

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, 2018 to December 31, 2018



FILED
07/23/2019

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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	01-01-18 to 12-31-19
President Pro Tempore of the Common Council	David Alcorn	01-01-18 to 12-31-19
Utility Office Manager	Mark Hill Rob Holt	01-01-18 to 03-26-18 03-27-18 to 12-31-19



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, 2018 to December 31, 2018. 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

June 27, 2019

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CLERK-TREASURER
CITY OF MADISON

CLERK-TREASURER
CITY OF MADISON
FEDERAL FINDINGS

FINDING 2018-001

Subject: Internal Controls - Receipts
Audit Finding: Material Weakness

Condition

There were deficiencies in the internal control system of the City related to financial transactions and reporting. 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 was also responsible for performing monthly bank reconciliations. There was no oversight or review over the receipts issued to ensure that all receipt activity was accurately recorded and deposited.

Context

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

Cause

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

Effect

The failure to establish a system of internal 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 over receipts.

CLERK-TREASURER
CITY OF MADISON
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

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

FINDING 2018-002

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).

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 contained the following errors:

1. The Clean Water State Revolving Fund Cluster expenditures were understated by \$6,348,682.
2. The Highway Planning and Construction Cluster expenditures of \$8,185 were not included on the SEFA.
3. Not all CFDA numbers, program names, project names, and identifying numbers were correct or listed.

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:

"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 MADISON
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. . . .

- Accurate and timely recording of transactions. . . ."

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

The City's management had not established a system of internal control that would have ensured proper reporting of the SEFA.

CLERK-TREASURER
CITY OF MADISON
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'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.

Rick Berry

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City of Madison

CORRECTIVE ACTION PLAN

FINDING 2018-001-Internal Controls-Receipts

Contact Person Responsible for Corrective Action: Rick Berry

Contact Phone Number: 812-265-8316

Views of Responsible Official: The Clerk Treasurer concurs with the finding.

Description of Corrective Action Plan: The Clerk Treasurer has in the past, made all bank deposits and will continue to do so. The Clerk Treasurer will review and sign off on bank reconciliations. The Clerk Treasurer will compare deposit slips with the receipts to make sure they agree.

Anticipated Completion Date: January 1, 2019

FINDING 2018-002-Preparation of the Schedule of Expenditures of Federal Awards

Contact Person Responsible for Corrective Action: Rick Berry

Contact Phone Number: 812-265-8316

Views of Responsible Official: The Clerk Treasurer concurs with the finding.

Description of Corrective Action Plan: At the end of 2018 the City began getting review from the City Council to approve all grants by resolution. The City keeps the documentation and tracks 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.

Anticipated Completion Date: January 1, 2019

Rick Berry

Signature

Clerk Treasurer

Title

6/19/2019

Date

CLERK-TREASURER
CITY OF MADISON
EXIT CONFERENCE

The contents of this report were discussed on June 27, 2019, with Damon L. Welch, Mayor; Rick Berry, Clerk-Treasurer; D. Jan Vetrhus, Common Council member; Daniel Dattilo, Common Council member; Laura Hodges, Common Council member; Andrew Forrester, Community Relations Director; Lacey Gammons, Deputy Clerk-Treasurer; and Barb Manaugh, Deputy Clerk-Treasurer.