

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, 2017 to December 31, 2017



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	01-01-17 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	Michael C. Machlan	01-01-17 to 12-31-18
President of the Common Council	Brian Dickerson	01-01-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2017 to December 31, 2017. It has been provided as a separate report so that the reader may easily identify any 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 opinion on the City's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The 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 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
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS

There were deficiencies in the internal control system of the City related to cash and investments and reporting. 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. Immaterial variances were noted on each monthly reviewed reconcilements between the bank and the cash balances.

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. . . ."

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; Michael C. 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.

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PARKS AND RECREATION DEPARTMENT
CITY OF ELKHART

PARKS AND RECREATION DEPARTMENT
CITY OF ELKHART
AUDIT RESULTS AND COMMENTS

COLLECTIONS

A similar comment also appeared in prior Report B51165, entitled *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 the Tolson Center Improvement fund, both of which were unappropriated funds.

Through the City's internal control processes, the City was able to detect and correct errors that had occurred prior to September 30, 2017, which also helped prevent some, but not all, further errors from occurring.

We tested 12 Tolson Center Report of Collections (Reports) (General Form No. 362) and identified the following issues:

Receipts Posted to Incorrect Fund

Receipts for three 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

Six reports were not supported by the Tolson Center receipts or other supporting documentation. No receipts for donations totaling \$5,449, open gym admissions of \$35, and nothing for concession sales of \$200 were provided.

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

The 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)

PARKS AND RECREATION DEPARTMENT
CITY OF ELKHART
AUDIT RESULTS AND COMMENTS
(Continued)

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. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2014)

Receipt Variance

The Department of Parks and Recreation held an event sponsored by the Tolson Center celebrating Cinco de Mayo. The event took place on May 6, 2017, and the cost of admission fee was \$2 per attendee. The Program Coordinator responsible for collecting cash admission fees failed to turn in the collections on the next business day. The report that was submitted indicating \$2,600 in cash admissions did not include any supporting documentation as to the number of event attendees, such as ticket stubs or duplicate receipts, nor any indication that another employee verified the cash collections. The Superintendent of Parks estimated the event had approximately 4,000 attendees, which should have yielded cash revenue of \$8,000.

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

A similar comment also appeared in prior Report B51165, entitled *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 2017, collections totaling \$10,246 were receipted into the City's Tolson Center Improvement fund, which was a commingling of donations for the City and the nonprofit entity.

Through the City's internal control processes, the City was able to detect and correct errors that had occurred prior to September 30, 2017. This fund was no longer used after September 2017.

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)

TRANSACTIONS WITH THE COUNCIL OF AGING OF ELKHART COUNTY

A similar comment also appeared in prior Report B51165, entitled *TRANSACTIONS WITH THE COUNCIL OF AGING OF ELKHART COUNTY*.

PARKS AND RECREATION DEPARTMENT
CITY OF ELKHART
AUDIT RESULTS AND COMMENTS
(Continued)

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 2017, payments on these monthly invoices in the total amount of \$8,606 were made from the General fund and recorded as operating supplies.

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

Through the City's internal control processes, the City was able to detect this problem and correct it in 2018.

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
CITY OF ELKHART
EXIT CONFERENCE

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