

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF BATESVILLE

RIPLEY COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED
02/01/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Paul J. Gates	01-01-16 to 12-31-19
Mayor	Michael A. Bettice	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Michael A. Bettice	01-01-16 to 12-31-19
President of the Common Council	Kevin Chaffee	01-01-16 to 12-31-18
Gas and Water Utility Comptroller	Douglas L. Browne	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 BATESVILLE, RIPLEY COUNTY, INDIANA

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

December 12, 2018

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CLERK-TREASURER
CITY OF BATESVILLE

CITY OF BATESVILLE
FEDERAL FINDINGS

FINDING 2016-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

There were deficiencies in the internal control system of the City related to financial transactions and reporting. The City had not separated incompatible activities related to cash and investments and financial reporting.

Cash and Investments

The Deputy Clerk-Treasurer was primarily responsible for reconciling the bank accounts to the ledger. There was no segregation of duties documented, such as an oversight, review, or approval process, or other compensating control.

Financial Reporting

The Deputy Clerk-Treasurer prepared and reported the cash and investment balances, receipts, and disbursements in the Indiana Gateway for Government Units financial reporting system, which was the source of the City's financial statement, without any evidence of review or oversight.

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 had not established a proper system of internal control that segregated key functions.

CITY OF BATESVILLE
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

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).

Context

The lack of controls and noncompliance were systemic issues throughout the audit period. Due to the lack of controls, the federal expenditures reported on the SEFA presented for audit were understated by a material amount.

Audit adjustments were proposed, accepted 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:

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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. . . .

CITY OF BATESVILLE
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 200.508 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.
- (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.

CITY OF BATESVILLE
FEDERAL FINDINGS
(Continued)

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 establish a system of internal controls to ensure that federal expenditures will be properly reported on the SEFA.

Views of Responsible Officials

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

City Clerk Treasurer

132 S. Main Street
Batesville, IN 47006
812-933-6101



CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: **Paul Gates – Clerk-Treasurer**
Contact Phone Number: **812-933-6101**

Views of Responsible Official:

- *Cash & Investments* – This segregation of duties issue involving bank reconciliation arose from the 2012-2015 audit which was completed in March, 2018. Since then, the Clerk-Treasurer has reviewed and approved all bank reconciliations in the Key system.
- *Financial Reporting* – The Deputy Clerk has the ability to input information into the Gateway system, but cannot approve the final submission of the data. Only the Clerk-Treasurer has approval authorization. The Clerk-Treasurer did review all of the annual reporting data before finalizing the certification to the system.

Description of Corrective Action Plan:

- *Cash & Investments* – Corrective action plan has been in place since March 2018.
- *Financial Reporting* – The Clerk-Treasurer will provide a printout of all annual reporting data input into the Gateway system to the Mayor for his review before final authorization, which will provide another layer of oversight.

Anticipated Completion Date: **February, 2019.**


(Signature)

Clerk-Treasurer
(Title)



City Clerk Treasurer

132 S. Main Street
Batesville, IN 47006
812-933-6101

CORRECTIVE ACTION PLAN

FINDING 2016-002

Contact Person Responsible for Corrective Action: **Paul Gates – Clerk-Treasurer**
Contact Phone Number: **812-933-6101**

Views of Responsible Official:

- The Clerk-Treasurer didn't understand that the USDA loans for the Stormwater and Sidewalk projects were considered as "Grants" and needed to be included in the SEFA information.

Description of Corrective Action Plan:

- The Clerk-Treasurer will establish a policy to review all future federally related funding (with SBOA officials if necessary) and determine if inclusion in the SEFA schedule is required.

Anticipated Completion Date: **January, 2019.**


(Signature)

CLERK-TREASURER
(Title)

CITY OF BATESVILLE
EXIT CONFERENCE

The contents of this report were discussed on December 12, 2018, with Paul J. Gates, Clerk-Treasurer; Michele Balsler, Deputy Clerk-Treasurer; Michael A. Bettice, Mayor and President of the Board of Public Works and Safety; Douglas L. Browne, Gas and Water Utility Comptroller; John Irrgang, Common Council member; and Tracy Rohlfing, Common Council member.