

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF MADISON

JEFFERSON COUNTY, INDIANA

January 1, 2021 to December 31, 2021



FILED
12/12/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Rick Berry Kathleen M. Rampy	01-01-21 to 02-06-22 02-07-22 to 12-31-22
Mayor	Bob G. Courtney	01-01-21 to 12-31-22
President of the Board of Public Works and Safety	Bob G. Courtney	01-01-21 to 12-31-22
President Pro Tempore of the Common Council	Kathleen M. Rampy Curtis Chatham	01-01-21 to 02-06-22 02-07-22 to 12-31-22
Utility Office Manager	Rob Holt	01-01-21 to 12-31-22



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 MADISON, JEFFERSON 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 Madison (City), for the year ended December 31, 2021, and the related notes to the financial statement, which collectively comprise the City's financial statement and have issued our report thereon dated November 28, 2022, 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.

Report on 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) as a basis for designing 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 2021-001 and 2021-002, 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)

Report on 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 items 2021-001 and 2021-002.

City of Madison's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. 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.



Beth Kelley, CPA, CFE
Deputy State Examiner

November 28, 2022



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 MADISON, JEFFERSON COUNTY, INDIANA

Report on Compliance for the Major Federal Program

Adverse Opinion

We have audited the City of Madison'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, 2021. 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.

Adverse Opinion on COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the City did not comply in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the COVID-19 - Coronavirus State and Local Fiscal Recovery Funds program for the year ended December 31, 2021.

Basis for Adverse Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

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)

Matters Giving Rise to Adverse Opinion on COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

As described in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding 21.027 COVID-19 - Coronavirus State and Local Fiscal Recovery Funds, as described in items 2021-003 for Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Performance, and 2021-004 for Procurement and Suspension and Debarment. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

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)

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City's response to the noncompliance 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.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2021-003 and 2021-004, to be material weaknesses.

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 audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards require the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the other 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, 2021, and the related notes to the financial statement. We issued our report thereon dated November 28, 2022, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with accounting principles generally accepted in the United States of America, and an unmodified opinion was issued regarding the presentation in accordance with the regulatory basis of accounting. Our audit was performed 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.



Beth Kelley, CPA, CFE
Deputy State Examiner

November 28, 2022

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 MADISON
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2021

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Department of Housing and Urban Development</u>					
COVID-19 - Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii OCRA COVID OCRA COVID	Indiana Office of Community and Rural Affairs	14.228	B-CV1-C-18-0001 B-CV2-CV-18-0001	\$ - -	\$ 176,411 150,150
Total - COVID-19 - Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii				-	326,561
Total - Department of Housing and Urban Development				-	326,561
<u>Department of Transportation</u>					
COVID-19 - Airport Improvement Program Airport Care Act CRRSA ARPA	Direct	20.106	3-18-0052-024-2020 3-18-0052-027-2021 3-18-0052-028-2021	- - -	30,000 13,000 32,000
Subtotal - COVID-19 - Airport Improvement Program				-	75,000
Airport Improvement Program Airport Improvement Program Airport Improvement Program Airport Improvement Program	Direct	20.106	3-18-0052-025-2020 3-18-0052-021-2018 3-18-0052-023-2019	- - -	30,982 10,736 221,844
Subtotal - Airport Improvement Program				-	263,562
Total - Airport Improvement Program				-	338,562
Total - Department of Transportation				-	338,562
<u>Department of the Treasury</u>					
COVID-19 - Coronavirus Relief Fund COVID Relief GPTSO	Indiana Finance Authority	21.019	FY 2021	-	38,540
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds Coronavirus Relief Fund	Direct	21.027	040_INCOVID2020	-	691,874
Total - Department of the Treasury				-	730,414
<u>National Endowment for the Humanities</u>					
Promotion of the Humanities Federal/State Partnership Community Outreach	Indiana Humanities	45.129	21-4004	-	868
Total - National Endowment for the Humanities				-	868
Total federal awards expended				\$ -	\$ 1,396,405

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

CITY OF MADISON
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, 2021. 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 MADISON
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:

Assistance Listings Number	Name of Federal Program or Cluster	Opinion Issued
21.027	COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	Adverse

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 2021-001

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 2020-001.

Condition and Context

The City had not established internal controls over the federal award information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the City's Schedule of Expenditures of Federal Awards (SEFA). The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the SEFA.

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

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

1. The COVID-19 - Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii program expenditures were overstated by \$200,000.
2. The COVID-19 - Coronavirus State and Local Fiscal Recovery Funds program expenditures were overstated by \$647,070.
3. Other errors included incorrect Assistance Listings Numbers, program names, pass-through entity names, and identifying numbers.

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:

"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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control . . ."

2 CFR 200.1 states in part:

". . . *Internal controls* for non-Federal entities means:

- (1) Processes designed and implemented by non-Federal entities to provide reasonable assurance regarding the achievement of objectives in the following categories:
 - (i) Effectiveness and efficiency of operations;
 - (ii) Reliability of reporting for internal and external use; . . ."

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

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. . . ."

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. 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:

- (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 Assistance Listings Number or other identifying number when the Assistance Listings 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(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."

Cause

Management had not established an effective system of internal control that would have ensured proper reporting of the SEFA.

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

Effect

Without a proper system of internal control 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.

FINDING 2021-002

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2020-002.

Condition and Context

The City had not developed a proper system of internal controls to ensure that transactions were posted timely and in the correct accounting period. Year-end transfers from the prior audit were not posted until January of 2021. The City's accounting system allowed the transfers out to be backdated to December 30, 2020; however, the transfers in were dated January 14, 2021, which resulted in the City's cash balance at January 1, 2021, being understated by \$1,383,485. Audit adjustments were made to the financial statement in the prior audit to correct the fund balances, but the adjustments were not properly reported in the Indiana Gateway for Government Units financial reporting system, which was the source of the City's Annual Financial Report for 2021. Therefore, the City's cash balance was understated by \$1,383,485 as of January 1, 2021.

Audit adjustments were proposed, accepted by the City, and made to the financial statement presented in the Financial Statement Audit Report for the City.

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.

CITY OF MADISON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(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. . . ."

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](#)."

Cause

Management had not established a proper system of internal control.

Effect

The failure to establish a system of internal control 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.

Section III - Federal Award Findings and Questioned Costs

FINDING 2021-003

Subject: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance

Federal Agency: Department of the Treasury

Federal Program: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

Assistance Listings Number: 21.027

Federal Award Number and Year (or Other Identifying Number): 040_INCOVID2020

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance

Audit Findings: Material Weakness, Modified Opinion

Condition and Context

The City had not designed, nor implemented an effective internal control system to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Performance compliance requirements.

The City did not have written procedures for determining the allowability of costs, which would include established practices and policies regarding the incurrence of costs as in accordance with subpart E of 2 CFR 200.

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

Four disbursements tested totaling \$75,000 were not adequately documented. The disbursements were paid to four individual non-profits; however, no documentation was provided to disclose the nature and purpose of the payments. Due to the lack of supporting documentation, we were unable to determine if the transaction was for an activity allowed by the federal program, the cost was necessary and reasonable, and whether the cost was incurred during the period of performance, which began March 3, 2021.

The lack of internal controls and noncompliance were systemic issues 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). . . ."

2 CFR 200.302(b) states in part:

"The financial management system of each non-Federal entity must provide for the following . . .

- (3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, financial obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation. . . .
- (7) Written procedures for determining the allowability of costs in accordance with subpart E of this part and the terms and conditions of the Federal award."

2 CFR 200.334 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to the Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

2 CFR 200.400 states in part:

". . . (b) The non-Federal entity assumes responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award. . . ."

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

(c) The application of these cost principles should require no significant changes in internal accounting policies and practices of the non-Federal entity. However, the accounting practices of the non-Federal entity must be consistent with these cost principles and support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to the Federal award. . . ."

2 CFR 200.403 states in part:

". . . costs must meet the following general criteria in order to be allowable under Federal awards:

(a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles. . . .

(c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity. . . .

(g) Be adequately documented. . . ."

2 CFR 200.404 states in part:

". . . In determining reasonableness of a given cost, consideration must be given to: . . .

(e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's costs."

31 CFR 35.5(a) states:

"In general. A recipient may only use funds to cover costs incurred during the period beginning March 3, 2021, and ending December 31, 2024, for one or more of the purposes enumerated in sections 602(c)(1) and 603(c)(1) of the Social Security Act, as applicable, including those enumerated in § 35.6, subject to the restrictions set forth in sections 602(c)(2) and 603(c)(2) of the Social Security Act, as applicable."

Cause

Management had not developed a system of internal control that would have ensured appropriate policies and procedures were established in order to comply with the federal award and the compliance requirements noted above.

Effect

The failure to design and implement an effective internal control system enabled material noncompliance to remain undetected. Noncompliance with the provisions of federal statutes, regulations, and terms and conditions of the federal award could result in the reduction of future federal funding to the City.

Questioned Costs

Questioned costs in the amount of \$75,000 were identified as noted in the *Condition and Context*.

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

Recommendation

We recommended the City's management design and implement a system of internal control in order to establish and adhere to procedures over the administration of Federal awards to ensure transactions made from federal awards are in compliance with the compliance requirements noted above.

Views of Responsible Officials

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

FINDING 2021-004

Subject: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Suspension and Debarment
Federal Agency: Department of the Treasury
Federal Program: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds
Assistance Listings Number: 21.027
Federal Award Number and Year (or Other Identifying Number): 040_INCOVID2020
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Modified Opinion

Condition and Context

The City had not designed, nor implemented an effective internal control system to ensure compliance with suspension and debarment requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

The City did not have procedures in place to verify the sole vendor, Sedam Contracting Co, LLC, was not excluded or disqualified prior to entering into a covered transaction. There was no contract in place with the vendor that included a suspension and debarment clause, nor did the City collect a certification from the vendor, or check the Excluded Parties List System (EPLS) prior to entering into the transaction.

The lack of internal controls and noncompliance was isolated to this single transaction.

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). . . ."

31 CFR 19.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

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

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person."

Cause

Management had not developed a system of internal control that would have ensured procedures were in place that would comply with the provisions of Federal statutes, regulations, and the terms and conditions of the federal award in relation to the suspension and debarment requirements of the Procurement and Suspension and Debarment compliance requirement.

Effect

The failure to design and implement an effective internal control system enabled material noncompliance to remain undetected. Noncompliance with the provisions of federal statutes, regulations, and terms and conditions of the federal award could result in the reduction of future federal funding to the City.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended the City's management design and implement a system of internal control related to suspension and debarment procedures to ensure vendors are not excluded or disqualified prior to entering into any covered transactions.

Views of Responsible Officials

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

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AUDITEE-PREPARED DOCUMENTS

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



Kathleen M. Rampy
City of Madison Clerk-Treasurer

City of Madison

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101 W Main Street
Madison, Indiana 47250-3775

November 21, 2022

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2020-001

Fiscal year in which the finding initially occurred: 2018

Status of Audit Finding: Partially completed.

- a. The city hired a new Grant Administrator, Alyssa Fultz on 1/19/2021. Alyssa tracks and maintains all Federal Grants, CFDA numbers, dollar amount, purpose, fund number, application, and council approval. However, opportunities with compliance still exist in the clerk treasurer's office.
- b. This is an entirely new administration. The Clerk-Treasurer took office on 2/7/2022. On 3/8/2022, all current staff walked off the job and all new staff were hired.
- c. The current clerk-treasurer's office continues to work with the Grant Administrator and the Reedy financial group to establish written internal controls to insure there are not future findings. The realistic deadline for this goal is 5/31/2023.



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November 21, 2022

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2020-002

Fiscal year in which the finding initially occurred: 2018

Status of Audit Finding: Partially completed.

The Clerk-Treasurer's office, which consists of all newly hired employees, is working with the Deputy Mayor and Reedy Financial to ensure that any necessary adjustments for 2022, will be made prior to 12/31/2022. Moving forward, the Clerk-Treasurer's office will work to develop an internal controls system and defined segregation of duties through formal written policies and procedures as well. The deadline for completing formal written policies addressing this finding is 5/31/2023



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November 21, 2022

CORRECTIVE ACTION PLAN

FINDING 2021-001

Contact Person Responsible for Corrective Action: Kathleen M. Rampy
Contact Phone Number: 812-274-0280

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

- a. The city hired a new Grant Administrator, Alyssa Fultz on 1/19/2021. Alyssa tracks and maintains all Federal Grants, CFDA numbers, dollar amount, purpose, fund number, application, and council approval. However, opportunities with compliance still exist in the clerk treasurer's office.
- b. This is an entirely new administration. The Clerk-Treasurer took office on 2/7/2022. On 3/8/2022, all current staff walked off the job and all new staff were hired.
- c. The current clerk-treasurer's office continues to work with the Grant Administrator and the Reedy financial group to establish written internal controls to insure there are not future findings. The realistic deadline for this goal is 5/31/2023.

Anticipated Completion Date: 5/31/2023



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CORRECTIVE ACTION PLAN

FINDING 2021-002

Contact Person Responsible for Corrective Action: Kathleen M. Rampy
Contact Phone Number: 812-599-2279

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: The Clerk-Treasurer's office, along with the rest of the City administration, is working to create a proper system of internal controls through formal written policy. Specific to financial transactions and reporting, review checkpoints are to be in place monthly, quarterly, semi-annually, and annually both within and outside the Clerk-Treasurer's office. Receipts and claims are to be entered by deputy clerk-treasurers and reviewed by the Clerk-Treasurer. Financial statements are to be produced and provided to all department heads, board members and council members, monthly, ten (10) days post month-end, for their review. An external financial advisory firm prepares and provides quarterly financial updates that acts as a tool to measure financial performance as well as identify areas that need corrective action throughout the calendar year. At year end, before the year is closed, a very in-depth analysis is done to ensure fund balances will be properly reported. This will begin January 1, 2023.

Anticipated Completion Date: 5/31/2023



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November 21, 2022

CORRECTIVE ACTION PLAN

FINDING 2021-003

Contact Person Responsible for Corrective Action: Kathleen M. Rampy
Contact Phone Number: 812-274-0280

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The Clerk-Treasurer's office, along with the Grant Administrator is working to create a proper system of internal controls through formal written policy. Specific to the Preparation of the Schedule of Expenditures of Federal Awards, processes and checkpoints are to be in place within the Clerk-Treasurer's office, as well as with the designated Grant Administrator. The Grant Administrator and Clerk-Treasurer's office will continue to maintain an internal working document of federal grants outlining all Gateway required information. Federal grant documentation is to be filed in a designated area. Receipts and expenditures should be processed as outlined within the filed documentation.

Anticipated Completion Date: 5/31/2023



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CORRECTIVE ACTION PLAN

FINDING 2021-004

Contact Person Responsible for Corrective Action: Kathleen M. Rampy
Contact Phone Number: 812-274-0280

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The Clerk-Treasurer's office, along with the rest of the City administration is working to create a proper system of internal controls through formal written policy. Specific to the preparation of all contracts, all entities involved with the preparation and engagement of contracts will include a clause addressing the individual with whom the city is engaging has not been suspended, disbarred, or otherwise excluded from engaging or participating in federal award programs or activities. The policy will also include utilizing the EPLS system before contracts are awarded.

Anticipated Completion Date: 5/31/2023

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/>.