

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF NORTH VERNON

JENNINGS COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED
01/03/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	R. Shawn Gerkin	01-01-16 to 12-31-19
Mayor	Michael Ochs	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Michael Ochs	01-01-16 to 12-31-19
President Pro Tempore of the Common Council	Brian Hatfield	01-01-16 to 12-31-18
Utility Office Manager	Traci Wahlman-Ickx (Vacant) Gloria Bennett (Vacant) Cara Giles	01-01-16 to 02-26-16 02-27-16 to 04-17-16 04-18-16 to 12-07-17 12-08-17 to 12-17-17 12-18-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF NORTH VERNON, JENNINGS COUNTY, INDIANA

This report is supplemental to our audit report of the City of North Vernon (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 or 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 15, 2018

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CLERK-TREASURER
CITY OF NORTH VERNON

CLERK-TREASURER
CITY OF NORTH VERNON
FEDERAL FINDINGS

FINDING 2016-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat of Finding 2015-001 from the immediately prior audit.

Condition

There were deficiencies in the internal control system of the City related to financial transactions and reporting. The City had not designed and implemented proper segregation of duties related to receipts, disbursements, and cash and investment balances.

Employees responsible for issuing receipts and checks were also responsible for depositing receipts, recording transactions in the financial accounting system, and reconciling the funds ledger to the depository balance. There was no documentation of a control process in place to prevent, or detect and correct, errors.

Context

The lack of controls was a systemic issue 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. . . ."

Cause

Management of the City has not established a proper system of internal control that segregated key functions.

CLERK-TREASURER
CITY OF NORTH VERNON
FEDERAL FINDINGS
(Continued)

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 of Finding 2015-002 from the immediately prior audit.

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 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. The Clerk-Treasurer reviewed this information prior to submitting the Annual Financial Report; however, this control was not effective.

Context

The SEFA contained the following errors:

1. The Clean Water State Revolving Fund Cluster was understated by \$1,860,768.
2. The Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii was understated by \$152,817.
3. The Highway Planning and Construction Cluster was overstated by \$9,807.
4. The Airport Improvement Program was overstated by \$6,259.

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

CLERK-TREASURER
CITY OF NORTH VERNON
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 NORTH VERNON
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: Clean Water State Revolving Fund Cluster - Reporting
Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458
Federal Award Number and Year (or Other Identifying Number): WW 140140 01
Pass-Through Entity: Indiana Finance Authority
Compliance Requirement: Reporting
Audit Finding: Material Weakness

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 Reporting compliance requirement.

The MBE/WBE Report was prepared and submitted by one person. There was no control in place, such as an oversight, review, or approval process, to ensure the report was accurate.

CLERK-TREASURER
CITY OF NORTH VERNON
FEDERAL FINDINGS
(Continued)

Context

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

Criteria

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 system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the Reporting compliance requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

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 Reporting compliance requirement.

Views of Responsible Officials

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



**CITY OF NORTH VERNON
CARNEGIE GOVERNMENT CENTER
143 EAST WALNUT STREET
NORTH VERNON, IN 47265**



CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: R Shawn Gerkin
Contact Phone Number: 812-346-5907

Views of Responsible Official: We concur with the finding with comments.

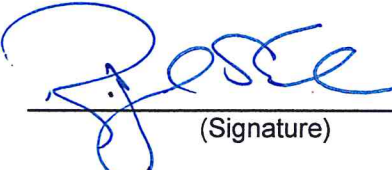
Description of Corrective Action Plan: The office will implement strategies to have one employee take in money and write and enter receipts while a different employee will write up deposit tickets for those receipts and take money to the bank. Two employees will then review and verify bank reconciliation.

Disbursements will have one employee prepare claims and a different employee run checks. Dockets will be reviewed by both the clerk treasurer and the city council. The clerk treasurer's office will also implement a strategy to have department heads review and sign off on disbursements from within their accounts on a monthly basis.

The clerk's office will also begin looking in to updated software for payroll and disbursements to replace the antiquated system it currently has in place that would not allow disbursements to be backdated or the wrong date entered.

While we will continue to monitor areas where there are deficiencies in segregation of duties as well as look for new ways to improve, we also recognize that a shortage of staff will not allow us to allows have segregation of duties in place at all times.

Anticipated Completion Date: January 1, 2019



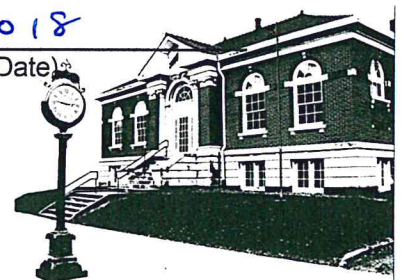
(Signature)

CLERK TREASURER

(Title)

Nov 13, 2018

(Date)



FINDING 2016-002

Contact Person Responsible for Corrective Action: R Shawn Gerkin
Contact Phone Number: 812-346-5907

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Preparation of the SEFA (Schedule of Expenditures of Federal Awards) will now be completed and entered on Gateway by the Deputy Clerk Treasurer and the Clerk Treasurer will review for accuracy before submitting.

Anticipated Completion Date: January 1, 2019



(Signature)

CLERK TREASURER

(Title)

NOV 13, 2018

(Date)

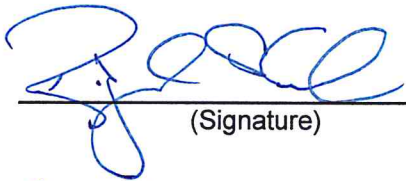
FINDING 2016-003

Contact Person Responsible for Corrective Action: R Shawn Gerkin
Contact Phone Number: 812-346-5907

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Beginning in January of 2017, utility superintendent Russell Vaught prepares and has the mayor review and sign off on the MBE/WBE Report.

Anticipated Completion Date: Immediate



(Signature)

CLERK - TREASURER

(Title)

Nov 13, 2018

(Date)

CLERK-TREASURER
CITY OF NORTH VERNON
AUDIT RESULT AND COMMENT

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliation did not balance. As of December 31, 2016, the bank account reconciliation identified a cash short of \$3,241.

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."

CLERK-TREASURER
CITY OF NORTH VERNON
EXIT CONFERENCE

The contents of this report were discussed on November 15, 2018, with R. Shawn Gerkin, Clerk-Treasurer; Brian Hatfield, President Pro Tempore of the Common Council; and Rita Elmore, Deputy Clerk-Treasurer.

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COMMON COUNCIL
CITY OF NORTH VERNON

COMMON COUNCIL
CITY OF NORTH VERNON
AUDIT RESULTS AND COMMENTS

ADOPTION OF INTERNAL CONTROL STANDARDS

The City had not developed or adopted internal control standards and procedures by the end of the audit period 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:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; . . ."

TRAINING ON INTERNAL CONTROL STANDARDS

City personnel had not received training on internal control standards and procedures by the end of the audit period 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."

COMMON COUNCIL
CITY OF NORTH VERNON
EXIT CONFERENCE

The contents of this report were discussed on November 15, 2018, with Brian Hatfield, President Pro Tempore of the Common Council; R. Shawn Gerkin, Clerk-Treasurer; and Rita Elmore, Deputy Clerk-Treasurer.