

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF ALEXANDRIA

MADISON COUNTY, INDIANA

January 1, 2020 to December 31, 2020



FILED
12/30/2021

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Darcy VanErman	01-01-20 to 12-31-21
Mayor	Honorable Todd Naselroad	01-01-20 to 12-31-21
President of the Board of Public Works and Safety	Honorable Todd Naselroad	01-01-20 to 12-31-21
President Pro Tempore of the Common Council	Patty Kuhn	01-01-20 to 12-31-21



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE CITY OF ALEXANDRIA, MADISON COUNTY, INDIANA

This report is supplemental to our audit report of the City of Alexandria (City), for the period from January 1, 2020 to December 31, 2020. 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

December 1, 2021

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CLERK-TREASURER
CITY OF ALEXANDRIA

CLERK-TREASURER
CITY OF ALEXANDRIA
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS

Condition and Context

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

Financial Transactions

The City did not have adequate internal controls in place to ensure correct receipt and disbursement reporting. As a result, the following errors were noted:

- The Sewage Util Bond & Int fund was established for the payment of Sewage Utility debt payments. During 2020, this fund was incorrectly used for the accounting of the Wastewater - Phosphorus Removal Project. Grant receipts totaling \$142,927 and project expenses of \$327,270 were posted to this fund, resulting in \$184,343 of the project costs being covered by this fund's balance.
- Five of the twenty-five receipts tested for timeliness were not posted timely and receipt dates were changed for four of those receipts as evidenced by not being consistent with surrounding receipt dates.
- A disbursement for the examination of records was incorrectly posted to the Motor Vehicle Highway fund instead of the General Fund.
- The City did not have adequate internal controls over checks, as a check was observed dated December 31, 2020, while the surrounding sequential checks were dated February 2021.

Financial Close and Reporting

The City had not established adequate internal controls over the financial information entered in the Indiana Gateway for Government Units financial reporting system, which was the source of the City's financial statement. As a result, year-end transfers from other funds to the Rainy Day fund, totaling \$40,000, were omitted from the presented financial statement.

Audit 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.

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

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. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

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

"The state examiner shall require from every audited entity 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](#)."

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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)

BANK ACCOUNT RECONCILIATIONS

This same comment appeared in a Management Letter addressed to the officials of the City for the audit period ending December 31, 2018.

Condition and Context

Bank reconciliations were not being performed timely. In addition, there were no internal controls in place, such as a review or approval process to ensure their accuracy. As of December 31, 2020, there was an unidentified variance of \$2,458 between the bank balance and the ledger balance.

Criteria

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

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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. . . ."

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

OVERDRAWN CASH BALANCES

This same comment appeared in a Management Letter addressed to the officials of the City for the audit period ending December 31, 2018.

Condition and Context

The financial statement presented for audit included the following funds with overdrawn balances as of December 31, 2020:

Fund	Amount Overdrawn
Sanitation	\$ 85,572
LIT - Public Safety	7,679
Fire Non-Revert	55,035
Blight Elimination Program	4,335
Animal Control Non-Revert	192
Dog Park Non-Revert	512
Payroll	1,053

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 ALEXANDRIA
AUDIT RESULTS AND COMMENTS
(Continued)

MOTOR VEHICLE HIGHWAY (MVH) RESTRICTED FUND

Condition and Context

The City correctly posted 50 percent of its Motor Vehicle Highway (MVH) distributions to the MVH Restricted fund as required; however, the City subsequently transferred \$80,000 out of the MVH Restricted fund. The transferred funds were used to pay the City's required match for the Community Crossings Grant, and, as such, were used for the City's paving projects. Although the disbursements were for construction, they should have been paid directly from the MVH Restricted fund. The transfer was not a permissible use (construction, reconstruction, or preservation) of 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.

The political subdivision, by ordinance or resolution, may elect to allocate more than fifty percent (50%) of the distributions to MVH Restricted. During the same fiscal year, the political subdivision may transfer, by ordinance or resolution, the amount allocated in excess of the 50% requirement from MVH Restricted to MVH. ***In no event can any transfers from MVH Restricted to MVH reduce the fiscal year distributions from the State Motor Vehicle Highway Account below the 50% requirement for MVH Restricted.***

Any amounts allocated in excess of the required 50% of distributions which remain in MVH Restricted at the end of the fiscal year must remain in MVH Restricted until expended for construction, reconstruction, or preservation.

Qualified expenditures will then be entered accordingly to MVH and MVH Restricted:

MVH: Permissible uses of the State Motor Vehicle Highway (MVH) Account distributions are outlined in Indiana Code 8-14-1-4 for counties and in Indiana Code 8-14-1-5 for cities and towns.

MVH Restricted: Effective July 1, 2018, Indiana Code 8-14-1-4(b) and Indiana Code 8-14-1-5(c) requires at least 50% of the MVH distributions to be used for construction, reconstruction and preservation of the unit's highways. (Maintenance expenditures no longer count toward the 50% requirement.) . . .

(State Examiner Directive 2018-2)

OFFICE OF THE CLERK-TREASURER

City of Alexandria

INDIANA

Darcy A. VanErman
Clerk-Treasurer

Erika Hobbs
Deputy Clerk - Treasurer



INCORPORATED FEBRUARY 4, 1893

OFFICIAL RESPONSE

Date: December 8, 2021

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

Re: Condition of Records

Coming into office January 1, 2020, I recognized a tremendous lack of understanding, training and procedures by the staff. These deficiencies impacted all facets of daily operation and it took great planning and strategy on what was of most priority.

The actual transfer of Funds to the Rainy Day Fund was in oversight of the final steps required in our lack of Internal Controls. I have made notation of this for future transfers when they arise.

Though the 607 Fund is titled "Sewage Utl Bond & Int" it was never used for that purpose. The 607 Fund was created when the City took out a Bond Anticipation Note for a project in 2019. This Fund also served as a combined location for the depositing and spending of OCRA Grant funds that accompanied this project. The funds were only used in repayment of Interest but never the actual payment of the BAN. This BAN has since been rolled into the 2021 Bonds "refinance" – leaving the remaining money in the 607 Fund for the project's purposes.

The entry of \$280 was entered into the software system however something happened with the data. The software provider has been notified and has worked with us to resolve and look into what happened so it doesn't happen again.

Timely receipting of revenue is an ongoing challenge for the City – especially from the Utility Office. The staff is going through daily observation and correction to insure these issues are remedied as soon as possible.

More stringent cross checking procedures are to be fully implemented by 2022 to insure entry into the software system is sound and accurate.

OFFICE OF THE CLERK-TREASURER

City of Alexandria

INDIANA

Darcy A. VanErman
Clerk-Treasurer

Erika Hobbs
Deputy Clerk - Treasurer



INCORPORATED FEBRUARY 4, 1893

OFFICIAL RESPONSE

Re: Bank Account Reconciliations

Due to many daily procedural issues the daily collections of the Utility Office versus what is actually deposited into the bank, we have had substantial delay in accomplishing monthly bank reconciliation. Most of the issues have been corrected within the 2021 calendar year and our goal is that 2022 will find a more timely and accurate process.

I have also worked extensively with two of my Mentors to put into practice more stringent segregation of duties to assist in these matters.

Re: Overdrawn Cash Balances

Again, due to inadequate understanding by staff, Funds were overdrawn by the then employed Accounts Payable Clerk. After months of training and corrective measures, this Clerk was terminated from employment with the City. The Clerk Treasurer absorbed the Accounts Payable role off and on in 2021 until an replacement was hired. The office now has concise procedures and segregation of duties to insure this situation ceases.

Re: Motor Vehicle Highway Restricted Fund

Previous practice with these funds was to transfer the match for Community Crossings into the Community Crossings bank account. The city will begin appropriating from both established funds for payment towards these future projects.


Darcy VanErman
Clerk-Treasurer

125 N. Wayne Street • Alexandria, IN 46001 • (765) 724-2541 • Fax (765) 724-5012

CLERK-TREASURER
CITY OF ALEXANDRIA
EXIT CONFERENCE

The contents of this report were discussed on December 1, 2021, with Darcy VanErman, Clerk-Treasurer; The Honorable Todd Naselroad, Mayor; and Patty Kuhn, President Pro Tempore of the Common Council.