

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF NAPPANEE

ELKHART COUNTY, INDIANA

January 1, 2014 to December 31, 2015



FILED

03/15/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kimberly A. Ingle Kathy L. Brown	01-01-12 to 06-30-14 07-01-14 to 12-31-19
Mayor	Larry L. Thompson Philip W. Jenkins	01-01-12 to 12-31-15 01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Larry L. Thompson Philip W. Jenkins	01-01-12 to 12-31-15 01-01-16 to 12-31-19
President of the Common Council	Larry L. Thompson Philip W. Jenkins	01-01-12 to 12-31-15 01-01-16 to 12-31-19
Superintendent of Utilities	Gale Gerber	01-01-14 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our examination report of the City of Nappanee (City), for the period from January 1, 2014 to December 31, 2015. It has been provided as a separate report so that the reader may easily identify any Examination Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement Examination Report of the City, which provides our opinion on the City's financial statement. This report may be found at www.in.gov/sboa/.

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 Examination 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 Official Response to the Examination Result and Comment, incorporated within this report, was not verified for accuracy.

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

January 30, 2018

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CLERK-TREASURER
CITY OF NAPPANEE

CLERK-TREASURER
CITY OF NAPPANEE
EXAMINATION RESULT AND COMMENT

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Clerk-Treasurer did not establish a proper system of internal controls to prevent, or detect and correct, errors on the financial statement and bank reconcilements. The Clerk-Treasurer independently prepared the Annual Financial Report and corresponding financial statement without any oversight, review, or approval process to verify the accuracy of the information and amounts. Additionally, there was an insufficient review of the bank reconcilements. This resulted in the following errors on the financial statement:

1. The 2015 financial statement did not agree to the City's fund reports. As a result, receipts were overstated by \$485,724 and disbursements were understated by \$627,686 as detailed in the schedules below. Ending cash and investment balances as of December 31, 2015, were overstated by \$1,113,410 as a result.

Fund	Financial Statement	Fund Report	Difference
Payroll	\$ 3,656,549	\$ 3,170,825	\$ 485,724

Fund	Financial Statement	Fund Report	Difference
General	\$ 4,182,425	\$ 4,342,429	\$ (160,004)
Motor Vehicle Highway	578,115	761,739	(183,624)
Local Road and Street	100,000	108,434	(8,434)
Parks and Recreation	788,098	833,494	(45,396)
Aviation	59,204	60,847	(1,643)
Special Recreation Fund	46,980	47,057	(77)
Gift	159,191	90,458	68,733
Law Enforcement Continuing Ed	8,760	4,380	4,380
Cumulative Fire	-	36,970	(36,970)
Cedit Capital Projects	520,155	784,806	(264,651)
Totals	<u>\$ 6,442,928</u>	<u>\$ 7,070,614</u>	<u>\$ (627,686)</u>

2. The City changed banks during 2015. The amount transferred from the old bank to the new bank was posted as a disbursement from the fund and a receipt into the fund, overstating both receipts and disbursements in the Water Utility - Operating fund by \$692,483.
3. Disbursements in the Wastewater Util - Bond and Interest fund were understated by \$171,450 due to a bond payment that was not recorded. As a result, the ending cash and investment balance as of December 31, 2015, was overstated by \$171,450.

CLERK-TREASURER
CITY OF NAPPANEE
EXAMINATION RESULT AND COMMENT
(Continued)

4. Depository reconciliations of the fund balances to the bank account balances were incorrect. The bank reconcilements for City, Wastewater, and Water were not reconciled to the Financial Report. For December 31, 2014, the bank reconciliation was \$6,024 long. For December 31, 2015, the bank reconciliation was \$4,446 long. Several different bank reconcilements were presented for examination. The City hired several consultants to assist them in preparing the reconcilements during the examination period.

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

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. . . ."

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."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



City of Nappanee

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Office of
CLERK-TREASURER
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OFFICIAL RESPONSE TO 2014-2015 EXAM

January 31, 2018

State Board of Accounts
302 W Washington St, Room E 418
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To Whom It May Concern:

I was appointed to the position of Clerk-Treasurer by Caucus on July 1, 2014, and was elected to that position in 2016. I assumed office from a Clerk-Treasurer who had held the position for approximately 24 years and she had trained me for four months prior to my appointment. At the time that I took office, the department was staffed by five staff members whose years of employment ranged from five years to fifteen years. The Deputy who did bank reconciliation and month-end reports had been in that position for over twelve years. With all of their experience, I initially relied upon every staff member to know their individual job responsibilities and the proper way to do them.

In 2015, I began to make changes on how some things were done. My end goal was accuracy. I wanted to cross train and shift staff workloads to create more internal controls and less overtime. I met with a lot of resistance from the Deputy who did bank reconciliation and month-end reports to the point that we had many verbal conversations and then written warnings. The directive I gave her was to seek help if and when she could not balance. She assured me that she was balancing and I spot checked and she always had answers to the outstanding items. I began to notice that she was becoming belligerent if someone tried to help her. I continued to follow the progressive discipline model. I was surprised that when she gave me the month-end reports for Gateway, they did match. At the beginning of the audit, I was asked if I had issues prior to the audit. I checked my numbers and each balanced to the penny. It was only during the audit process, when I ran the report, that I discovered that she had given me the incorrect report; she had given me the exclusive report, not the inclusive report.

The issue I am addressing in this response is the lack or deficiency in internal controls over financial reporting. The City of Nappanee had been audited through 2013. I took office midway through the 2014 fiscal year from a former Clerk-Treasurer whose practices I initially continued. In September 2015, the State Board of Accounts compiled the standards for internal controls in the manual *Uniform Internal Control Standards for Indiana Political Subdivisions*. At the time of its release I was already attempting to institute significant changes within the department. I have now adopted all of the recommended internal controls over financial reporting provided by the auditors. I strongly believe that moving forward all concerns have been addressed.

Sincerely,

Kathy L Brown
Clerk-Treasurer

CLERK-TREASURER
CITY OF NAPPANEE
EXIT CONFERENCE

The contents of this report were discussed on January 30, 2018, with Kathy L. Brown, Clerk-Treasurer; Philip W. Jenkins, Mayor; Jake Dermott, Common Council member; Dana Hollar, Common Council member; Todd Nunemaker, Common Council member; Wayne Scheumann, Board of Public Works member; Brian Hoffer, City Attorney; Nikki L. Ramer, Office Manager; and Margaret M. Marnocha, Attorney.