

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF FORT WAYNE

ALLEN COUNTY, INDIANA

January 1, 2017 to December 31, 2017



FILED

08/09/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Len Poehler	01-01-17 to 04-01-18
	Garry Morr	04-02-18 to 12-31-18
Mayor	Thomas Henry	01-01-16 to 12-31-19
President of the Common Council	Russ Jehl	01-01-17 to 12-31-17
	Thomas Freistroffer	01-01-18 to 12-31-18
Director of Public Works	Robert Kennedy	01-01-17 to 11-04-17
	Shan Gunawardena	11-05-17 to 12-31-18
Director of City Utilities	Kumar Menon	01-01-17 to 12-31-18
Director of Community and Economic Development	Greg Leatherman	01-01-17 to 04-11-18
	(Vacant)	04-12-18 to 05-06-18
	Cindy Joyner	05-07-18 to 12-31-18



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TO: THE OFFICIALS OF THE CITY OF FORT WAYNE, ALLEN COUNTY, INDIANA

This report is supplemental to our audit report of the City of Fort Wayne (City), for the period from January 1, 2017 to December 31, 2017. 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

June 14, 2018

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CITY CONTROLLER
CITY OF FORT WAYNE

CITY CONTROLLER
CITY OF FORT WAYNE
FEDERAL FINDINGS

FINDING 2017-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness

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 didn't have a proper review over the preparation of the SEFA.

Context

The lack of a proper system of internal control and proper review of the SEFA resulted in immaterial errors.

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. . . ."

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 could have remained undetected. The SEFA contained the errors identified in the *Context*.

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CITY OF FORT WAYNE
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the City's management establish controls related to the preparation of the SEFA.

Views of Responsible Officials

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

FINDING 2017-002

Subject: Clean Water State Revolving Fund Cluster - Reporting
Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458
Federal Award Number and Year (or Other Identifying Number): WW16060208-A
Pass-Through Entity: Indiana Finance Authority
Compliance Requirement: Reporting
Audit Finding: Material Weakness

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 the Reporting compliance requirement.

The City and City Utilities did not maintain a control environment over the MBE/WBE Utilization under Federal Grants and Cooperative Agreements reporting requirement of the Capitalization Grants for Clean Water State Revolving Funds - 2016 WW16060208-A federal grant program. This was an equivalency grant which is 100 percent federal. The required MBE/WBE report was due October 15 for each year the project was active. The report was appropriately filed on October 3 by a compliance officer in the CFW Purchasing/Compliance Department. The report was prepared by the compliance officer. However, the compliance officer stated that there was no review/approval as a key internal control in place.

Context

The lack of controls was a systemic issue throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

CITY CONTROLLER
CITY OF FORT WAYNE
FEDERAL FINDINGS
(Continued)

Cause

Management had not developed a system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

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.



CITY OF FORT WAYNE

THOMAS C. HENRY, MAYOR

CORRECTIVE ACTION PLAN

FINDING 2017-001

Contact Person Responsible for Corrective Action: Garry E. Morr, City Controller
Contact Phone Number: 260-427-5711

We concur with the finding.

Description of Corrective Action Plan:

Management has already taken measures to address concerns and put in a proper system of internal control to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The City (OHNS Department) will maintain a Control Ledger providing detailed unreimbursed expenditures at year-end. Such Control Ledger will support the Receivables Accrual entry recorded at the end of the year.

Anticipated Completion Date: December 31, 2018



City Controller

Date: 06/12/2018

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CITY OF FORT WAYNE

THOMAS C. HENRY, MAYOR

CORRECTIVE ACTION PLAN

FINDING 2017-002

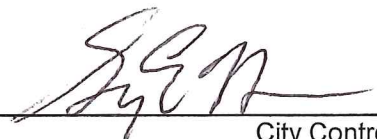
Contact Person Responsible for Corrective Action: Garry E. Morr, City Controller
Contact Phone Number: 260-427-5711

We concur with the finding.

Description of Corrective Action Plan:

The City Utilities Finance Director will review and approve the MBE/WBE before the report is filed annually by the due date of October 15.

Anticipated Completion Date: October 15, 2018



City Controller

Date: 06/12/2018

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CITY CONTROLLER
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AUDIT RESULTS AND COMMENTS

NEGATIVE FUND BALANCES/NET POSITION

A similar comment also appeared in prior Report B48557, entitled *NEGATIVE FUND BALANCES/NET POSITION*.

The following funds had a negative fund balance or net position at December 31, 2017:

Fund	Amount
Public Safety Academy (Non-Major Debt Service)	\$ 801,408
Reimbursable State Grants (Non-Major Special Revenue)	1,736,541
Federal Revolving (Non-Major Special Revenue)	35,178
Parking (Non-Major Special Revenue)	74,250
Self Insurance (Internal Service)	<u>1,933,227</u>
Total Deficit Fund Balances	<u>\$ 4,580,604</u>

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)

CONDITION OF RECORDS

The Redevelopment Department maintained a listing of owned real estate (Assets Held for Economic Development); however, it did not have any dollar values assigned to the properties, and these assets were not being consistently verified by the City Controller's Office when an asset was purchased or disposed. As a result, the Assets Held for Economic Development that were reported in the accounting system did not always correspond with the actual department owned assets.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must 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 FORT WAYNE

THOMAS C. HENRY, MAYOR

Mr. Paul D. Joyce, CPA
State Examiner
State Board of Accounts
302 W. Washington St., Room E418
Indianapolis, IN 46204-2765

June 22, 2018

NEGATIVE FUND BALANCES/NET POSITION

The City is in agreement that the following funds have negative fund balances or net position due to the following reasons:

The Public Safety Academy Fund, which is used to track the Southtown Project in its entirety, has a negative fund balance due to revenues not being received for land sales as expected. The City will make every attempt to ensure a positive fund balance in 2018.

The Reimbursable State Grant Fund has a negative fund balance due to a delayed reimbursement request from the State. The City will make every attempt to ensure a positive fund balance in 2018.

The Federal Revolving Fund has a negative fund balance due to a delayed reimbursement request. The City will make every attempt to ensure a positive fund balance in 2018.

The Group Health Insurance Fund has a negative net position due to the estimated expenses used at year end versus the ability to use actual claims for the accruals as well as a large increase in claims in 2016 and 2017. The City increased their contribution per employee in 2017 and 2018; however, the increase per employee has not been enough to overcome the claims effect from prior years. The City plans to review the current status of claims as well as the plan itself to determine what combination of funding will result in a positive net position in 2018.

The Parking Fund has a negative fund balance due to an increase to the City by the owner of the parking garage vendor that was not passed on to the employee. The City will make every attempt to ensure a positive fund balance in 2018.

A Corrective Action Plan (CAP) has been prepared and submitted that will address this in more detail.

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CONDITION OF RECORDS

The City is in agreement that the Assets Held for Economic Development that are reported in the accounting system do not always correspond with the actual department owned assets. The Controller's Office and the Redevelopment Department worked together throughout 2017 and continue to do so in 2018 in regards to these assets. The Controller's Office is completing a database cleanup project as well as establishing clear and concise processes in regards to the asset module within our financial system. The City expects this issue to be resolved by year end 2018.

Sincerely,



Garry E. Morr
City Controller

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EXIT CONFERENCE

The contents of this report were discussed on June 14, 2018, with Garry Morr, City Controller; Valerie Ahr, Deputy Controller; Kathleen Smith, Deputy Director of Financial Operations; C. J. Steigmeyer, Internal Audit Committee Chair; Justin Brugger, Deputy Director of Utilities; Gail Bradley, Director of Finance - City Utilities; and Jason Arp, Common Council member.