

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF CRAWFORDSVILLE

MONTGOMERY COUNTY, INDIANA

January 1, 2017 to December 31, 2017



FILED

12/06/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Terri Gadd	01-01-16 to 12-31-19
Mayor	Todd Barton	01-01-16 to 12-31-19
President Pro Tempore of the Common Council	Andrew Biddle	01-01-16 to 12-31-18
Utility Office Superintendent	Phillip R. Goode	01-01-16 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF CRAWFORDSVILLE, MONTGOMERY COUNTY, INDIANA

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

November 7, 2018

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CLERK-TREASURER
CITY OF CRAWFORDSVILLE

CLERK-TREASURER
CITY OF CRAWFORDSVILLE
FEDERAL FINDINGS

FINDING 2017-001

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).

The City had not established effective internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the City's SEFA. One employee prepared the federal award information entered into Gateway without a control in place to prevent, or detect and correct, errors prior to submission.

Context

The SEFA presented for audit contained the following errors:

1. Although the City had no subrecipients, amounts passed through to subrecipients of \$2,370,347 were reported in error.
2. The State Community Crossing grant expenditures of \$692,745 were erroneously classified as federal expenditures.
3. Although the Airport Improvement Program had no noncash assistance, \$84,045 in noncash assistance was erroneously reported.
4. Three federal grants were omitted in the amount of \$11,140.
5. The Airport Improvement Program expenditures were overstated by \$31,624.

Audit adjustments were proposed, approved 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. . . .

CLERK-TREASURER
CITY OF CRAWFORDSVILLE
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. . . .

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:

- (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."

CLERK-TREASURER
CITY OF CRAWFORDSVILLE
FEDERAL FINDINGS
(Continued)

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 2017-002

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

Repeat Finding

This is a repeat finding from the immediately prior audit report regarding receipts and disbursements. 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. There was a lack of adequate segregation of duties, as the City had not separated incompatible activities related to receipts, disbursements, and financial transactions and cash and investments.

Electric Utility Receipts

An Electric Utility employee prepared a daily collection report from the Electric Utility software system, which was provided to the City. The City employee compared the daily collection report to the depository; however, documentation of the review was not provided. The City did not receive any reports from the Electric Utility software system to support the daily collections recorded.

Electric Utility Vendor Disbursements

Checks, check registers, and claims were prepared at the Electric Utility. The checks were sent to the City for the Clerk-Treasurer's review and signature; however, documentation of the review was not provided.

CLERK-TREASURER
CITY OF CRAWFORDSVILLE
FEDERAL FINDINGS
(Continued)

City Vendor Disbursements

One employee compared a transaction listing to the accounts payable vouchers; however, documentation of the review was not provided.

City Financial Transactions and Cash and Investments

Beginning cash and investment balances, receipts, disbursements, and ending cash and investment balances of the State Revolving Funds (SRF) were presented in the Statement of Receipts, Disbursements, and Cash and Investment Balances (Financial Statement), but were not included in the City's records for the year ending December 31, 2017, as follows:

Fund	Cash and Investments	Receipts	Disbursements	Cash and Investments
SRF WW Crawfordsville DRS	\$ 12,930	\$ 156,316	\$ -	\$ 169,246
SRF WW Crawfordsville B & I	21,512	257,388	4,635	274,265
Wastewater Utility-Construction	-	7,895,914	7,895,914	-
Totals	\$ 34,442	\$ 8,309,618	\$ 7,900,549	\$ 443,511

Additionally, the City had not included the above-mentioned accounts in its depository reconciliation at December 31, 2017.

Context

The lack of controls and noncompliance were systemic issues, which occurred 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. . . .

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. . . .

CLERK-TREASURER
CITY OF CRAWFORDSVILLE
FEDERAL FINDINGS
(Continued)

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 200.510(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."

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 had not established a proper system of internal control. An evaluation of the City's system of internal control had not been conducted.

Effect

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

Recommendation

We recommended that the City's management establish a system of internal controls, including segregation of duties, related to financial transactions and reporting over receipts, disbursements, financial transactions, and cash and investments.

Views of Responsible Officials

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

CITY OF
CRAWFORDSVILLE
P.O. Box 329
Crawfordsville, IN 47933

Terri J. Gadd, IAMC
Clerk Treasurer

City Building
(765) 364-5150

CORRECTIVE ACTION PLAN

FINDING 2017-001

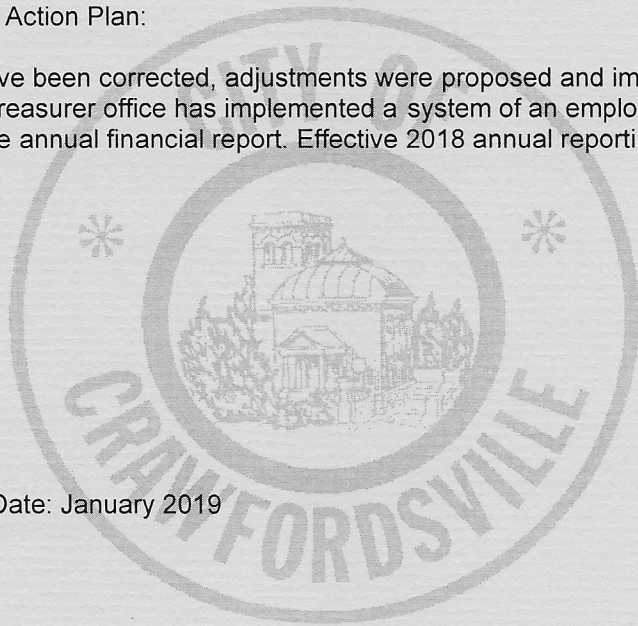
Contact Person Responsible for Corrective Action: Terri Gadd
Contact Phone Number: 765 364-5150

Views of Responsible Official: Management agrees with the findings

Description of Corrective Action Plan:

Context – Items 1 – 5 have been corrected, adjustments were proposed and implemented. Going forward the clerk treasurer office has implemented a system of an employee reviewing and checking data entry of the annual financial report. Effective 2018 annual reporting.

Anticipated Completion Date: January 2019



Terri Gadd
(Signature)

Clerk Treasurer
(Title)

Nov 1, 2018
(Date)

CITY OF
CRAWFORDSVILLE
P.O. Box 329
Crawfordsville, IN 47933

Terri J. Gadd, IAMC
Clerk Treasurer

City Building
(765) 364-5150

CORRECTIVE ACTION PLAN

FINDING 2017-002

Contact Person Responsible for Corrective Action: Terri Gadd
Contact Phone Number: 765 364-5150

Views of Responsible Official:

Description of Corrective Action Plan: Management agrees with the findings

Electric Utility Receipts

Clerk Treasurer office will work with electric department to include a system generated daily collections summary report to the daily collections report submitted to the clerk treasurer office.

Electric Utility Vendor Disbursements

Clerk Treasurer Office will work with electric department to provide a summary sheet listing check number, vendor, and check amount. Summary sheet will include a signature block for who prepared and who reviewed, and date, copy of summary will be filed with clerk treasurer office, and a copy returned to electric department.

City Vendor Disbursements

Clerk Treasurer Office staff will review and acknowledge accounts payable voucher transaction report.

City Financial Transactions and Cash and Investments

Clerk Treasurer Office corrected 2016 and 2017 annual report to reflect additional funds SRFWW Crawfordsville DRS, SRFWW Crawfordsville B&I and Wastewater Utility – Construction, the funds will be added to the 2018 ledger, and reported beginning cash, receipts, disbursements and ending cash will be reported in the annual report.

Anticipated Completion Date: November 2018

Terri Gadd

(Signature)

Clerk Treasurer

(Title)

Nov 1, 2018

(Date)

CLERK-TREASURER
CITY OF CRAWFORDSVILLE
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCES

The same comment also appeared in priors Report B47113 and B51492.

The financial statement presented for audit included the Golf Course and Central Garage funds with overdrawn cash balances of \$63,792 and \$25,911, respectively, at December 31, 2017.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
CITY OF CRAWFORDSVILLE
EXIT CONFERENCE

The contents of this report were discussed on November 7, 2018, with Terri Gadd, Clerk-Treasurer; Todd Barton, Mayor; and J. Kent Minnette, City Attorney.

ELECTRIC UTILITY
CITY OF CRAWFORDSVILLE

ELECTRIC UTILITY
CITY OF CRAWFORDSVILLE
AUDIT RESULT AND COMMENT

PAYMENT OF CLAIMS

The same comment also appeared in prior Report B51492.

The Electric Utility generated Accounts Payable Vouchers (Vouchers) every week for goods and services received for the Electric Utility. Vouchers were generated and checks were mailed before the Electric Utility Service Board approved the Vouchers.

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

ELECTRIC UTILITY
CITY OF CRAWFORDSVILLE
EXIT CONFERENCE

The contents of this report were discussed on November 7, 2018, with Phillip R. Goode, Utility Office Superintendent; Lyle E. Fogel, President of the Electric Utility Service Board; Terri Gadd, Clerk-Treasurer, Todd Barton, Mayor; Donald R. Swearingen, Electric Utility Service Board member; and J. Kent Minnette, City Attorney.