

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF RENSSELAER

JASPER COUNTY, INDIANA

January 1, 2016 to December 31, 2016



**FILED**  
09/17/2018



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Frieda Bretzinger	01-01-16 to 12-31-19
Mayor	Stephen Wood	01-01-16 to 12-31-19
President Pro Tempore of the Common Council	George T. Cover	01-01-16 to 12-31-18
Utility Office Manager	Heather Smart	01-01-16 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF RENSSELAER, JASPER COUNTY, INDIANA

This report is supplemental to our audit report of the City of Rensselaer (City), for the period from January 1, 2016 to December 31, 2016. It has been provided as a separate report so that the reader may easily identify any Federal Findings 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 Findings, identified in the above referenced audit report, are included in this report.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

August 23, 2018

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CLERK-TREASURER  
CITY OF RENNELAER

CLERK-TREASURER  
CITY OF RENSSELAER  
FEDERAL FINDINGS

***FINDING 2016-001***

Subject: Financial Transactions and Reporting  
Audit Findings: Material Weakness, Noncompliance

*Condition*

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

The City had not separated incompatible activities related to the following areas of the financial statement: cash and investments, receipts, payroll disbursements, and financial reporting, including the Schedule of Expenditures of Federal Award (SEFA). A segregation of duties within each of these areas had not been designed or implemented to prevent, or detect and correct, errors.

The City also had no process to identify control deficiencies or communicate corrective actions to improve controls. Effective internal controls over financial reporting would have required the City to monitor and assess the quality of the system of internal controls.

*Cash and Investments*

The City had not documented an internal control process or implemented internal controls to ensure that all bank accounts were reconciled.

The bank accounts for funds held by third-party fiscal agents in the City's name for the WW SRF Rensselaer Construction, DW SRF Rensselaer B & I, DW SRF Rensselaer DSR, and Rensselaer Water 15 BAN were not reconciled.

*Receipts*

The City had not segregated duties related to the receipts. One clerk recorded the receipts in the financial accounting software, verified that collections were properly recorded, and prepared the bank deposit, without any review or oversight process.

*Payroll Disbursements*

There was no verification that payroll disbursements per the payroll software agreed to payroll disbursements recorded in the financial accounting software. In addition, there was no documentation to indicate that the electronic fund transfers sent to the bank had been verified to the payroll reports.

*Financial Reporting - Financial Statement*

The Clerk-Treasurer independently prepared and submitted the financial information into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source for the financial statement. There was no oversight or review process to detect and correct errors before submission.

The financial statement presented for audit contained the following errors:

CLERK-TREASURER  
CITY OF RENSSELAER  
FEDERAL FINDINGS  
(Continued)

1. Due to a change in computer software, the City underreported receipts and disbursements by \$4,545,046.
2. The Rensselaer Water 15 BAN activity was excluded from the financial statement.

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

*Financial Reporting - Schedule of Expenditures of Federal Awards (SEFA)*

The City failed to properly review the federal grant information prepared and submitted in Gateway, which was the source for the SEFA. The Clerk-Treasurer prepared and submitted the grant information without an oversight or review process to detect and correct errors before submission.

The SEFA presented for audit excluded the Water and Waste Disposal Systems for Rural Communities Loan #1 and Loan #2 expenditures in the amounts of \$4,273,000 and \$5,366,823, respectively.

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

*Context*

The lack of internal controls was a systemic issue, which occurred throughout the audit period.

*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. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . ."

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A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

"The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

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. . . ."

2 CFR 200.510(a) states:

"Financial statements. The auditee must prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited. The financial statements must be for the same organizational unit and fiscal year that is chosen to meet the requirements of this part. However, non-Federal entity wide financial statements may also include departments, agencies, and other organizational units that have separate audits in accordance with § 200.514 Scope of audit, paragraph (a) and prepare separate financial statements.

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.

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(Continued)

- (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 that 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."

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."

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with Indiana Code 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

*Cause*

Management of the City had not established a proper system of internal control that segregated key functions. Management also had not conducted a risk assessment or monitored controls related to the City's financial transactions and reporting.

*Effect*

The failure to establish controls enabled misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the City at risk that controls were either not designed properly or not operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

*Recommendation*

We recommended that the City's management design and implement a proper system of internal controls, which would segregate key functions and also perform periodic monitoring of its system of internal controls.

*Views of Responsible Officials*

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

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***FINDING 2016-002***

Subject: Water and Waste Program Cluster - Cash Management, Period of Performance, Procurement  
Federal Agency: Department of Agriculture  
Federal Program: Water and Waste Disposal Systems for Rural Communities  
CFDA Number: 10.760  
Federal Award Numbers and Years (or Other Identifying Numbers): Loan #1, Loan #2  
Compliance Requirements: Cash Management, Period of Performance, Procurement  
and Suspension and Debarment  
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 compliance requirements listed below.

*Cash Management*

The City had not designed or implemented adequate internal controls to ensure that contractors were paid prior to reimbursement or within a reasonable period of time upon receipt of the reimbursement. The Clerk-Treasurer paid the contractors after verification of receipt of the reimbursement without a documented oversight or review to ensure the contractors were paid without unreasonable delay.

*Period of Performance*

The City had not designed or implemented adequate internal controls to ensure that expenditures were incurred or paid within the period of performance. There was no oversight, review, or approval process.

*Procurement*

The City had not designed or implemented adequate internal controls to ensure compliance with the procurement requirements in 2 CFR 200.320.

*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). . . ."

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(Continued)

*Cause*

The City's management had not implemented a system of internal controls to ensure compliance with the grant agreement and the compliance requirements listed above.

*Effect*

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirements listed above. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements 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 to ensure compliance with the grant agreement and the compliance requirements listed above.

*Views of Responsible Officials*

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

***FINDING 2016-003***

Subject: Water and Waste Program Cluster - Suspension and Debarment

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities

CFDA Number: 10.760

Federal Award Numbers and Years (or Other Identifying Numbers): Loan #1, Loan #2

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

*Condition*

The City had not established internal controls to ensure compliance with the suspension and debarment requirements in CFR 180.300.

The City failed to provide evidence that a search of the Excluded Parties List Systems through the System of Award Manager Center at [www.sam.gov](http://www.sam.gov) was conducted, that certification from the entity was collected, or that a clause or condition was added to the contract.

*Context*

The lack of effective controls and the noncompliance were systemic issues throughout the audit period. The suspension and debarment documentation was not retained or provided for three of the five vendors who were paid a total of \$125,027 from the grant.

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CITY OF RENSSELAER  
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(Continued)

*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). . . ."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified.

You do this by:

- (a) Checking the SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

*Cause*

The City's management had not developed a system of internal controls that would have ensured compliance with the suspension and debarment requirements.

*Effect*

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the suspension and debarment requirements 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 to ensure compliance and comply with the suspension and debarment requirements.

*Views of Responsible Officials*

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



STEPHEN A. WOOD, *Mayor*  
FRIEDA BRETZINGER, *Clerk-Treasurer*

# CITY OF RENSSELAER

RENSSELAER, INDIANA

## COUNCIL MEMBERS

WILLIAM HOLLERMAN, *First Ward*  
RICK L ODLE, *Second Ward*  
GEORGE T. COVER, *Third Ward*  
ERNEST WATSON, *Fourth Ward*  
SCOTT BARTON, *At-Large*

## CORRECTIVE ACTION PLAN

### ***FINDING 2016-001***

Contact Person Responsible for Corrective Action: Frieda Bretzinger

Contact Phone Number: 219 866-5213

View of Official: I concur with finding.

Description of Corrective Action Plan: We were performing checks on the work by a second person but were not documenting, check marking, or initialing to verify the work was checked. We are adjusting our practice to verify everything.

The comment was made regarding the underreported receipts and disbursements of the 2016 financial report. I wish to address this. The State Board of Accounts notes that this was due to a change in our software which is true. The reports I was getting off of the new system didn't balance with each other. During January and February of 2016 my husband was very sick and undergoing surgeries and treatments. I was not able to work on the Financial Data by Fund portion of the Financial Statement. I hired Umbaugh and Associates to prepare and upload that portion of the annual report to Gateway. Within two weeks of the February 28<sup>th</sup> deadline I contacted them and they were still working on it. Because of the conversion they were doing many journal entries on the utility side and this was causing delays. They uploaded the Financial Data by Fund report on February 28, 2017. When I viewed it I contacted them as the Receipts and Disbursements were greatly inflated. I was told it should not be as the journal entries should not have affected cash. They went back and found errors which they corrected. I had to un-submit the report on March 1, 2017 and they uploaded their adjustments. It was still wrong and I didn't realize it.

Anticipated Completion Date: December 31, 2018.

### ***FINDING 2016-002***

Contact Person Responsible for Corrective Action: Frieda Bretzinger

Contact Phone Number: 219 866-5213

View of Official: I concur with finding.

Description of Corrective Action Plan: We will be sure to have the Project Coordinator sign off on the pay requests.

As with any project, requests for payment from the contractor are submitted to our engineer for the project. They verify the work and quantities and then submit that to our Project Coordinator, Jerry Lockridge. He also verifies the work and then submits the pay requests to me. I place the pay request on the agenda for the Board of Public Works to approve. Once the board approves the request, it is paid.

Anticipated Completion Date: December 31, 2018.

**FINDING 2016-003**

Contact Person Responsible for Corrective Action: Stephen Wood

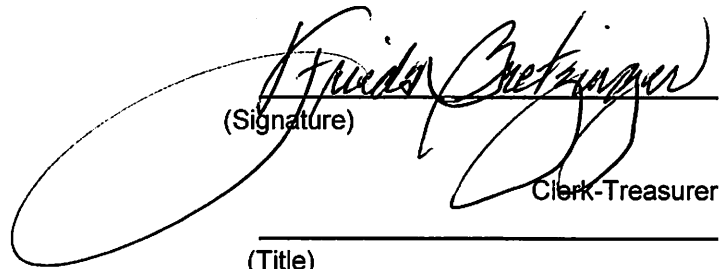
Contact Phone Number: 219-866-5212

View of Official: I concur with the findings.

Description of Corrective Action Plan: It will be done in the future.

This is currently being done by our engineering firms and provided to the city. We thought that was enough.

Anticipated Completion Date: December 31, 2018.

  
\_\_\_\_\_  
(Signature)

Clerk-Treasurer

\_\_\_\_\_  
(Title)

August 23, 2018

\_\_\_\_\_  
(Date)

CLERK-TREASURER  
CITY OF RENNELAER  
EXIT CONFERENCE

The contents of this report were discussed on August 23, 2018, with Frieda Bretzinger, Clerk-Treasurer; Stephen Wood, Mayor; George T. Cover, President Pro Tempore of the Common Council; and Heather Smart, Utility Office Manager.