

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF SEYMOUR

JACKSON COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED
07/12/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Fred D. Lewis	01-01-12 to 12-31-19
Mayor	Craig Luedeman	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Craig Luedeman	01-01-15 to 12-31-17
President Pro Tempore of the Common Council	James W. Rebber	01-01-15 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF SEYMOUR, JACKSON COUNTY, INDIANA

This report is supplemental to our audit report of the City of Seymour (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, were not verified for accuracy.

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

May 3, 2017

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CLERK-TREASURER
CITY OF SEYMOUR

CLERK-TREASURER
CITY OF SEYMOUR
FEDERAL FINDINGS

FINDING 2015-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

This is a repeat finding from the immediate prior year. The prior year finding number was 2014-001.

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).

The City prepared and submitted the SEFA without effective controls to ensure its accuracy before submission. There were the following errors:

1. The federal expenditures for five programs were incorrectly reported resulting in the SEFA being overstated by \$12,535.
2. Seven grants contained the wrong program name, two grants were excluded, and one grant listed an incorrect CFDA number.
3. Four grants listed the wrong pass-through entity identifying number.
4. Five grants were incorrectly listed as pass-through to subrecipients.
5. Seven grants did not correctly identify the pass-through entity.

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

Criteria

The 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. . . ."

2 CFR section 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section 200.510 Financial statements."

CLERK-TREASURER
CITY OF SEYMOUR
FEDERAL FINDINGS
(Continued)

2 CFR section 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 section 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 award years, the auditee may list the amount of Federal awards expended for each 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 a 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 section 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 the 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 section 200.414 Indirect (F&A) costs."

Cause

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

Effect

Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain 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.

CLERK-TREASURER
CITY OF SEYMOUR
FEDERAL FINDINGS
(Continued)

FINDING 2015-002 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition

We noted several deficiencies in the internal control system of the City related to financial transactions and reporting.

Lack of Segregation of Duties: The City has not separated incompatible activities related to payroll disbursements. One employee in the Clerk-Treasurer's office is responsible for entering employees' hours worked; recording leave time earned and used; calculating the employees' wages, issuing checks and or making direct deposit payments for wages, tax payments, and payroll deductions; printing reports of payroll disbursements for review and approval; preparing 941 reports, retirement reports, and W-2's. The activities related to payroll were not reviewed or verified by someone other than the employee performing the activities. Control activities should be in place to reduce the risks of errors in financial reporting.

Criteria

The 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 proper system of internal control.

Effect

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

Views of Responsible Officials

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



City of Seymour

City Hall 301-309 N. Chestnut Street • Seymour, Indiana 47274
Phone: (812) 522-4020 • Fax: (812) 523-6687

CORRECTIVE ACTION PLAN

Finding 2015-001

Contact person for corrective action: Fred Lewis, Clerk-Treasurer
Contact Phone Number (812) 523-5881

Views of Responsible Official : Prior to this audit we had a lack of internal controls concerning grants. All grants were handled directly by the department head applying and receiving grants for their department. The Clerk-Treasurer's office was not given full documentation to keep on file at all times.

Description of Corrective Action Plan: As of this audit, and this date, we are implementing a new internal control grant document for use by all departments when applying and obtaining grants. They are to fill out the document, keep a copy for their office, and submit a copy to the Clerk-Treasurer's office for better and more complete documentation of grants received.

Anticipated Completion Date: The new documents were handed out in late March 2017 to the departments. The use of these is from then on.

A handwritten signature in black ink, appearing to read "Fred Lewis", is written over a horizontal line.

Clerk-Treasurer

April 5, 2017



City of Seymour

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CORRECTIVE ACTION PLAN

Finding 2015-002

Fred D Lewis, Clerk-Treasurer
(812) 523-5881

Views of Responsible Official

I concur with the audit findings

Description of Corrective Action Plan

I, as clerk-Treasurer, will compare the information entered for payroll with the payroll sheets submitted by the various departments prior to actually printing the payroll checks. Other various payroll documents are presented to me prior to actual deposits being made. Our software does the actual computations of tax withholdings.

Anticipated Completion Date

We began the new procedure with the payroll for April 15, 2017 for all city departments.

Fred D Lewis

Fred D Lewis

4/15/17

CLERK-TREASURER
CITY OF SEYMOUR
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCES

The financial statements presented for audit included the following funds with overdrawn cash balances at December 31, 2015:

Fund	Amount Overdrawn
AFA Life Insurance	\$ 237
AFA Long Term Disability	656
AFA Accident/cancer	324
Payroll-Federal W/H	72
Payroll-PERF	129
VSP Vision Insurance	11,037
Payroll-IND.Fire Pension	376
Payroll-Nationwide RET SO	30
City SH Medicare	1,938
City Share PERF	1,964
Net Payroll	9,794
Garnishment 8	240
Garnishment 13	7,968
Ameritas Life Ins Corp. (Dental)	18,215
Garnishment 18	54
AFLAC Life Insurance	66
MetLife Dental	922

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)

CLERK-TREASURER
CITY OF SEYMOUR
EXIT CONFERENCE

The contents of this report were discussed on May 3, 2017, with Fred D. Lewis, Clerk-Treasurer; Craig Luedeman, Mayor; and James W. Rebber, President Pro Tempore of the Common Council.

COMMON COUNCIL
CITY OF SEYMOUR

COMMON COUNCIL
CITY OF SEYMOUR
AUDIT RESULT AND COMMENT

COLLECTION OF FINES FOR MOVING TRAFFIC VIOLATIONS

As stated in the seven prior reports, the City collects fines for ordinance violations through an Ordinance Violations Bureau established in accordance with Indiana Code 33-36. If a citizen waives their right to a trial, the City collects and retains the fine. We again noted instances in 2015 where the City collected and retained fines for moving traffic violations through the Ordinance Violations Bureau rather than through a county, city, or town court as required by statute.

Indiana Code 36-1-6-3(c) states: "An ordinance defining a moving traffic violation may not be enforced under IC 33-36 and must be enforced in accordance with IC 34-28-5."

The accounts of each public official and public office should reflect the proper treatment of fines collected for moving traffic violations as required by Indiana Code § 36-1-6-3(c), Indiana Code Ch. 34-28-5, and this Directive. Failure to do so will result in a civil action against those public officials who are responsible for the improper enforcement and collection of fines for moving traffic violations as allowable by law. (State Examiner Directive 2015-1)

COMMON COUNCIL
CITY OF SEYMOUR
EXIT CONFERENCE

The contents of this report were discussed on May 3, 2017, with Fred D. Lewis, Clerk-Treasurer; Craig Luedeman, Mayor; and James W. Rebber, President Pro Tempore of the Common Council.