

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, 2017 to December 31, 2017



FILED

09/21/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Federal Findings:	
Finding 2017-001	
Financial Transactions and Reporting	6-10
Finding 2017-002	
Water and Waste Disposal Systems for Rural Communities - Internal Controls	10-12
Corrective Action Plan	13
Audit Result and Comment:	
Transaction Recording	14
Exit Conference	15

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	01-01-17 to 12-31-18
Utility Office Manager	Heather Smart	01-01-17 to 12-31-18



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

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, 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 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

August 23, 2018

(This page intentionally left blank.)

CLERK-TREASURER
CITY OF RENNELAER

CLERK-TREASURER
CITY OF RENSSELAER
FEDERAL FINDINGS

FINDING 2017-001

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

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-001.

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 for 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 held by third-party fiscal agents in the City's name for the Electric Refunding Revenue Bonds 2012, Electric 2017 Revenue B & I, Electric Utility Revenue Refunding Bonds 2017, Rensselaer Water 15 BAN, and Rensselaer Water 17 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.

CLERK-TREASURER
CITY OF RENSSELAER
FEDERAL FINDINGS
(Continued)

The financial statement presented for audit contained the following errors:

1. The activity of the Electric Refunding Revenue Bonds 2012 fund was excluded from the financial statement. The receipts, disbursements, and ending cash and investment balance were understated by \$989,963, \$662,825, and \$327,138, respectively.
2. The activity of the Electric 2017 Revenue B & I fund was excluded from the financial statement. The receipts and ending cash and investment balance were understated by \$17,826.
3. The activity of the Electric Utility Refunding Revenue Bonds 2017 fund was excluded from the financial statement. The receipts and ending cash and investment balance were understated by \$4,260,872.
4. The activity of the Rensselaer Water 15 BAN fund was excluded from the financial statement. The beginning cash and investment balance, receipts, and disbursements were understated by \$12,502, \$2,012,598, and \$2,025,100, respectively.
5. The activity of the Rensselaer Water 17 BAN fund was excluded from the financial statement. The receipts and ending cash and investment balance were understated by \$2,012,570.

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 Assistance to Firefighter Grant and the Water and Waste Disposal Systems for Rural Communities Loan #2 expenditures of \$156,908 and \$138,995, respectively.

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

Context

The lack of internal controls was a systemic issue 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:

CLERK-TREASURER
CITY OF RENSSELAER
FEDERAL FINDINGS
(Continued)

"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. . . .

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. . . ."

"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. . . .

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. . . ."

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

CLERK-TREASURER
CITY OF RENSSELAER
FEDERAL FINDINGS
(Continued)

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 a 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 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 related to the City's financial transactions and reporting.

CLERK-TREASURER
CITY OF RENSSELAER
FEDERAL FINDINGS
(Continued)

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. Internal controls should be developed in a way to prevent, or detect and correct, errors in financial transactions and reporting.

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: Water and Waste Disposal Systems for Rural Communities - Internal Controls
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 #2, Grant #3
Compliance Requirements: Cash Management, Period of Performance,
Procurement and Suspension and Debarment
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding numbers were 2016-002 and 2016-003.

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.

CLERK-TREASURER
CITY OF RENSSELAER
FEDERAL FINDINGS
(Continued)

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 and Suspension and Debarment

The City had not designed or implemented adequate internal controls to ensure compliance with the procurement requirements in 2 CFR 200.320 and the suspension and debarment requirements in 2 CFR 180.300.

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). . . ."

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 the 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.

CLERK-TREASURER
CITY OF RENNELAER
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

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



CITY OF RENSSELAER

RENSSELAER, INDIANA

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

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 2017-001

Contact Person Responsible for Corrective Action: Frieda Bretzinger
Contact Phone Number: 219-866-5213
View of Official: I concur with the finding.

This is a repeat finding from our previous audit. Since the 2016 and 2017 audits were performed simultaneously we did not have time to implement all corrective actions.

Corrective Action: I will have a deputy review the Financial Statement in Gateway to verify work. We are now reviewing each other's work and initialing paper.

Anticipated Completion Date: December 31, 2018.

FINDING 2017-002

Contact Person Responsible for Corrective Action: Frieda Bretzinger
Contact Phone Number: 219-866-5213.
View of Official: I concur with the findings.

This is a repeat finding from our previous audit. Since the 2016 and 2017 audits were performed simultaneously we did not have time to implement all corrective actions.

Corrective Action: I will be involved in the process of obtaining grants so that I am more aware of the financial requirements.

Anticipated Completion Date: December 31, 2018.


Frieda Bretzinger
Clerk-Treasurer

Title

August 23, 2018

Date

CLERK-TREASURER
CITY OF RENSSELAER
AUDIT RESULT AND COMMENT

TRANSACTION RECORDING

The City did not record the financial activity of funds held by fiscal agents in the City's ledgers. The financial activity not recorded included the cash and investment balances, receipts, and disbursements for the following funds:

- Electric Refunding Revenue Bonds 2012
- Electric 2017 Revenue B & I
- Electric Revenue and Refunding Bonds 2017
- Electric Utility Refunding Revenue Bonds 2017
- Rensselaer Water BAN 2015
- Rensselaer Water BAN 2017

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)

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.