

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF RUSHVILLE

RUSH COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
07/18/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Ann L. Copley	01-01-12 to 12-31-19
Mayor	Michael P. Pavey	01-01-12 to 12-31-19
President of the Board of Public Works	Michael P. Pavey	01-01-12 to 12-31-19
President Pro Tempore of the Common Council	Robert M. Bridges	01-01-14 to 12-31-17
Superintendent of Utilities	Les Day	01-01-14 to 12-31-17
Utility Office Manager	Gina Jenkins	01-01-14 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF RUSHVILLE, RUSH COUNTY, INDIANA

This report is supplemental to our audit report of the City of Rushville (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 Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Result and Comment 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 Result and Comment contained herein describes the identified reportable instance 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 Result and Comment, incorporated within this report, were not verified for accuracy.

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

May 10, 2017

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CLERK-TREASURER
CITY OF RUSHVILLE

CLERK-TREASURER
CITY OF RUSHVILLE
FEDERAL FINDINGS

FINDING 2014-001 - 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). The Clerk-Treasurer was solely responsible for compiling and inputting the financial information into the Indiana Gateway for Government Units financial system, which is the source of the SEFA. There was no control in place to ensure the financial information submitted was accurate. The SEFA presented for audit contained the following errors:

1. Capitalization Grants for Clean Water State Revolving Funds program expenditures of \$612,801 were omitted.
2. Investments for Public Works and Economic Development Facilities program expenditures were overstated by \$191,843.
3. Highway Planning and Construction program expenditures of \$103,928 were omitted.

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.

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.

CLERK-TREASURER
CITY OF RUSHVILLE
FEDERAL FINDINGS
(Continued)

- (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.

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.

FINDING 2014-002 - FINANCIAL REPORTING

Condition

Segregation of Duties: There were deficiencies in the internal control system of the City related to financial transactions and reporting that constituted material weaknesses. The City had not separated incompatible activities related to receipts, cash and investment balances, and financial close and reporting. The Clerk-Treasurer performed the reconciliation of the depository account balance with the record balance, collected and recorded receipts, and prepared and made bank deposits. The Clerk-Treasurer also input the financial information into the Indiana Gateway for Government Units financial system, which is the source of the Annual Financial Report (AFR) and the financial statement. There were no controls to verify the accuracy of the financial information prior to submission.

The AFR and the financial statement presented for audit included the following errors:

The Bond Cash Acct BNY fund was not properly recorded in the unit's ledger. This error resulted in material misstatements of the AFR and the financial statement as follows: beginning balance was overstated by \$4,729,050; receipts were understated by \$1,839,139; and disbursements were overstated by \$132,729.

CLERK-TREASURER
CITY OF RUSHVILLE
FEDERAL FINDINGS
(Continued)

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

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.

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 had not established a system of internal controls to ensure the financial information of the City was reported properly.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the financial statement remained undetected. The AFR and the financial statement 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.

Mike Pavey, Mayor

765-932-3735

Ann Copley, Clerk-Treasurer

765-932-2672



City of
Rushville
Indiana

CORRECTIVE ACTION PLAN

FINDING 2014-001

Contact Person Responsible for Corrective Action: Ann Copley, Clerk-Treasurer
Contact Phone Number: (765) 932-2672

Views of Responsible Official: I concur with the finding.

Description of Corrective Action Plan: My deputy will review the SEFA report before submitting in Gateway.

Anticipated Completion Date: When next report is prepared for the year 2017.

FINDING 2014-002

Contact Person Responsible for Corrective Action: Ann Copley, Clerk-Treasurer
Contact Phone Number: (765) 932-2672

Views of Responsible Official: I concur with the finding.

Description of Corrective Action Plan:

Cash & Investments - Council has already begun reviewing the bank reconciliation.

Receipts -Receipts are being prepared and reviewed by more than one member of the Clerk-Treasurer's office.

Financial Close & Reporting -The deputy will review the financial information before submitting in Gateway.

Anticipated Completion Date:

Cash & Investments – January 1, 2017

Receipts – January 1, 2017

Financial Close & Reporting – Report for 2017

Ann L Copley

(Signature)

clerk-treasurer

(Title)

5-4-17

(Date)

CLERK-TREASURER
CITY OF RUSHVILLE
EXIT CONFERENCE

The contents of this report were discussed on May 10, 2017, with Ann L. Copley, Clerk-Treasurer; Robert M. Bridges, President Pro Tempore of the Common Council; and Michael P. Pavey, Mayor.

REDEVELOPMENT COMMISSION
CITY OF RUSHVILLE

REDEVELOPMENT COMMISSION
CITY OF RUSHVILLE
FEDERAL FINDING

FINDING 2014-003 - DAVIS-BACON ACT

Federal Agency: Department of Commerce
Federal Program: Investments for Public Works and Economic Development Facilities
CFDA Number: 11.300
Federal Award Number and Year (or Other Identifying Number): 06-01-05739

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 Davis-Bacon Act compliance requirement.

Davis-Bacon Act

The City hired a Grant Administrator to facilitate compliance with the Davis-Bacon Act requirements. All Davis-Bacon Act requirements were completed by the Grant Administrator. There was no evidence of internal controls over compliance with the Davis-Bacon Act requirements.

Context

Based on the initial assessment of the Investments for Public Works and Economic Development Facilities grant it was determined that the lack of controls over the requirements listed above was a systemic problem. There were no controls over this areas during the audit period.

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 internal controls could have enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the City.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish controls related to the grant agreement and the compliance requirement listed above.

Views of Responsible Officials

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

Rush County

Economic & Community Development Corporation
making connections

CORRECTIVE ACTION PLAN
AUDIT YEAR 2014

FINDING 2014-003 – DAVIS BACON

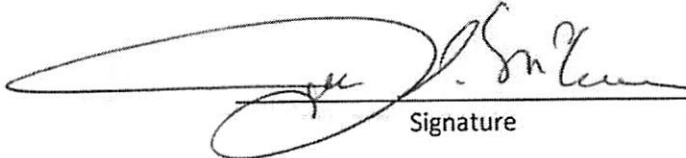
Fiscal year in which the finding initially occurred: **2014**
Federal Grantor Agency: **United States Economic Development Administration**
Contact Person Responsible for the Corrective Action: **John McCane**
Contact Phone Number: **765-938-3232**

Views of the Responsible Official: The Indiana State Board of Accounts has found that City of Rushville did not create an effective internal control system, which would include segregation of duties, in order to ensure compliance with requirements related to the grant agreement and Davis Bacon compliance requirements.

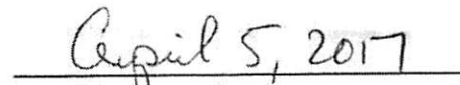
For the record, the City contends that it is important to note that proper Davis Bacon evaluations did in fact take place by the grant administrator to protect the interests of the federal public investment.

Description of Corrective Action Plan: As a result of recent findings by SBA, our consultants have developed a checklist that will be used as a tool to assist our Department Heads and the Clerk-Treasurer's Office in meeting the uniform grant guidance requirements for federal funding. On grants that Administrative Resources association (ARa) administer, they will insure that the Clerk Treasurer's office has all the items on the checklist and required signatures on file.

Anticipated Completion Date: Immediately. This plan will be for all future Federal Grants issued to the City of Rushville.


Signature


Title


Date

REDEVELOPMENT COMMISSION
CITY OF RUSHVILLE
EXIT CONFERENCE

The contents of this report were discussed on May 10, 2017, with Ann L. Copley, Clerk-Treasurer; Robert M. Bridges, President Pro Tempore of the Common Council; and Michael P. Pavey, Mayor.

PARK DEPARTMENT
CITY OF RUSHVILLE

PARK DEPARTMENT
CITY OF RUSHVILLE
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS - POOL RECEIPTS

Internal controls over the receipting, disbursing, recording, and accounting for pool receipts were insufficient. Supporting documentation was kept with the total number of daily patrons recorded; however, the documentation did not specify whether it was an adult, a child, or a season pass holder. Without a proper record of daily patrons, receipts could not be verified.

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. . . ."

PARK DEPARTMENT
CITY OF RUSHVILLE
EXIT CONFERENCE

The contents of this report were discussed on May 10, 2017, with Ann L. Copley, Clerk-Treasurer; Robert M. Bridges, President Pro Tempore of the Common Council; Michael P. Pavey, Mayor; and Daniel Burklow, Park Director.