

**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, 2016 to December 31, 2016



**FILED**  
11/29/2018



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Rick Berry	01-01-16 to 12-31-19
Mayor	Damon L. Welch	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Damon L. Welch	01-01-16 to 12-31-19
President Pro Tempore of the Common Council	Darrell Henderson David Alcorn	01-01-16 to 12-31-17 01-01-18 to 12-31-18
Utility Office Manager	Sara Stetson Mark Hill Rob Holt	01-01-16 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

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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, 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/](http://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

October 17, 2018

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CLERK-TREASURER  
CITY OF MADISON

CLERK-TREASURER  
CITY OF MADISON  
FEDERAL FINDINGS

**FINDING 2016-001**

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 all financial activity was included in financial statement.

*Context*

Financial activity associated with the City's State Revolving Loan funds was not reported in the financial statement. Disbursement for wastewater improvements handled by a trust agent in the amount of \$4,441,393 and interest earned on monies held in the trust account in the amount of \$3,685 were not included in the financial statements. A loan was obtained by the City in the amount of \$157,955 to purchase various equipment. The financial activity associated with the loan was not recorded in the financial records. Instead, the financial institution from which the loan was obtained disbursed the loan proceeds directly to the vendor from whom the City purchased the equipment.

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.

CLERK-TREASURER  
CITY OF MADISON  
FEDERAL FINDINGS  
(Continued)

*Effect*

The failure to establish controls 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.

*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

*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. The Airport Improvement Program expenditures were understated in the amount of \$317,340.
2. Expenditures for the Assistance Programs for Chronic Disease Prevention and Control in the amount of \$20,000 were omitted.
3. The Highway Planning and Construction expenditures in the amount of \$8,225 were not reported.
4. Expenditures of the State Community Highway Safety program in the amount of \$1,912 were not reported.
5. The Capitalization Grants for Clean Water State Revolving Funds expenditures in the amount of \$1,674,514 were excluded.

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:

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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. . . ."

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:

- (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.

CLERK-TREASURER  
CITY OF MADISON  
FEDERAL FINDINGS  
(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."

*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 2016-003**

Subject: Subject: Internal Controls - Receipts

Audit Finding: Material Weakness

*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 records 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*

CLERK • TREASURER  
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(812) 265-8316  
FAX: (812) 273-6089

## *City of Madison*

October 2, 2018

### **Finding 2016-001-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 2016-002-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.

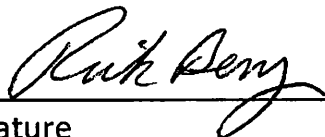

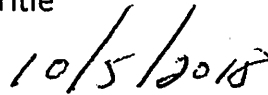
**Finding 2016-003-Controls over Financial Transactions and Reporting**

**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.

  
\_\_\_\_\_  
Signature  
  
\_\_\_\_\_  
Title  
  
\_\_\_\_\_  
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.

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COMMON COUNCIL  
CITY OF MADISON

COMMON COUNCIL  
CITY OF MADISON  
AUDIT RESULT AND COMMENT

***TRAINING ON INTERNAL CONTROL STANDARDS***

The Common Council failed to ensure that personnel received training concerning the internal control standards adopted as required by Indiana Code 5-11-1-27(g).

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

*Rick Berry*

CLERK - TREASURER  
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## *City of Madison*

### OFFICIAL RESPONSE

#### 2016 TRAINING ON INTERNAL CONTROLS

The city had failed to insure that all personnel that handle money or make financial decisions for the city had the proper internal control video training.

Currently the policy is almost completely resolved and should be 100% by mid-November 2018. Sixteen people have now signed-off on the training and a file is being kept. All new personnel will be updated.

*Rick Berry*

COMMON COUNCIL  
CITY OF MADISON  
EXIT CONFERENCE

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