

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF NOBLESVILLE

HAMILTON COUNTY, INDIANA

January 1, 2019 to December 31, 2019



FILED
11/30/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Mayor	John Ditslear Chris Jensen	01-01-19 to 12-31-19 01-01-20 to 12-31-20
City Controller	Jeffrey L. Spalding	01-01-19 to 12-31-20
President of the Common Council	Brian Ayer Wil Hampton	01-01-19 to 12-31-19 01-01-20 to 12-31-20
President of the Board of Public Works and Safety	John Ditslear Jack Martin	01-01-19 to 12-31-19 01-01-20 to 12-31-20
President of the Redevelopment Authority	Mike Davis John Elmer	01-01-19 to 12-31-19 01-01-20 to 12-31-20
President of the Redevelopment Commission	Mike Field Jack Martin	01-01-19 to 12-31-19 01-01-20 to 12-31-20
Utility Director	Ray Thompson	01-01-19 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF NOBLESVILLE, HAMILTON COUNTY, INDIANA

This report is supplemental to our audit report of the City of Noblesville (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

November 17, 2020

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CITY CONTROLLER
CITY OF NOBLESVILLE

CITY CONTROLLER
CITY OF NOBLESVILLE
AUDIT RESULTS AND COMMENTS

MOTOR VEHICLE HIGHWAY RESTRICTED FUND

Condition and Context

The City did not establish a new sub-fund or allocate 50 percent of the distributions from the State Motor Vehicle Highway (MVH) Account to MVH Restricted during the audit period, and because of that, it was not possible to determine if the City used at least 50 percent for the purposes specified in Indiana Code 8-14-1-5(c).

Criteria

The purpose of this Directive is to authorize and require . . . cities, and towns that receive distributions from the State Motor Vehicle Highway Account to create a new sub-fund within the MVH Fund to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018. . . .

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)

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

TRAINING AND CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

No documentation was provided that all required personnel completed training on internal control standards. Therefore, the City's certification on the Annual Financial Report that training on internal control standards was received by personnel also could not be verified.

CITY CONTROLLER
CITY OF NOBLESVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Indiana Code 5-11-1-27 states in part:

". . . (h) After June 30, 2016, the fiscal officer of a political subdivision shall certify in writing that: . . .

- (2) personnel, who are not otherwise on leave status, have received training as required by subsection (g)(2).

The certification shall be filed with the state board of accounts at the same time as the annual financial report required by section 4(a) of this chapter is filed. The certification shall be filed electronically in the manner prescribed under [IC 5-14-3.8-7](#).

(i) After June 30, 2016, if the state board of accounts finds during an audit of a political subdivision that: . . .

- (2) personnel of the political subdivision have not received the training required under subsection (g)(2); the state board of accounts shall issue a comment in its examination report for the political subdivision. . . ."

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](#)."

Personnel training . . . shall be evidenced through a certification process. The certification form that is to be used and retained . . . is found in the Appendix of this manual. (Uniform Internal Control Standards for Indiana Political Subdivisions, page 4)



2019 Audit Results and Comments – Official Response

November 30, 2020

State Board of Accounts
302 Washington St., Room E418,
Indianapolis, Indiana 46204-2765

Below I have provided the City's official response to the "Audit Results and Comments" presented by your audit team at the 2019 Audit Exit Conference held on November 17, 2020.

Motor Vehicle Highway Restricted Fund

SBOA Comment

The City did not establish a new sub-fund or allocate 50% of the distributions from the State Motor Vehicle Highway (MVH) Account to MVH Restricted during the audit period, and because of that it was not possible to determine if the City used at least 50 percent for the purposes specified in Indiana Code 8-14-1-5(c).

City Response

The City believes it has met its requirements under IC 8-14-1-5(c) and has designed an accounting and reporting system that is consistent with the spirit and intent of the law that requires certain MVH revenue be spent on construction, reconstruction, and preservation of local roads and streets. However, in the interest of avoiding a proliferation of new funds, the City has done so in a manner that differs from that defined in the State Examiner's Directive on this matter.

The City takes seriously both: a) its obligation to comply with legal requirements; and b) the quality of its financial recordkeeping. For both legal and practical purposes, there exists a complex array of required funds that City's must establish to function effectively and transparently. While IC 8-14-1-5(c) does not specifically stipulate the creation of a new fund, we understand the State Examiner's Directive attempts to implement the law in a practical way by directing the creation of a separate, new MVH Restricted sub-fund.

From my perspective, the approach the City has taken is more efficient and it is more closely aligned with our pre-established, and recently enhanced, accounting practices. Our approach entails, the establishment of a unique revenue code and a new department/sub-fund code that have been integrated with our MVH Fund.

The unique revenue code is solely for tracking the 50% MVH Restricted share of the City's distributions from the State MVH Account. In so doing, we provide a clear record, for policymakers and auditors to review, of how much of the spending from the MVH Fund must be allocated to the purposes defined in IC 8-14-1-5(c). The new department/sub-fund code is solely for tracking all costs (i.e. expenditures and encumbrances) for Street Improvement & Rehabilitation activities. All expenditures from the MVH Fund that

are allowable under IC 8-14-1-5(c) are posted to that department/sub-fund code. By comparing the costs posted to the Street Improvement & Rehabilitation department code to the receipts posted to the 50% MVH Restricted share revenue code, a verification of whether or not the City has met requirements under IC 8-14-1-5(c) can be easily ascertained.

See below the relevant information, for 2019, as recorded in City's accounting system:

	Fund Code/Name	Dept Code/Name	Object Code/Name	Amount
Revenue	106 MVH	000 Non-Dept	400.000 State MVH Rev Share - Unallocated	\$1,118,401
Revenue	106 MVH	000 Non-Dept	401.000 State MVH Rev Share - Allocated	\$1,118,401
Costs	106 MVH	026 Str Imp & Rehab	300 & 400 Series Object Codes	\$3,040,131

Note: The City's total distribution from the State MVH Account in 2019 was \$2,236,802. The City's 50% MVH Restricted share of the distribution is posted as 106-000-401.000 State MVH Revenue Share – Allocated.

I respectfully request that this approach be considered consistent with the spirit and purposes of both the relevant law and directive.

Training and Certification on Internal Control Standards

SBOA Comment

No documentation was provided that all required personnel completed training on internal control standards. Therefore, the City's certification on the Annual Financial Report that training on internal controls standards was received by personnel could not be verified.

City Response

The City concurs with this finding, but the deficiency did not arise from direct neglect or inaction. Rather, in 2016, the City did: i) identify all positions subject to this training requirement; ii) conduct training; and iii) compile training certification forms from all participating employees. However, in the interim from the initial training until this audit, the training certification forms were misplaced and cannot now be located. A contributing factor may be that the Controller at that time has since left City employment. It's possible that information about those records was lost during that transition.

Since that time, the Office of Finance & Accounting (OFA) has implemented numerous enhancements to the City's financial reporting, budgeting, and accounts payable processes. Accordingly, OFA also instituted regular recurring meetings (i.e. training sessions) for all key financial administration staff in City departments. Through those meetings and ongoing guidance on financial management matters, OFA is also reinforcing the City's internal controls processes and standards.

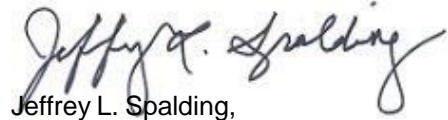
To remedy this cited deficiency, the City will take the following steps:

- ✓ By 12/31/2020, re-certify all current City employees that completed the training in 2016 or have done so since.
- ✓ By 1/31/2021, train and certify all required current City employees hired since 2016 who have not yet completed the training
- ✓ By 12/31/2021, establish and implement a recurring internal controls training and re-certification standard.

Toward that end, the City is in the process of conducting an independent, external review of its internal control risk environment. The review will provide the City with specific action items for meeting or exceeding the internal control requirements under IC 5-11-1-27. Furthermore, the review will inform the content and frequency of the City's recurring training and re-certification standards.

We appreciate the opportunity to provide this official response and the professionalism and responsiveness that the assigned field examiners and audit manager demonstrated throughout the course of the audit.

Respectfully submitted,



Jeffrey L. Spalding,
CFO & Controller

CITY CONTROLLER
CITY OF NOBLESVILLE
EXIT CONFERENCE

The contents of this report were discussed on November 17, 2020, with Chris Jensen, Mayor; Jeffrey L. Spalding, City Controller; Ray Thompson, Utility Director; Matt Light, Deputy Mayor; Darren Peterson, Vice President of the Common Council; Gregory O'Connor, Common Council member; Heather Trexler, Chief Accountant; and Rosy Oshry, Consultant.