

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF GOSHEN

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>
Clerk-Treasurer	Angela McKee	01-01-17 to 12-31-19
Mayor	Jeremy P. Stutsman	01-01-16 to 12-31-19
President of the Board of Public Works	Jeremy P. Stutsman	01-01-16 to 12-31-19
President of the Common Council	Brett Weddell	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 GOSHEN, ELKHART COUNTY, INDIANA

This report is supplemental to our audit report of the City of Goshen (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 and should be viewed in conjunction with the Audit Result and Comment 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 Result and Comment contained herein describes the identified reportable instance 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 Result and Comment, 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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CLERK-TREASURER
CITY OF GOSHEN

CLERK-TREASURER
CITY OF GOSHEN
FEDERAL FINDINGS

FINDING 2018-001

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

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2017-001.

Condition and Context

There were several deficiencies in the internal control system of the City related to financial transactions and reporting.

1. Lack of Segregation of Duties: The City had not separated incompatible activities related to financial close and reporting. The Clerk-Treasurer submitted the financial information to Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Annual Financial Report. The Clerk-Treasurer initiated transmission of the financial statement information into Gateway without any oversight, review, approval, or other compensating control to ensure the accuracy of the information submitted. Control activities should be in place to reduce the risks of errors in financial reporting.
2. The City Court transactions in the amount of \$612,589 for receipts and \$791,426 for disbursements were not included in the City's Annual Financial Report. The omitted amounts were not material to the financial statement. Adjustments were proposed, accepted by the City, and made to the financial statement.

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 GOSHEN
FEDERAL FINDINGS
(Continued)

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

Cause

Management of the City had not established a proper system of internal control that would have ensured proper financial reporting.

Effect

The failure to establish a system of internal controls could enable material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the City at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls would prevent, or detect and correct, material misstatements in a timely manner.

Recommendation

We recommended that the City establish a system of internal controls related to financial reporting.

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

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2017-002.

Condition and Context

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).

Due to the lack of effective controls, the following errors resulted in the overstatement of federal expenditures on the SEFA by \$433,437:

1. The Community Crossroads Grant, in the amount of \$384,394, was included on the SEFA, but was not a federal award.
2. The Live Work Play Capacity program, in the amount of \$49,043, was included on the SEFA, but was not a federal award.

CLERK-TREASURER
CITY OF GOSHEN
FEDERAL FINDINGS
(Continued)

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. . . .

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 award years, the auditee may list the amount of Federal awards expended for each 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.

CLERK-TREASURER
CITY OF GOSHEN
FEDERAL FINDINGS
(Continued)

- (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 ensure proper reporting of the SEFA.

Effect

Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Condition and Context*.

Recommendation

We recommended that the City establish a system of internal controls to ensure that federal expenditures were 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.



Angie McKee, City Clerk-Treasurer
CITY OF GOSHEN
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CORRECTIVE ACTION PLAN

FINDING 2018-001

Contact Person Responsible for Corrective Action: Angie McKee
Contact Phone Number: 574-533-8625

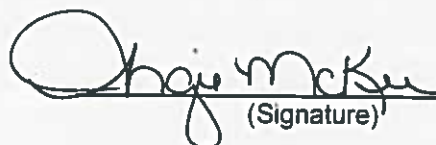
Views of Responsible Official: We concur with the findings.

Description of Corrective Action Plan:

1. Lack of Segregation of Duties
 - a. Information for the Annual Financial Report will be entered into Gateway by the Clerk-Treasurer and Bakertilly. Once the information has been entered, the First Deputy will review all documentation and Gateway information for accuracy. Once this has been done, then the Clerk-Treasurer will submit the final report. The supporting documents will be put into a folder for the auditors to review.

2. City Court Transactions
 - a. This was an oversight by the Clerk-Treasurer that this did not get entered into Gateway. This has now be rectified and the Clerk-Treasurer will be receiving monthly reports and then a year-end report from the First Deputy of City Courts so that the information can be entered into the annual financial report.

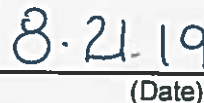
Anticipated Completion Date: Internal controls is an ongoing process and as such there is not a stated completion date. However, the specific items listed above have been added to the work process for year-end. In addition, effective with the 2019 Annual Financial Report, the Clerk-Treasurer will be requesting from Bakertilly that the year be closed before the Annual Financial Report is due on March 1, 2020.



(Signature)



(Title)



(Date)



Angie McKee, City Clerk-Treasurer
CITY OF GOSHEN

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CORRECTIVE ACTION PLAN

FINDING 2018-002

Contact Person Responsible for Corrective Action: Angie McKee

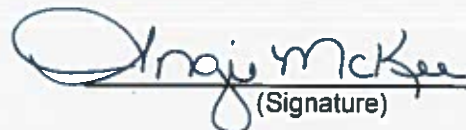
Contact Phone Number: 574-533-8625

Views of Responsible Official: We concur with the findings, but feel that we did not have ample time to completely correct the previous findings since the last audit was just completed six (6) months before the start of this one.

Description of Corrective Action Plan:

1. Preparation of Schedule of Expenditures of Federal Audits
 - a. The City wishes to eliminate such errors in the future. The First Deputy is working on gathering the proper paperwork for all of the grants that the City has. This process began soon after the last audit but is still a work in progress. Also, the City is looking to hire a grant writer that will not only write new grants but track and maintain all current grants that the City has.

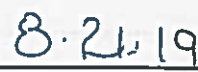
Anticipated Completion Date: We are anticipating a completion date sometime in 2019. However, for the time being it is a work in progress until we get all of the necessary documentation from department heads regarding new grants and any old grants that have missing paperwork. Also, the potential to hire a grant writer would not be happening until late 2019 or early 2020.



(Signature)



(Title)



(Date)

CLERK-TREASURER
CITY OF GOSHEN
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCES

The same comment also appeared in two prior Reports, B51828 and B51830.

The Health Insurance Fund and Debt Service fund were overdrawn at December 31, 2018, in the amount of \$134,120 and \$113,503, respectively.

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)



Angie McKee, City Clerk-Treasurer

CITY OF GOSHEN

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September 3, 2019

State Board of Accounts
302 West Washington Street Room E418
Indianapolis, IN 46204-2765

To Whom It May Concern:

This is an official response to the overdrawn fund.

The premiums charged to departments for department employees covered by the self-insurance need to be adjusted from time to time to make sure there are enough dollars flowing into the self-insurance fund. A negative cash balance is a signal that interfund charges may need addressed, or that actual expenses exceeded estimates or a combination of the two.

Regards,

A handwritten signature in blue ink that reads "Angie McKee". The signature is fluid and cursive, with a large initial "A" and "M".

Angie McKee, IAMC
Clerk-Treasurer
City of Goshen
angiemckee@goshencity.com

CLERK-TREASURER
CITY OF GOSHEN
EXIT CONFERENCE

The contents of this report were discussed on August 22, 2019, with Jeremy P. Stutsman, Mayor; Angela McKee, Clerk-Treasurer; Brett Weddell, President of the Common Council; Adam Scharf, Common Council member; and Christina Cordell, First Deputy Clerk-Treasurer.