

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF NEW ALBANY

FLOYD COUNTY, INDIANA

January 1, 2020 to December 31, 2020



FILED
11/23/2021

TABLE OF CONTENTS

| <u>Description</u> | <u>Page</u> |
|--|-------------|
| Schedule of Officials | 2 |
| 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 <i>Government Auditing Standards</i> | 3-4 |
| 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 | 5-7 |
| Schedule of Expenditures of Federal Awards and Accompanying Notes: | |
| Schedule of Expenditures of Federal Awards | 11 |
| Notes to Schedule of Expenditures of Federal Awards..... | 12 |
| Schedule of Findings and Questioned Costs..... | 13-15 |
| Auditee-Prepared Document: | |
| Corrective Action Plan | 18 |
| Other Reports..... | 19 |

SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|--|---------------------------------|--|
| Controller | Linda Moeller | 01-01-20 to 12-31-21 |
| Mayor | Jeff Gahan | 01-01-20 to 12-31-21 |
| President of the Board of Public Works and Safety | Warren V. Nash | 01-01-20 to 12-31-21 |
| President of the Common Council | Robert Caesar Greg H. Phipps | 01-01-20 to 12-31-20 01-01-21 to 12-31-21 |
| Utility Office Manager | April Dickey | 01-01-20 to 12-31-21 |



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 NEW ALBANY, FLOYD 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 New Albany (City), for the year ended December 31, 2020, and the related notes to the financial statement, which collectively comprise the City's financial statement and have issued our report thereon dated November 9, 2021, 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 item 2020-001, 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 2020-001.

City of New Albany'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

November 9, 2021



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 NEW ALBANY, FLOYD COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited the City of New Albany'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, 2020. 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, 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
(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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, 2020, and the related notes to the financial statement. We issued our report thereon dated November 9, 2021, 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

November 9, 2021

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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.

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CITY OF NEW ALBANY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2020

| 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 Housing and Urban Development</u> | | | | | |
| CDBG - Entitlement Grants Cluster | | | | | |
| Community Development Block Grants/Entitlement Grants | Direct Grant | 14.218 | | | |
| FY18 CDBG | | | B-18-MC-180018 | \$ - | \$ 198,468 |
| FY19 CDBG | | | B-19-MC-180018 | 22,804 | 440,091 |
| FY20 CDBG | | | B-20-MC-180018 | 13,900 | 70,245 |
| | | | | <u>36,704</u> | <u>708,804</u> |
| Total - Community Development Block Grants/Entitlement Grants | | | | <u>36,704</u> | <u>708,804</u> |
| Total - CDBG - Entitlement Grants Cluster | | | | <u>36,704</u> | <u>708,804</u> |
| Total - Department of Housing and Urban Development | | | | <u>36,704</u> | <u>708,804</u> |
| <u>Department of Justice</u> | | | | | |
| Equitable Sharing Program | Direct Grant | 16.922 | | | |
| Federal Equitable Share | | | 2020 | - | 51,662 |
| Total - Department of Justice | | | | - | <u>51,662</u> |
| <u>Department of Transportation</u> | | | | | |
| Highway Planning and Construction Cluster | | | | | |
| Highway Planning and Construction | Indiana Department of Transportation | 20.205 | | | |
| Reconstruction of Mt. Tabor | | | DES#0710808 | - | 390,042 |
| Grant Line 111 South | | | DES#0901276 | - | 154,988 |
| East Main (5th Street to State Street) | | | DES#1700730 | - | 111,189 |
| State Street and Oak Street Signal Modification | | | DES#1801600 | - | 66,222 |
| State Street Traffic Signals | | | DES#800745 | - | 5,407 |
| Total - Highway Planning and Construction | | | | - | <u>727,848</u> |
| Total - Highway Planning and Construction Cluster | | | | - | <u>727,848</u> |
| Highway Safety Cluster | | | | | |
| State and Community Highway Safety | Indiana Criminal Justice Institute | 20.600 | | | |
| FY 2020 | | | D3-15-8960 | - | 15,596 |
| Total - Highway Safety Cluster | | | | - | <u>15,596</u> |
| Total - Department of Transportation | | | | - | <u>743,444</u> |
| <u>Department of the Treasury</u> | | | | | |
| COVID-19 - Coronavirus Relief Fund | Indiana Finance Authority | 21.019 | | | |
| FY20 Cares Act | | | N/A | - | 1,187,572 |
| Total - Department of the Treasury | | | | - | <u>1,187,572</u> |
| Total federal awards expended | | | | <u>\$ 36,704</u> | <u>\$ 2,691,482</u> |

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

CITY OF NEW ALBANY
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, 2020. 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 NEW ALBANY
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? | no |
| Significant deficiencies identified? | none reported |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | no |

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

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> | <u>Opinion Issued</u> |
|------------------------|---|---------------------------|
| 21.019 | COVID-19 - Coronavirus Relief Program | 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 2020-001

Subject: Internal Controls Over Self Insurance Fund Disbursements
Audit Findings: Material Weakness, Noncompliance

Condition and Context

The City did not have a proper system of internal controls over disbursements related to its Self Insurance fund.

The City utilized a third-party administrator to process and pay the City's portion of the health insurance claims. Prior to the third-party administrator paying the health insurance claims, they emailed the City notifying them of the total amount of the claims processed for payment and the amount that would be withdrawn from the City's designated bank account. The emails provided did not contain details of the individual claims to be paid. Journal entries were made to record the disbursements in the ledger; however, the journal entries were not always recorded timely. Additionally, claims for payments made to the City's third-party administrator for the processing of the health insurance claims were not prepared, or presented for review and approval by the Controller and the Board of Public Works and Safety.

CITY OF NEW ALBANY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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. . . ."

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

CITY OF NEW ALBANY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Cause

Management of the City had not established a system of internal controls over the disbursements of the Self Insurance fund.

Effect

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

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

No matters are reportable.

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AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the City. The document is presented as intended by the City.



City of New Albany, Indiana
Linda Moeller
City Controller

CORRECTIVE ACTION PLAN

FINDING 2020-001

Contact Person Responsible for Corrective Action: Linda Moeller

Contact Phone Number: 812-948-5333

Views of Responsible Official:

The city offers a health self-insured program and has been doing so for approximately a decade. Employee status and benefits are conveyed by the controller's office to the city's current health administrator, UMR, who ensures proper review and documentation of all claims paid from the program.

Upon questions now being raised for the first time since inception of the health insurance program by the State Board of Accounts, the Controller's office is performing an additional one-year internal audit of UMR payments and processing to ensure no claims were improperly paid.

The results of the controller's internal audit have not found instances of any improper payments by UMR regarding an employee's health benefits to date.

In addition, the city's insurance agent, who has provided services for years, advised the controller that they have never experienced, observed, or heard any improper payment of claims in these self-insured programs or by UMR.

Description of Corrective Action Plan:

The City currently reconciles UMR bank withdrawal reports to employee health insurance claims with multiple staff reviewing the process for internal control purposes. The Controller upon an ACH notification of payment downloads the check register from the UMR portal for verification of employee status. This report contains the date, employee name, amount of claim and total amount for claims. Payroll staff reviews the employee names and status for accuracy and supplies accounting staff reporting for them to complete a bank reconciliation and journal entry for ultimate review and approval by the Board of Public Works and Safety.

Anticipated Completion Date: *COMPLETED.*

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/>.