

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MADISON

JEFFERSON COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
11/29/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Federal Findings:	
Finding 2014-001	
Financial Transactions and Reporting	6-7
Finding 2014-002	
Preparation of the Schedule of Expenditures of Federal Awards	7-9
Finding 2014-003	
Internal Controls - Receipts	9-10
Corrective Action Plan	11-12
Exit Conference	13

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	William Kalb Rick Berry	01-01-12 to 12-31-15 01-01-16 to 12-31-19
Mayor	Damon L. Welch	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Damon L. Welch	01-01-12 to 12-31-15
President Pro Tempore of the Common Council	Rick Berry Darrell Henderson David Alcorn	01-01-14 to 12-31-15 01-01-16 to 12-31-17 01-01-18 to 12-31-18
Utility Office Manager	Sara Stetson Mark Hill Rob Holt	01-01-14 to 09-24-17 09-25-17 to 03-26-18 03-27-18 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 MADISON, JEFFERSON COUNTY, INDIANA

This report is supplemental to our audit report of the City of Madison (City), for the period from January 1, 2014 to December 31, 2014. 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/.

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

October 17, 2018

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CLERK-TREASURER
CITY OF MADISON

CLERK-TREASURER
CITY OF MADISON
FEDERAL FINDINGS

FINDING 2014-001

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

Condition

The City did not have a proper system of controls in place to ensure that all financial activity was included in the financial statement.

Context

Financial activity associated with the City's State Revolving Loan funds were not reported in the financial statement. Loan proceeds in the amount of \$1,462,090 and related loan disbursements for wastewater improvements in the amount of \$1,462,090 were not included in the financial statements. Audit adjustments were proposed, accepted by the City, and made to the financial statements.

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. . . ."

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)

Cause

Management of the City had not established a proper system of internal control.

Effect

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

CLERK-TREASURER
CITY OF MADISON
FEDERAL FINDINGS
(Continued)

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 2014-002

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 2013-002.

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). As a result, material misstatements of the SEFA remained undetected.

Context

The SEFA contained the following errors:

1. Expenditures for the Airport Improvement Program were understated by \$3,721.
2. Expenditures for the Sportfishing and Boating Safety Act in the amount of \$54,000 were not reported.
3. The Clean Vessel Act expenditures in the amount of \$16,656 were omitted.
4. Expenditures for the Highway Planning and Construction program in the amount of \$112,081 were not reported.
5. The State Community Highway Safety expenditures in the amount of \$5,398 were not reported.
6. The Capitalization Grants for Clean Water State Revolving Funds expenditures in the amount of \$524,305 were not reported.

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

CLERK-TREASURER
CITY OF MADISON
FEDERAL FINDINGS
(Continued)

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. . . ."

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § _____.310. . . ."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. 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 award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual 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 shall 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.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.

CLERK-TREASURER
CITY OF MADISON
FEDERAL FINDINGS
(Continued)

- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

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 related to the preparation of the SEFA.

Views of Responsible Officials

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

FINDING 2014-003

Subject: Internal Controls - Receipts
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2013-001.

Condition

Deficiencies in the internal control system of the City related to financial transactions and reporting were identified. There was a lack of segregation of duties related to receipts. The Receipts Clerk was responsible for issuing receipts, recording receipts, and making bank deposits. The same individual responsible for receipts also performed monthly bank reconciliements. There was no oversight or review over the receipts issued to ensure all receipt activity was recorded to the ledger and deposited.

Context

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

CLERK-TREASURER
CITY OF MADISON
FEDERAL FINDINGS
(Continued)

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:

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An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Cause

Management of the City had not established a proper system of internal control.

Effect

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

Recommendation

We recommended that the City establish a system of internal controls related to financial transactions and reporting for receipts.

Views of Responsible Officials

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

Rick Berry

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City of Madison

October 2, 2018

Finding 2014-001-Financial Transactions and Reporting

Contact person responsible for corrective action: Rick Berry

Contact phone number: 812-265-8316

Anticipated Completion Date: 10/01/2018

Description of Corrective Action Plan: We are now tracking all SRF Fund activity and balancing monthly.

Finding 2014-002-Preparation of the Schedule of Expenditure of Federal Awards

Contact person responsible for corrective action: Rick Berry

Contact phone number: 812-265-8316

Anticipated Completion Date: 10/01/2018

Description of Corrective Action Plan: We will have the council approve all grants and we will keep copies and track them by creating new revenue numbers. Once the grant information is put into Gateway based upon the review of the financial records, it is reviewed by the department heads responsible for administrating the grants to insure its accuracy.

Finding 2014-003-Controls over Financial Transactions and Reporting

Contact person responsible for corrective action: Rick Berry

Contact phone number: 812-265-8316

Anticipated Completion Date: 10/01/2018

Description of Corrective Action Plan: Rick has in the past and will continue to make all bank deposits. Barb will do them in case of Rick's absence. Rick has and will continue to review and sign off on all bank reconciliations. Rick will start as of today comparing deposit slips with the receipts to make sure they agree. In Rick's absence, Barb will do this.

Rick Berry

Signature

Clerk Treasurer

Title

10/5/2018

Date

CLERK-TREASURER
CITY OF MADISON
EXIT CONFERENCE

The contents of this report were discussed on October 17, 2018, with Damon L. Welch, Mayor; Rick Berry, Clerk-Treasurer; David Alcorn, President Pro Tempore of the Common Council; Jan Vetrhus, Common Council member; Daniel Dattilo, Common Council member; Bob Cooke, Human Resources/Purchasing; Lacey Gammons, Bookkeeper; and Tammy Boldery, Payroll.