

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF ELKHART

ELKHART COUNTY, INDIANA

January 1, 2018 to December 31, 2018



**FILED**  
09/10/2019



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#### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Rita Huffman	01-01-18 to 12-31-19
Mayor	Timothy Neese	01-01-16 to 12-31-19
President of the Board of Public Works	Michael C. Machlan	01-01-18 to 12-31-19
President of the Common Council	Brian Dickerson	01-01-18 to 12-31-19



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF ELKHART, ELKHART COUNTY, INDIANA

This report is supplemental to our audit report of the City of Elkhart (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 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. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

The Federal Finding, identified in the above referenced audit report, is 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 Finding 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

August 22, 2019

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CITY CONTROLLER  
CITY OF ELKHART

CITY CONTROLLER  
CITY OF ELKHART  
FEDERAL FINDING

***FINDING 2018-001***

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

*Condition and Context*

There were several 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 receipts.

*Cash and Investments*

While the City Controller's (Controller) month-end bank reconciliations were approved by the appropriate officials, the review was inadequate to ensure that the Controller's combined bank balance agreed to the Controller's combined fund balance. Immaterial variances were noted on each monthly-reviewed bank reconciliation.

*Receipts*

The City routinely practiced "backdating" when posting receipt transactions. Some transactions tested were backdated over four months. For example, a tax distribution from the State of Indiana received in May 2018 was posted in August 2018, but backdated to May 2018. This practice can adversely affect a bank reconciliation if not properly accounted for.

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.

CITY CONTROLLER  
CITY OF ELKHART  
FEDERAL FINDING  
(Continued)

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. . . .

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. . . ."

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."

Receipts shall be issued and recorded 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 controls related to financial transactions and reporting.

*Effect*

The failure to establish a system of internal controls enabled material misstatements or irregularities to remain undetected.

*Recommendation*

We recommended that the County 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.

The Honorable  
Timothy Neese  
Mayor

Rita Huffman  
City Controller



City Controller's Office  
229 S. Second St.  
Elkhart, IN 46516

574.294.5471  
Fax: 574.294.8491

## CORRECTIVE ACTION PLAN

### **Section II-Financial Statement Findings**

Contact Person Responsible for Corrective Action: Rita Huffman, Jamie Arce

Contact Phone Number: 574-294-5471

Views of Responsible Official: The City concurs with the finding.

Description of Corrective Action Plan: Cash Receipts

1. The City has policies and procedures in place and has made improvements to these. This includes sending daily ACH reports to the departments concerned for conformation and approval of the amounts to be posted and the addition of staff to the email list for County & State distributions to ensure that these are received and posted in a timely manner.

Anticipated Completion Date: Immediately.

  
\_\_\_\_\_  
(Signature)  
  
\_\_\_\_\_  
(Title)  
  
\_\_\_\_\_  
(Date)

CITY CONTROLLER  
CITY OF ELKHART  
EXIT CONFERENCE

The contents of this report were discussed on August 22, 2019, with Rita Huffman, City Controller; Timothy Neese, Mayor; Carlos J. Arce, Deputy City Controller; Erin Langham, Utility Finance Manager; Arvis Dawson, Board of Public Works member; and Bradley Tracy, Chief of Staff.

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DEPARTMENT OF LERNER THEATRE  
CITY OF ELKHART

DEPARTMENT OF LERNER THEATRE  
CITY OF ELKHART  
AUDIT RESULTS AND COMMENTS

**FEES**

Of five Elkhart Festivals, Inc. events tested from 2016 through 2018 that were held at the Lerner Theatre, two events promoted by Elkhart Festivals, Inc. in 2016 and 2017 were charged a lower box office rate than the rate approved by the Lerner Theatre Board. This resulted in reduced revenue of \$3,824. Additionally, the two events tested in 2016 and 2017 understated total charges of theater lighting, sound, and projection for reduced revenue of \$2,372.

Fees can only be collected as specifically authorized by law or properly authorized ordinance/resolution. When a fee is NOT specified by law, but instead through the use of an ordinance/resolution, sufficient authoritative reference should be maintained. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**CONTRACTUAL SERVICES**

Of five Elkhart Festivals, Inc. events tested from 2016 through 2018, two events promoted by Elkhart Festivals, Inc. in 2016 and 2017 were charged a lower box office rate than allowed in the approved fee schedule. No contracts for these two events were presented to the Lerner Theatre Board or retained for audit. Furthermore, another event held in 2017 and promoted by Elkhart Festivals, Inc. had invoiced staff, lighting, sound, and labor costs of \$5,158 with no supporting documentation to verify compliance with approved rate schedules.

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

DEPARTMENT OF LERNER THEATRE  
CITY OF ELKHART  
AUDIT RESULTS AND COMMENTS  
(Continued)

**INTERNAL CONTROLS**

There were deficiencies in the internal control system of the Department of Lerner Theatre related to the billing of events held at the Lerner Theatre. The former General Manager of the Lerner Theatre was solely responsible for contracting events, billing events, and approving bills for the Lerner Theatre. There was no oversight by the Lerner Theatre Board of these events.

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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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. . . ."

DEPARTMENT OF LERNER THEATRE  
CITY OF ELKHART  
EXIT CONFERENCE

The contents of this report were discussed on August 22, 2019, with Rita Huffman, City Controller; Timothy Neese, Mayor; Carlos J. Arce, Deputy City Controller; Erin Langham, Utility Finance Manager; Arvis Dawson, Board of Public Works member; Bradley Tracy, Chief of Staff; Michelle Frank, Lerner Theatre General Manager; Gary D. Boyn, President of the Lerner Theatre Board; Rex Martin, Lerner Theatre Board member; and Dallas W. Bergl, Lerner Theatre Board member.