accounts Field Examiners during the examination process.

Very Truly Yours,

Kenneth P Houston,
Mayor

James D Mann,
Clerk Treasurer

CLERK-TREASURER
CITY OF MONTICELLO
EXIT CONFERENCE

The contents of this report were discussed on April 11, 2017, with Kenneth P. Houston, Mayor; James D. Mann, Clerk-Treasurer; Grace Oilar, President of the Board of Public Works and Safety; Doug Pepple, President Pro Tempore of the Common Council; and Ralph Widmer, Common Council member.