

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF NAPPANEE

ELKHART COUNTY, INDIANA

January 1, 2019 to December 31, 2019



**FILED**  
09/24/2020



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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



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the City of Nappanee (City), for the year ended December 31, 2019, and the related notes to the financial statement, which collectively comprise the City's financial statement and have issued our report thereon dated August 19, 2020, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-002, that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*  
(Continued)

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2019-002.

***City of Nappanee's Response to Findings***

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

August 19, 2020



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

**Report on Compliance for the Major Federal Program**

We have audited the City of Nappanee's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2019. The City's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on the Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE  
(Continued)

**Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2019-003, that we consider to be material weaknesses.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE  
(Continued)

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statement of the City, as of and for the year ended December 31, 2019, and the related notes to the financial statement. We issued our report thereon dated August 19, 2020, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with U.S. Generally Accepted Accounting Principles, and an unmodified opinion was issued regarding the presentation in accordance with the Regulatory Basis of Accounting. Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.

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

August 19, 2020

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the City. The schedule and notes are presented as intended by the City.

CITY OF NAPPANEE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2019

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Department of Agriculture</u>					
Water and Waste Disposal Systems for Rural Communities USDA	Direct Grant	10.760	92-01, 00-02, 92-03, 00-04, 92-05	\$ -	\$ 2,060,312
Total - Department of Agriculture				-	2,060,312
<u>Department of Justice</u>					
Edward Byrne Memorial Justice Assistance Grant Program	Indiana Criminal Justice Institute	16.738	03217DJBX018503	-	117,359
Total - Department of Justice				-	117,359
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster Highway Planning and Construction	Indiana Department of Transportation	20.205	Des. 1702862	-	82,362
Total - Highway Planning and Construction Cluster				-	82,362
Highway Safety Cluster State and Community Highway Safety	Elkhart County	20.600	D3-15-8998	-	2,028
Total - Highway Safety Cluster				-	2,028
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	Elkhart County	20.608	5843	-	880
Total - Department of Transportation				-	85,270
Total federal awards expended				\$ -	\$ 2,262,941

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF NAPPANEE  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Note 1. Summary of Significant Accounting Policies**

*A. Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2019. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200. *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the City, it is not intended to and does not present the financial position of the City.

*B. Other Significant Accounting Policies*

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

**Note 2. Indirect Cost Rate**

The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF NAPPANEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I - Summary of Auditor's Results**

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Program and type of auditor's report issued on compliance for it:

CFDA Number	Name of Federal Program or Cluster	Opinion Issued
10.760	Water and Waste Disposal Systems for Rural Communities	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? no

**Section II - Financial Statement Findings**

**FINDING 2019-001**

Subject: Financial Transactions and Reporting  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2018-001.

*Condition and Context*

There was a deficiency 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 payroll fund activity. One employee posted the payroll transactions from the service organization's reports to the City's payroll fund and other payroll withholding accounts without any oversight or review.

CITY OF NAPPANEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The lack of controls was a systemic issue, which occurred until 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:

"The control environment is the basic commonality for all and comprises the integrity and ethical values of the political subdivision established by the oversight body and management. The standards, processes, and structures which form the control environment pervasively impact the overall system of internal control. The oversight body and management convey leadership expectations, and overall tone which are reinforced by all officials and management throughout the various offices and departments. The control environment also contains the overall accountability structure for all employees through performance and reward measures. Within this structure, leadership demonstrates commitment to the political subdivision by having a process for attracting, developing, and retaining competent individuals. This component is static in that its underpinnings do not generally change with a given objective. . . .

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. . . ."

*Cause*

Management of the City had not established a proper system of internal controls over financial transactions and reporting.

*Effect*

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

*Views of Responsible Officials*

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

CITY OF NAPPANEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

***FINDING 2019-002***

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 2018-002.

*Condition and Context*

The City did not have a proper system of internal controls in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

The City did not properly review the federal award information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the SEFA. The City had a review process in place; however, it was not effective at ensuring the federal grant information was accurately reported.

Due to the lack of effective internal controls, the SEFA presented for audit contained the following errors:

1. The Water and Waste Disposal Systems for Rural Communities total federal awards expended and amounts passed through to subrecipient were overstated by \$16,452,000 and \$2,060,312, respectively.
2. The Edward Byrne Memorial Justice Assistance Grant Program was omitted from the SEFA, resulting in an understatement of \$117,359.
3. The Highway Planning and Construction Cluster was omitted from the SEFA, resulting in an understatement of \$82,362.
4. The State and Community Highway Safety grant was omitted from the SEFA, resulting in an understatement of \$2,028.
5. The Minimum Penalties for Repeat Offenders for Driving While Intoxicated grant was omitted from the SEFA, resulting in an understatement of \$880.

Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

*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:

CITY OF NAPPANEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

"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 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

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:

CITY OF NAPPANEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- (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 controls that would have ensured proper reporting of the SEFA.

*Effect*

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

*Views of Responsible Officials*

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

**Section III - Federal Award Findings and Questioned Costs**

**FINDING 2019-003**

Subject: Water and Waste Disposal Systems for Rural Communities - Internal Controls

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities

CFDA Number: 10.760

Federal Award Numbers and Years (or Other Identifying Numbers): 92-01, 00-02, 92-03, 00-04, 92-05

Compliance Requirements: Procurement and Suspension and Debarment, Reporting

Audit Finding: Material Weakness

CITY OF NAPPANEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Repeat Finding*

This is a repeat finding related to suspension and debarment from the immediately prior audit report. The prior audit finding number was 2018-003.

*Condition and Context*

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Reporting and Procurement and Suspension and Debarment compliance requirements.

*Suspension and Debarment*

The City relied on the contracted engineer to ensure that suspension and debarment requirements were met without an oversight or approval process.

*Reporting*

The City relied on an accounting firm to ensure that reporting requirements were met without an oversight or approval process.

The lack of internal controls was a systemic issue, which occurred throughout the audit period.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

*Cause*

The City's management had not implemented a system of internal controls to ensure compliance with the grant agreement and the Reporting and Procurement and Suspension and Debarment compliance requirements.

*Effect*

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirements listed above. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program, which could have resulted in the loss of federal funds to the City.

CITY OF NAPPANEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish a system of internal controls, including segregation of duties, related to the grant agreement and compliance requirements listed above. An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

*Views of Responsible Officials*

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

#### AUDITEE-PREPARED DOCUMENTS

The subsequent documents were provided by management of the City. The documents are presented as intended by the City.



Jeff Knight  
Clerk - Treasurer  
jknight@nappanee.org

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### FINDING 2018-001

Fiscal year in which the finding initially occurred: 2017

Contact Person Responsible for Corrective Action: Jeff Knight, Clerk-Treasurer

Contact Phone Number: (574) 773-2112

#### Receipts

The Internal Control Manual was updated in the late stages of 2019 formalizing the procedure for dual control oversight, review, and/or approval. Dual controls have been instituted which reflects two independent stamps on the Journal of Entries Revenue Report prior to the deposit being taken the bank.

#### Disbursements

At this time, all invoices related to CSO are submitted to the BOW, sometimes more than once depending on the timing of the meeting. Historically, the representatives of the City of Nappanee, Commonwealth Engineering, and the USDA would have a project progress update meeting the last Wednesday of the month. Those meetings used to be in person prior to COVID. Form 440-11 would be submitted to the USDA representative showing what invoices had been received for payment either via the grant/loan dollars or paid for by the City out of the project account established. After that, the APV's would be generated and the APV Register submitted to the BOW's for approval.

Because of COVID, the meetings in person no longer take place. With the uncertainty of everyone's schedule, the invoices that are received (early in the month or after the last approval) may be sent to the BOW with the expectation that any approval from the BOW will be contingent upon approval by the USDA representative. This allows the expediting of the invoice payment. Prior to invoice payment, Form 440-11 Estimate of Funds Needed is filled out and sent to the USDA representative along with copies of the invoices for their approval stamp.

*Embrace the Place*

300 West Lincoln Street • P.O. Box 29 • Nappanee, IN 46550-0029  
574.773.2112 • [www.nappanee.org](http://www.nappanee.org)



Jeff Knight  
Clerk - Treasurer  
jknight@nappanee.org

Once this has been received back from the USDA representative, then a formal submission of the APV Register for the CSO project is submitted to the BOW.

### Payroll Fund Activity

At the beginning of 2017, the City shifted to utilizing ADP for its payroll process at which time the system was not set up correctly which translated into various significant issues. The system was never run parallel to make certain all potential issues were resolved prior to cutting over. The 1<sup>st</sup> Deputy developed a detailed spreadsheet to balance payroll each pay period and the City has contracted with Baker Tilly to do a payroll review looking back to 2017 to see if there are any procedural or accounting corrections that need to be made. The payroll review is in process at this time.

*Embrace the Place*

300 West Lincoln Street • P.O. Box 29 • Nappanee, IN 46550-0029  
574.773.2112 • [www.nappanee.org](http://www.nappanee.org)



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Clerk - Treasurer  
jknight@nappanee.org

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### FINDING 2018-002

Fiscal year in which the finding initially occurred: 2016

Contact Person Responsible for Corrective Action: Jeff Knight, Clerk-Treasurer

Contact Phone Number: (574) 773-2112

### PREPARATION OF THE SEFA

In order to prepare the SEFA for 2019, the Clerk-Treasurer and Mayor reviewed all the Form 440-11 reports and IN-Guide 3 Project Expenditure Reports pertaining to the CSO project for 2019. After review, a spreadsheet was put together to come up with a total for the year. The Clerk-Treasurer input the numbers into the SEFA. The Clerk-Treasurer also sought input from the USDA representative in order to make any corrections deemed necessary. While not directly signed off on by the USDA, emails with their input and clarifications were saved for future reference.

It has been noted on various documents that these were considered funds passed through to subrecipients. In my conversations with the USDA after taking office on 1/1/20, the representative noted that these are direct funds not pass through. Thus the attempted correction of the SEFA to reflect "direct" instead of "pass through".

Going forward, we will maintain the internal control of reviewing the SEFA.

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### FINDING 2018-003

Fiscal year in which the finding initially occurred: 2017

Contact Person Responsible for Corrective Action: Jeff Knight, Clerk-Treasurer

Contact Phone Number: (574) 773-2112

### WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES – SUSPENSION AND DEBARMENT

As of January 1, 2020, these changes/corrections have been made. The City is registered with SAM and will utilize their system for future background checks/reviews prior to utilizing vendors/contractors relating to Federal grant/loan projects.

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### FINDING 2018-004

Fiscal year in which the finding initially occurred: 2018  
Contact Person Responsible for Corrective Action: Jeff Knight, Clerk-Treasurer  
Contact Phone Number: (574) 773-2112

### WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES - REPORTING

Because of the nuances of being on a cash basis of accounting and the reporting for the USDA on an accrual basis, the City of Nappanee has contracted with Baker Tilly to manage the reporting process. Reporting for 2019 (finished in the first half of 2020) was completed by Baker Tilly on behalf of the City. To the best of my knowledge, this relationship will continue into the foreseeable future. All reporting prior to this last report was done by the previous Clerk-Treasurer.

Going forward, we will maintain the internal control of reviewing the work completed by Baker-Tilly on reporting for CFDA 10.760.

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## CORRECTIVE ACTION PLAN

### ***FINDING 2019-001***

Contact Person Responsible for Corrective Action: Jeff Knight, Clerk-Treasurer  
Contact Phone Number: (574) 773-2112

Views of Responsible Official: I concur with the Audit findings.

#### Description of Corrective Action Plan:

At the beginning of 2017, the City shifted to utilizing ADP for its payroll process at which time the system was not set up correctly which translated into various significant issues. The system was never run parallel to make certain all potential issues were resolved prior to cutting over. The 1<sup>st</sup> Deputy has developed a detailed spreadsheet to balance payroll each pay period and the City has contracted with Baker Tilly to do a payroll review looking back to 2017 to see if there are any procedural or accounting corrections that need to be made. The payroll review is currently in process. Corrective measures are currently in place. Additional implementation of processes to streamline payroll are subject to Baker Tilly's review.

Anticipated Completion Date: Immediate with additional streamlining of process to follow during 2020.

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## CORRECTIVE ACTION PLAN

### **FINDING 2019-002**

Contact Person Responsible for Corrective Action: Jeff Knight, Clerk-Treasurer  
Contact Phone Number: (574) 773-2112

Views of Responsible Official: I concur with the Audit findings.

#### Description of Corrective Action Plan:

The Clerk-Treasurer will obtain further clarification on how to best fill out the SEFA report. The correction should have an immediate impact on future reporting. The Clerk-Treasurer has also received direction as it pertains to the receipt of grants by various departments and determining whether those dollars constitute federal dollars. The Clerk-Treasurer will communicate with the various department heads to ensure that the federal awards are reported correctly.

As it pertains to Internal Controls, going forward, the Clerk-Treasurer will prepare the SEFA. A further mechanism will be established whereby either the Mayor will review and approve the SEFA or a submission to the BOW will be made to allow them to review the documentation and provide approval.

Anticipated Completion Date: The process will be determined and implemented prior to the next SEFA submission.

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## CORRECTIVE ACTION PLAN

### **FINDING 2019-003**

Contact Person Responsible for Corrective Action: Jeff Knight, Clerk-Treasurer  
Contact Phone Number: (574) 773-2112

Views of Responsible Official: I concur with the Audit findings.

#### Description of Corrective Action Plan:

There are two Internal Control issues that will be addressed. Firstly, in situations where the contracted engineer pulls the SAM reports, the Clerk-Treasurer will create a tracking spreadsheet that reflects who the vendors/contractors are and obtain copies of the SAM reports for the internal file. This will allow the Clerk-Treasurer to be able to sign-off that the Suspension and Debarment requirements have been addressed. Also, the Clerk-Treasurer has registered the City so that SAM reports may be obtained in lieu of the contracted engineer being involved. Should that be the case, the Clerk-Treasurer will create a spreadsheet with the various vendors/contractors involved being listed, pull the reports, and then submit the spreadsheet and reports to the Mayor for his sign-off.

The second Internal Control issue pertains to the lack of oversight of Baker Tilly once they had modified the report from a cash basis report to an accrual report. Upon completion of the report by Baker Tilly, the Clerk-Treasurer will review and approve the report. As mentioned in Finding 2019-002, an alternate method may be that the finalized report will be submitted to the Board of Works by the Baker Tilly representative for their review and approval prior to submission.

Anticipated Completion Date: These corrections will be implemented immediately.

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## OTHER REPORTS

In addition to this report, other reports may have been issued for the City. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.