

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF ELKHART

ELKHART COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED
10/31/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Jeffrey L. Spalding	01-01-16 to 02-24-17
	Carlos J. Arce (interim)	02-25-17 to 05-07-17
	Rita Huffman	05-08-17 to 12-31-18
Mayor	Timothy Neese	01-01-16 to 12-31-19
President of the Board of Public Works	Carol McDowell	01-01-16 to 12-31-16
	Michael C. Machlan	01-01-17 to 12-31-18
President of the Common Council	Brian A. Thomas	01-01-16 to 12-31-16
	Brian Dickerson	01-01-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE CITY OF ELKHART, ELKHART COUNTY, INDIANA

This report is supplemental to our audit report of the City of Elkhart (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 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

September 20, 2018

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CITY CONTROLLER
CITY OF ELKHART

CITY CONTROLLER
CITY OF ELKHART
FEDERAL FINDINGS

FINDING 2016-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit regarding cash and investments. The prior audit finding number was 2015-001.

Condition

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

Cash and Investments

While the month-end bank reconcilements were approved by the appropriate officials, the review was inadequate to ensure that the bank balances agreed to the ledger balances. There were immaterial differences on each of the monthly-reviewed reconcilements.

Receipts and Disbursements for the Tolson Center

The City had not designed or implemented proper segregation of duties related to transactions at the Tolson Center, a part of the City's Park Department. Some collections were receipted to the wrong funds. Funds belonging to an outside organization were remitted to the City Controller's office in error and receipted to a City fund. Donations were made to a nonprofit entity without appropriation or a written agreement.

Context

The lack of controls was a systemic problem 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. . . .

CITY CONTROLLER
CITY OF ELKHART
FEDERAL FINDINGS
(Continued)

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 an effective system of internal controls related to the City's financial reporting and transactions.

Effect

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

Recommendation

We recommended that the City establish a system of internal controls related to 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 2016-002

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

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-002.

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 failed to properly review the federal grant information prepared and submitted in the Indiana Gateway for Government Units financial reporting system, which was the source of the SEFA.

Context

Due to the lack of controls, the following errors occurred on the SEFA and were not detected or corrected:

1. The Community Development Block Grants/Entitlement Grants program included the incorrect amounts for several projects. Additionally, amounts passed through to sub-recipients of \$52,553 were not included on the schedule.

CITY CONTROLLER
CITY OF ELKHART
FEDERAL FINDINGS
(Continued)

2. The Equitable Sharing program was omitted.
3. The Highway Planning and Construction Cluster was understated by \$4,831.
4. The Airport Improvement Program was overstated by \$51,294.
5. Five grants listed either an incorrect pass-through agency or were listed as direct grants from the Federal government when they were actually received from a pass-through.

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. . . .

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(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:

CITY CONTROLLER
CITY OF ELKHART
FEDERAL FINDINGS
(Continued)

- (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 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."

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. The SEFA contained the errors identified in the *Context*.

Recommendation

We recommended that the City's management establish controls to ensure that federal expenditures will be properly reported on the SEFA.

Views of Responsible Officials

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

The Honorable
Timothy Neese
Mayor

Rita Huffman
City Controller



City Controller's Office
229 S. Second St.
Elkhart, IN 46516

574.294.5471
Fax: 574.294.8491

CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Rita Huffman, Controller or Jamie Arce, Deputy Controller.
Contact Phone Number: (574) 294-5471x1035 or (574) 294-5471x1026

Views of Responsible Official: City Concurs with the finding.

Description of Corrective Action Plan:

1. The City has identified that these differences resulted from journal entries being made by the Utility Manager in INCODE, that appeared correct in form when reviewed by the Controller's office but had not been processed correctly within the INCODE accounting system. The City is working with INCODE to determine the root cause and actions needed to correct this issue going forward.
2. The Tolson Center is no longer operating as a City department.

Anticipated Completion Date: December 2018



(Signature)

Controller

(Title)

9/20/18

(Date)

The Honorable
Timothy Neese
Mayor

Rita Huffman
City Controller



City Controller's Office
229 S. Second St.
Elkhart, IN 46516

574.294.5471
Fax: 574.294.8491

CORRECTIVE ACTION PLAN

FINDING 2016-002

Contact Person Responsible for Corrective Action: Rita Huffman, Controller or Jamie Arce, Deputy Controller
Contact Phone Number: (574) 294-5471x1035 or (574) 294-5471x1026

Views of Responsible Official: City Concurs with the finding.

Description of Corrective Action Plan:

1. The City has worked with the Grant Writer to address and correct the data to be reported on the Schedule of Expenditures of Federal Awards (SEFA). This individual is familiar with the grant accounting and reporting requirements. The Deputy Treasurer will now be working with the Grant Writer to help oversee that the information collected and reported follows the requirements established by Federal agencies. This will ensure that the SEFA is prepared accurately.

Anticipated Completion Date: December 2018



(Signature)

Controller

(Title)

9/20/18

(Date)

CITY CONTROLLER
CITY OF ELKHART
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

The Rainy Day fund expenditures were in excess of budgeted appropriations approved by the Department of Local Government Finance in the amount of \$213,279.

Indiana Code 36-4-8-2 states in part:

". . . Unless a statute provides otherwise, the fiscal officer may draw a warrant against a fund of the city only if:

- (1) An appropriation has been made for that purpose and the appropriation is not exhausted; . . ."

COLLECTIONS

The Tolson Community and Youth Center (Tolson Center) operated out of the City's General Fund under the direction of the Parks and Recreation Department and the Park Board. The Tolson Center collected fees for activities, which were receipted to the General fund and operated a concession stand with collections being receipted to the General fund and Sales Tax fund as appropriate. The Tolson Center also received donations, which were receipted to the Tolson Youth fund and Tolson Center Improvement fund, both of which were unappropriated funds.

We tested ten Tolson Center Report of Collections (Reports) (General Form No. 362) and identified the following issues:

Receipts Posted to Incorrect Fund

Receipts for eight Reports were posted to the wrong fund. Activity fees, program fees, and concession sales that were supposed to be posted to the General fund were posted to the Tolson Youth fund.

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Lack of Supporting Documentation

Seven Reports were not supported by Tolson Center receipts or other supporting documentation. No receipts were provided for gym rentals of \$100, football clinic fees of \$135, and concession sales of \$405.

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)

CITY CONTROLLER
CITY OF ELKHART
AUDIT RESULTS AND COMMENTS
(Continued)

Receipts Form Not Properly Completed

Tolson Center receipts were not prepared in the manner prescribed as they did not indicate whether the amount collected was in the form of cash or check. Therefore, we could not determine if collections were remitted to the City Controller intact.

Officials and employees are required to use prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Public funds deposited should be deposited in the same form in which they were received. This simply means all daily receipts received by the political subdivision should be deposited intact. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Receipt Variance

One Report was turned in with cash and checks of \$1,028, but the corresponding Tolson Center receipts totaled \$1,062, a variance of \$34.

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the units. The deposit ticket or attached documentation must provide a detail listing of the deposit, which includes at a minimum, check numbers and corresponding names of the payers. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TOLSON CENTER IMPROVEMENT FUND

In October of 2015, the Director of the Tolson Center formed a nonprofit entity with a similar name as the Tolson Center and the same address as the Tolson Center with the intent of raising funds for the Tolson Center Expansion Project. Donations were received for this project and posted to the City's Tolson Center Improvement fund. In 2016, collections totaling \$46,344 were receipted into the City's Tolson Center Improvement fund, which was a commingling of donations for the City and the nonprofit entity.

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TOLSON YOUTH FUND

The City's Tolson Youth fund was established as an agency fund rather than as a special revenue fund. The City made disbursements from this fund for operating supplies and other services and charges, which required the City's Common Council to approve appropriations for the department's budget. The City's Common Council did not approve appropriations for this fund because a budget for the fund was not created.

CITY CONTROLLER
CITY OF ELKHART
AUDIT RESULTS AND COMMENTS
(Continued)

Budgetary Control. The law requires the adoption of a balanced budget which shall include all anticipated revenues and expenses of every organizational unit with the exception of utilities. . . .

Appropriations as stated in the budget, or as modified by additional appropriations, shall constitute the limitation of disbursements. No disbursement shall be made without an appropriation therefore unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 2)

Appropriations Necessary for All Disbursements. IC 36-4-8-2 and IC 36-5-4-2 and the uniform system provide that no disbursement shall be made except as authorized by an appropriation contained in the budget or in a subsequent modification of the budget. This, of course, does not apply to proprietary (utility) and certain fiduciary (agency) funds. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 2)

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are restricted to expenditures for specific purposes. . . .

The following prescribed fund names are required by statute or are currently in use by municipalities pursuant to annual reports filed with the State Board of Accounts. Further funds will be added as required. Fund numbers shall be used as listed. Numbers include fund type. For instance, (2)01, etc. . . .

Special Revenue Funds (201-299): . . .

217 Donation (if used for other than capital items) . . .

270-299 Other Funds Not Listed

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 3)

TRANSACTIONS WITH THE COUNCIL OF AGING OF ELKHART COUNTY

The Council of Aging of Elkhart County (COA) sent monthly invoices to the Tolson Center describing monies due as donations. The Tolson Center submitted monthly Accounts Payable Vouchers/Check Requisition forms to the City Controller describing the payments as services. In 2016, payments on these monthly invoices in the total amount of \$9,904 were made from the General fund and recorded as operating supplies.

Tolson Center payments to the COA were not supported by any written agreement.

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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)

CITY CONTROLLER
CITY OF ELKHART
AUDIT RESULTS AND COMMENTS
(Continued)

Public funds cannot be donated or given to other organizations or individuals unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CITY CONTROLLER
CITY OF ELKHART
EXIT CONFERENCE

The contents of this report were discussed on September 20, 2018, with Rita Huffman, City Controller; Timothy Neese, Mayor; Jamie Acre, Deputy City Controller; Mike Machlan, President of the Board of Public Works; Crystal Welsh, Development Services Director; Mary Olson, Common Council member; Pam Kurpgeweit, Common Council member; and Richard Shively, Common Council member.

COMMON COUNCIL
CITY OF ELKHART

COMMON COUNCIL
CITY OF ELKHART
AUDIT RESULT AND COMMENT

APPROPRIATIONS

The Rainy Day fund expenditures were in excess of budgeted appropriations approved by the Department of Local Government Finance in the amount of \$213,279.

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."

COMMON COUNCIL
CITY OF ELKHART
EXIT CONFERENCE

The contents of this report were discussed on September 20, 2018, with Rita Huffman, City Controller; Timothy Neese, Mayor; Jamie Acre, Deputy City Controller; Mike Machlan, President of the Board of Public Works; Crystal Welsh, Development Services Director; Mary Olson, Common Council member; Pam Kurpoweit, Common Council member; and Richard Shively, Common Council member.

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COMMUNITY AND REDEVELOPMENT
CITY OF ELKHART

COMMUNITY AND REDEVELOPMENT
CITY OF ELKHART
FEDERAL FINDING

FINDING 2016-003

Subject: CDBG/Entitlement Grants Cluster - Internal Controls

Federal Agency: Department of Housing and Urban Development

Federal Program: Community Development Block Grants/Entitlement Grants

CFDA Number: 14.218

Federal Award Numbers and Years (or Other Identifying Numbers): B-14-MC-18-0015, B-15-MC-18-0015,
B-16-MC-18-0015, B-08-MC-18-0002

Compliance Requirements: Cash Management, Period of Performance, Program Income, Reporting

Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit regarding Program Income and Reporting. The prior audit finding number was 2015-003.

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 following compliance requirements: Cash Management, Period of Performance, Program Income, and Reporting.

Cash Management

The City had not designed or implemented adequate internal controls to ensure that all payments were made prior to requesting reimbursement.

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.

Program Income

The City had not designed or implemented adequate internal controls to ensure the proper reporting of program income to the Department of Housing and Urban Development's portal websites based on receipts in the City's ledger.

Reporting

The City had not designed or implemented adequate internal controls to ensure the accurate completion of its quarterly Federal Financial Report (SF-425). Additionally, the HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons report was submitted without an oversight, review, or approval process.

Context

The issues with Cash Management, Period of Performance, and Program Income were isolated instances. The issue with Reporting was systemic.

COMMUNITY AND REDEVELOPMENT
CITY OF ELKHART
FEDERAL FINDING
(Continued)

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

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

Management had not developed a proper system of internal controls that would have ensured compliance with 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. Noncompliance with the grant agreement and the compliance requirements could have resulted in the loss of federal funds.

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 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.



CORRECTIVE ACTION PLAN

FINDING 2016-003

Contact Person Responsible for Corrective Action: Crystal Welsh, Director of Development Services
Contact Phone Number: 574-294-5471 x 1023

Views of Responsible Official: The City agrees with the finding related to internal controls over program income for programs and reporting under the US Department of Housing and Urban Development.

Description of Corrective Action Plan:

Cash Management – The City had not designated or implemented adequate internal controls to ensure that all payments were made prior to requesting reimbursement.

To ensure all payments are made prior to requesting reimbursement, Laura Miller will review the INCODE detail listing accounts payable report for account 231 that provides a list of checks issued from the 231 account. She will compare this to the IDIS drawdown log and only include those items that a check has been issued for in the draw request. Any items on the drawdown log sheet that have not had a check issued will be included in the draw following the issuance of the check, as indicated in INCODE.

Period of Performance – The City had not designated or implemented adequate internal controls to ensure that expenditures were incurred or paid within the period of performance.

Each invoice submitted for payment from the CDBG program is reviewed by either Jenny Recinos-Trejo, Laura Miller or Abby Wiles so that it can be processed for payment by Aimee Lattimer (Office Services). Prior to approving payment of an invoice, the approving staff member will ensure the expense was incurred during the period of performance (grant year) from which the funds are drawn.

This will be accomplished by the staff member reviewing the invoice and then confirming that there is a valid contract for the service and that term is within the appropriate grant year prior to approving payment and submitting the invoice for processing.

Program Income – The City has not designed or implemented adequate internal controls to ensure the proper reporting of program income to the Department of Housing and Urban Development's portal website based on receipts to the City ledger.

The Community, Economic and Redevelopment Department has instituted the following internal controls for program income from programs under the US Department of Housing and Urban Development (HUD):

All program income for the Community Development Block Grant (CDBG) program is received by the Community Development Specialist – CDBG & Fair Housing (Jenny Recinos-Trejo). In the Community Development Specialist – CDBG & Fair Housing's absence, program income is received by the Assistant Director for Community & Redevelopment (Abby Wiles).

The Community Development Specialist – CDBG & Fair Housing (Jenny Recinos-Trejo) or the Assistant Director for Community & Redevelopment (Abby Wiles) log all cash and/or check payments received in a

spreadsheet. The spreadsheet is updated on a daily upon receipt of funds. Carbon copy receipts are provided for all cash payments.

After program income is entered into the spreadsheet, all cash and/or check(s) are forwarded to the Community Development Specialist – CDBG (Laura Miller). The Community Development Specialist – CDBG (Laura Miller) receipts program income into the City's INCODE system and prints a receipt. The Community Development Specialist – CDBG (Laura Miller) enters the program income into HUD's Integrated Disbursement and Information System (IDIS) within two business days of entering into INCODE.

The Community Development Specialist – CDBG (Laura Miller) creates a draw request in IDIS. IDIS identifies if program income is available for use at that time. If program income is available, the Community Development Specialist – CDBG (Laura Miller) first uses the program income funds. The remaining balance of the draw is funded from the applicable program year activity funds. The draw request is approved by the Assistant Director for Community & Redevelopment (Abby Wiles).

Reporting – The City had not designed or implemented adequate internal controls to ensure the accurate completion of the quarterly Federal Financial Reports (SF-425) or make available the HUD 60002, Section 3 report.

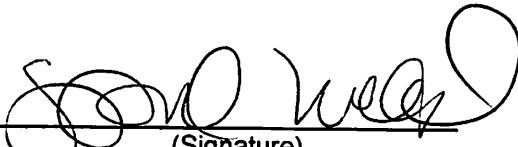
SF-425

Jenny Recinos-Trejo runs a PR-07 from the IDIS portal to show funds drawn from the federal system. She also runs the Program Income report PR-09 to show program income received for the reporting quarter. She also runs the 231 cash-on-hand and non-pooled reports from INCODE. These reports provide the information to be used to complete the report. The report is completed using the instructions from the PowerPoint presentation provided by HUD entitled SF-425 Federal Financial Report dated 11/2/2016.

HUD 60002 – Section 3 Report

This report is submitted using the Federal Secure Connection System portal. To ensure an auditable report in the future the staff will print and save the screens to show the submission of this report.

Anticipated Completion Date: September 20, 2018



(Signature)

Director of the Office of Development Services
(Title)

September 20, 2018
(Date)

COMMUNITY AND REDEVELOPMENT
CITY OF ELKHART
EXIT CONFERENCE

The contents of this report were discussed on September 20, 2018, with Rita Huffman, City Controller; Timothy Neese, Mayor; Jamie Acre, Deputy City Controller; Mike Machlan, President of the Board of Public Works; Crystal Welsh, Development Services Director; Mary Olson, Common Council member; Pam Kurpoweit, Common Council member; and Richard Shively, Common Council member.

PARKS AND RECREATION DEPARTMENT
CITY OF ELKHART

PARKS AND RECREATION DEPARTMENT
CITY OF ELKHART
AUDIT RESULTS AND COMMENTS

COLLECTIONS

The Tolson Community and Youth Center (Tolson Center) operated out of the City's General Fund under the direction of the Parks and Recreation Department and the Park Board. The Tolson Center collected fees for activities, which were receipted to the General fund and operated a concession stand with collections being receipted to the General fund and Sales Tax fund as appropriate. The Tolson Center also received donations, which were receipted to the Tolson Youth fund and Tolson Center Improvement fund, both of which were unappropriated funds.

We tested ten Tolson Center Report of Collections (Reports) (General Form No. 362) and identified the following issues:

Receipts Posted to Incorrect Fund

Receipts for eight Reports were posted to the wrong fund. Activity fees, program fees, and concession sales that were supposed to be posted to the General fund were posted to the Tolson Youth fund.

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Lack of Supporting Documentation

Seven Reports were not supported by Tolson Center receipts or other supporting documentation. No receipts were provided for gym rentals of \$100, football clinic fees of \$135, and concession sales of \$405.

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)

Receipts Form Not Properly Completed

Tolson Center receipts were not prepared in the manner prescribed as they did not indicate whether the amount collected was in the form of cash or check. Therefore, we could not determine if collections were remitted to the City Controller intact.

Officials and employees are required to use prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Public funds deposited should be deposited in the same form in which they were received. This simply means all daily receipts received by the political subdivision should be deposited intact. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Receipt Variance

One Report was turned in with cash and checks of \$1,028, but the corresponding Tolson Center receipts totaled \$1,062, a variance of \$34.

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(Continued)

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the units. The deposit ticket or attached documentation must provide a detail listing of the deposit, which includes at a minimum, check numbers and corresponding names of the payers. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TOLSON CENTER IMPROVEMENT FUND

In October of 2015, the Director of the Tolson Center formed a nonprofit entity with a similar name as the Tolson Center and the same address as the Tolson Center with the intent of raising funds for the Tolson Center Expansion Project. Donations were received for this project and posted to the City's Tolson Center Improvement fund. In 2016, collections totaling \$46,344 were receipted into the City's Tolson Center Improvement fund, which was a commingling of donations for the City and the nonprofit entity.

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TOLSON YOUTH FUND

The City's Tolson Youth fund was established as an agency fund rather than as a special revenue fund. The City made disbursements from this fund for operating supplies and other services and charges, which required the City's Common Council to approve appropriations for the department's budget. The City's Common Council did not approve appropriations for this fund because a budget for the fund was not created.

Budgetary Control. The law requires the adoption of a balanced budget which shall include all anticipated revenues and expenses of every organizational unit with the exception of utilities. . . .

Appropriations as stated in the budget, or as modified by additional appropriations, shall constitute the limitation of disbursements. No disbursement shall be made without an appropriation therefore unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 2)

Appropriations Necessary for All Disbursements. IC 36-4-8-2 and IC 36-5-4-2 and the uniform system provide that no disbursement shall be made except as authorized by an appropriation contained in the budget or in a subsequent modification of the budget. This, of course, does not apply to proprietary (utility) and certain fiduciary (agency) funds. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 2)

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are restricted to expenditures for specific purposes. . . .

The following prescribed fund names are required by statute or are currently in use by municipalities pursuant to annual reports filed with the State Board of Accounts. Further funds will be added as required. Fund numbers shall be used as listed. Numbers include fund type. For instance, (2)01, etc. . . .

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(Continued)

Special Revenue Funds (201-299): . . .

217 Donation (if used for other than capital items) . . .

270-299 Other Funds Not Listed

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 3)

TRANSACTIONS WITH THE COUNCIL OF AGING OF ELKHART COUNTY

The Council of Aging of Elkhart County (COA) sent monthly invoices to the Tolson Center describing monies due as donations. The Tolson Center submitted monthly Accounts Payable Vouchers/Check Requisition forms to the City Controller describing the payments as services. In 2016, payments on these monthly invoices in the total amount of \$9,904 were made from the General fund and recorded as operating supplies.

Tolson Center payments to the COA were not supported by any written agreement.

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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)

Public funds cannot be donated or given to other organizations or individuals unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

PARKS AND RECREATION DEPARTMENT
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EXIT CONFERENCE

The contents of this report were discussed on September 20, 2018, with Rita Huffman, City Controller; Timothy Neese, Mayor; Jamie Acre, Deputy City Controller; Mike Machlan, President of the Board of Public Works; Crystal Welsh, Development Services Director; Mary Olson, Common Council member; Pam Kurpgeweit, Common Council member; and Richard Shively, Common Council member.