

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF NAPPANEE

ELKHART COUNTY, INDIANA

January 1, 2019 to December 31, 2019



FILED
09/01/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kathy L. Brown Jeffrey P. Knight	07-01-19 to 12-31-19 01-01-20 to 12-31-20
Mayor	Philip W. Jenkins	01-01-19 to 12-31-20
President of the Board of Public Works and Safety	Philip W. Jenkins	01-01-19 to 12-31-20
President of the Common Council	Philip W. Jenkins	01-01-19 to 12-31-20
Superintendent of Utilities	Gale Gerber	01-01-19 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

This report is supplemental to our audit report of the City of Nappanee (City), for the period from January 1, 2019 to December 31, 2019. 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 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/.

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 Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

August 19, 2020

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CLERK-TREASURER
CITY OF NAPPANEE

CLERK-TREASURER
CITY OF NAPPANEE
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Report B53409, entitled *FINDING 2018-001*.

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 established effective internal controls over activities related to the payroll funds activities.

The City used a service organization to process payroll during audit period. Receipts and disbursements posted to the City's Payroll fund were duplicated from other holding payroll accounts. Furthermore, entries made into the City's Payroll fund did not correlate with the payroll processing reports from the service organization. The amounts of the receipts and disbursements misstatements noted in our testing of payroll processing reports prepared by the service organization and traced to the Payroll fund, when projected to the population, were not material due to the fact that the City corrected the issue in August 2019.

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. . . ."

CLERK-TREASURER
CITY OF NAPPANEE
AUDIT RESULTS AND COMMENTS
(Continued)

Posting to appropriation accounts is to be made from the individual payroll schedules and vouchers for the gross amount of the pay. Posting to the respective fund accounts is to be made from the regular city or town warrants issued for transfer of funds to the payroll fund. The totals of amounts posted to the appropriations accounts and the respective fund accounts must agree. Posting to the Payroll fund is to be made from the payroll warrants. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

MVH RESTRICTED RECEIPTS

Condition and Context

The City had established the MHV Restricted fund, but did not allocate or deposit at least 50 percent of the distribution from the State Motor Vehicle Highway Account (MVH) at the time of the receipt into the fund. In January of 2020, the City began properly receipting into the MVH Restricted fund.

Criteria

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted. (State Examiner Directive 2018-2)

OVERDRAWN CASH BALANCES

Condition and Context

The financial statement presented for audit included the following funds with overdrawn cash balances:

Fund	Amount Overdrawn
PAYROLL FUND - EMP. NET	\$ 4,075
PAYROLL FUND - GROS.INC.TAX	105,464
PAYROLL FUND - INPRS	85,199
PAYROLL FUND - POL.PEN. NP	59,377
PAYROLL FUND - VOL. DENTAL	2,446
PAYROLL FUND - UNIM	6,527
PAYROLL FUND - AMER. FIDELITY	8,714
PAYROLL FUND - TEXAS LIFE INS	2,865

Criteria

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)

CLERK-TREASURER
CITY OF NAPPANEE
EXIT CONFERENCE

The contents of this report were discussed on August 19, 2020, with Jeffrey P. Knight, Clerk-Treasurer; Philip W. Jenkins, Mayor; Denny Miller, Common Council member; and Todd Nunemaker, Common Council member.