

**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, 2015 to December 31, 2015



**FILED**  
09/05/2017



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Mayor	Wayne W. Seybold	01-01-12 to 12-31-15
	Jess Alumbaugh	01-01-16 to 12-31-19
Controller	Retha S. Hicks	01-01-15 to 12-31-15
	Julie L. Flores	01-01-16 to 12-31-17
City Clerk	Kathleen Kiley	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Bryan K. Harris	01-01-15 to 01-24-16
	Joselyn M. Whitticker (interim)	01-25-16 to 04-17-16
	Alex D. Huskey	04-18-16 to 12-31-16
	Adam Binkerd	01-01-17 to 06-19-17
	(Vacant)	06-20-17 to 07-02-17
President of the Common Council	Cindy Cunningham	07-03-17 to 12-31-17
	Joselyn M. Whitticker	01-01-15 to 12-31-15
Utilities Director	James Brunner	01-01-16 to 12-31-17
	John C. Binkerd	01-01-15 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](http://www.in.gov/sboa)

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, 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/](http://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

July 3, 2017

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CONTROLLER  
CITY OF MARION

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CITY OF MARION  
FEDERAL FINDINGS

**FINDING 2015-001 - 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). There were no segregation of duties over the preparation of the SEFA. One employee was responsible for preparing the SEFA without evidence of any compensating control. The City did not have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. During the audit of the SEFA, there were the following errors:

1. A Blight Elimination Program grant of \$803,368 was reported, but was not federal financial assistance.
2. The Bus and Bus Facilities Formula Program expenditures were understated by \$86,281.
3. The Crime Victim Assistance, Bulletproof Vest Partnership Program, Highway Planning and Construction, State and Community Highway Safety, and Occupant Protection Incentive Grants were reported with an incorrect program title or grant identifying number.

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. . . ."

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. . . ."

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CITY OF MARION  
FEDERAL FINDINGS  
(Continued)

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 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 § 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 operated effectively, material misstatements of the SEFA remained 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 MARION

Julie L. Flores  
Controller

765-382-3779 (O)  
765-668-4461 (F)

### CORRECTIVE ACTION PLAN

#### FINDING 2015-001

Contact Person Responsible for Corrective Action Plan: Julie L. Flores  
Contact Phone Number: 765-382-3779

Views of Responsible Official:

Responsible Official agrees with finding.

Description of Corrective Action Plan:

After the SBOA 2015 audit, we realize more changes in the grant internal control policy should be made to ensure that the City has accurate reporting of Federal Awards, more specifically, titles and identifying numbers.

The action plan the City will take to accurately report information is as follows:

1. The Controller and his/her designee, will prepare and audit the SEFA report as grants and funds are awarded.
2. Grant award letters will be used to help identify the proper title and grant number.
3. When grant funds post to the City's bank account, receipts will be given to the respective departments with identifying information documented for the departments review.
4. During the submission of the Annual Report, the Controller will again review and check for proper accuracy of all documentation.

Anticipated Completion Date: Already completed

Julie L. Flores  
Controller  
06/22/17

CONTROLLER  
CITY OF MARION  
AUDIT RESULTS AND COMMENTS

**OVERDRAWN CASH BALANCES**

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

Fund	Amount Overdrawn
1937 Fire Pension	\$ 13,427
Reduce Drunk Driving	1,362
Victim's Advocacy Grant	13,820
Insurance Reserve	4,258,207

A similar comment appeared in prior Reports B43989 and B45693.

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)

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**

The Schedule of Capital Assets, included in the Annual Financial Report for 2015, could not be verified to a subsidiary ledger; therefore, no Schedule of Capital Assets was presented for December 31, 2015. The Schedule of Leases and Debt was inaccurate and required numerous adjustments. Adjustments were proposed, accepted by the City, and made to the Schedule of Leases and Debt.

A similar comment appeared in prior Reports B43989 and B45693.

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."

CONTROLLER  
CITY OF MARION  
AUDIT RESULTS AND COMMENTS  
(Continued)

**APPROPRIATIONS**

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

Fund	Year	Excess Amount Expended
1937 Fire Pension	2015	\$ 13,425
Park Bond	2015	35,493
CEDIT	2015	28,022
Local Law Enforcement Continuing Education	2015	2,169
Park Non Reverting	2015	548,541

A similar comment appeared in prior Report B45693.

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."

**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 July 3, 2017.

A similar comment appeared in prior Reports B42678, B43989, and B45693.

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:

(1) must be evidenced by an obligation of the municipality;

(2) must be signed by the executive;

(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); and . . .

(4) may bear interest at any rate as determined by the board, payable at maturity."

CONTROLLER  
CITY OF MARION  
AUDIT RESULTS AND COMMENTS  
(Continued)

**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 on 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 July 3, 2017.

A similar comment appeared in prior Reports B43989 and B45693.

Indiana Code 36-1-8-4(a) states in part:

". . . (3) Except as provided in subsection (b), 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. . . ."

Indiana Code 36-1-8-4(b) states:

"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 if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
  - (A) A statement that the fiscal body has determined that an emergency exists.
  - (B) A brief description of the grounds for the emergency.
  - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

**SUPPORTING DOCUMENTATION**

During the testing of credit card purchases, we identified 10 separate purchases totaling \$1,715 that lacked supporting documentation such as receipts or invoices. Due to the lack of supporting information, we could not verify the purpose of the disbursement.

A similar comment appeared in prior Reports B43989 and B45693.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination 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 1)

**OFFICIAL RESPONSE  
CONTROLLER  
CITY OF MARION, 7/5/2017  
AUDIT RESULTS AND COMMENTS**

***ANNUAL FINANCIAL REPORT-SUPPLEMENTAL SCHEDULES***

The Schedule of Capital Assets was not complete at the end of 2014. A deputy was given the task to bring the schedule up-to-date in 2015. I failed to check to see if it was being accomplished until the last month and the office did not have the knowledge to accomplish the task.

***APPROPRIATIONS***

**1937 Fire Pension Fund** – The requested 2015 Budget was reduced by \$593,800 by DLGF. The Fire Department Secretary drafts the budget for this fund. At the end of the year, the fund was overexpended by \$13,425.

**Park Bond Fund** – The previous Controller and DLGF Field Representative in 2014 must have miscalculated the amount of payments for 2015. The requested 2015 Budget was reduced by \$1,500. The City was required to pay the bond payment amount requested by the financial institution.

**CREDIT Fund** – excess amount expended was \$28,022 for 2015. Controller was instructed to pay expenditures totaling \$36,124.72 on 12/15 - 12/21 after the DLGF Additional Appropriation deadline. Controller made a decision to follow her employer's instructions.

**LECE Fund** – was not budgeted by the previous Controller for 2015 and I didn't notice it.

**Park Non-Reverting Fund** – DLGF did not require a budget for this fund in 2015. SBOA has determined the home rule fund should be budgeted.

***OVERDRAWN CASH BALANCES***

**1937 Fire Pension** – 2015 Beginning Balance was a negative \$43,468.86 and the 2015 **Ending** Balance was a negative \$13,426.48. Controller assumed in 2016 the ending balance would be a positive amount since the negative amount was reduced by almost \$30,000 in 2015.

**Reduce Drunk Driving – Victims Advocacy Grant** are reimbursable grants. Payroll clerk stated there was some issues several years ago that caused the funds to be out of balance. I had no idea how to solve it but I should have inquired.

**Insurance Reserve** – There were catastrophic health issues in the last couple of years. Current administration hired a financial firm to propose possible options for the City Council to generate additional revenue to address the shortfall. City Council needs to determine the appropriate option to resolve the shortfall.

**OFFICIAL RESPONSE  
CONTROLLER  
CITY OF MARION, 7/5/2017  
AUDIT RESULTS AND COMMENTS**

In 2015 there were 8 funds that had a negative beginning balance, the City was able to reduce the number to 4 funds having a negative balance by the end of 2015. 7 of the funds totalled a negative \$368,429.50. At the end of 2015, those 7 funds total were a positive \$127,839.28. The Insurance Fund was not included in the above calculation.

***LOAN FROM MARION UTILITIES IN ANTICIPATION OF TAXES TO BE COLLECTED***

Controller completed a financial report in 2015 for the Mayor estimating the amount the City should have received if the Marion Utilities were paying a Payment In Lieu of Taxes (PILOT). The City pays utility fees for all city property. The Utility Board needs to be responsible to the City for property taxes. The Mayor was having a dialogue with the utility administration regarding their obligations to pay a PILOT.

Respectfully submitted, Retha S. Hicks, former City of Marion Controller

CONTROLLER  
CITY OF MARION  
EXIT CONFERENCE

The contents of this report were discussed on June 29, 2017, with Wayne W. Seybold, former Mayor; and on July 3, 2017, with Jess Alumbaugh, Mayor; Retha S. Hicks, former Controller; Julie L. Flores, Controller; Cindy Cunningham, President of the Board of Public Works and Safety; and James Brunner, President of the Common Council.

CITY CLERK  
CITY OF MARION

CITY CLERK  
CITY OF MARION  
AUDIT RESULT AND COMMENT

***BANK ACCOUNT RECONCILIATIONS***

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliation contained errors. The bank reconciliation was reconciled to an incorrect ledger balance at December 31, 2015. This resulted in a cash long in the amount of \$1,572.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

CITY CLERK  
CITY OF MARION  
EXIT CONFERENCE

The contents of this report were discussed on July 3, 2017, with Jason McVicker, City Court Judge, and Kathleen Kiley, City Clerk.

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COMMON COUNCIL  
CITY OF MARION

COMMON COUNCIL  
CITY OF MARION  
AUDIT RESULTS AND COMMENTS

**APPROPRIATIONS**

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COMMON COUNCIL  
CITY OF MARION  
AUDIT RESULTS AND COMMENTS  
(Continued)

(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); and . . .

(4) may bear interest at any rate as determined by the board, payable at maturity."

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Indiana Code 36-1-8-4(b) states:

"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 if the fiscal body does the following:

(1) Passes an ordinance or a resolution that contains the following:

(A) A statement that the fiscal body has determined that an emergency exists.

(B) A brief description of the grounds for the emergency.

(C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.

(2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

COMMON COUNCIL  
CITY OF MARION  
EXIT CONFERENCE

The contents of this report were discussed on and on July 3, 2017, with James Brunner, President of the Common Council.