

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF MARION

GRANT COUNTY, INDIANA

January 1, 2021 to December 31, 2021



**FILED**  
12/19/2022



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Julie Flores	01-01-21 to 12-31-22
Mayor	Jess Alumbaugh	01-01-21 to 12-31-22
President of the Board of Public Works and Safety	Alex Huskey	01-01-21 to 12-31-22
President of the Common Council	Deborah Cain Brian Cowgill Brad Luzadder	01-01-21 to 12-31-21 01-01-22 to 06-07-22 06-08-22 to 12-31-22
Utilities Director	John Binkerd	01-01-21 to 12-31-22
President of the Utility Service Board	Robert Logan	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 MARION, GRANT 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 Marion (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 21, 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 item 2021-001, 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)

***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 item 2021-001.

***City of Marion'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 21, 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 MARION, GRANT COUNTY, INDIANA

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

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

We have audited the City of Marion'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.

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, 2021.

**Basis for Opinion on the Major Federal Program**

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.

***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.

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)

***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.

**Report on 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.

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)

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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.

**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 21, 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 21, 2022

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

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

CITY OF MARION  
 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>					
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	Indiana Office of Community and Rural Affairs	14.228			
Department of Housing & Urban Development			B-20-DW18-0001	\$ -	\$ 60,200
Department of Housing & Urban Development			HD-109-009	-	62,823
Total - Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii				-	123,023
Total - Department of Housing and Urban Development				-	123,023
<u>Department of Justice</u>					
COVID-19 - Coronavirus Emergency Supplemental Funding Program	Direct	16.034			
Coronavirus Emergency Supplemental Funding Program			CESF FY 2020	-	51,667
Crime Victim Assistance	Indiana Criminal Justice Institute	16.575			
Victims Advocacy Grant			2018-V2-GX-0031 2019-V2-GX-00	-	38,044
Body Worn Camera Policy and Implementation	Direct	16.835			
Body Camera			2019-bc-bx-0067	-	130,000
Total - Department of Justice				-	219,711
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster					
Highway Planning and Construction	Indiana Department of Transportation	20.205			
Signal Preemption Grant			DES#1600754	-	42,751
Total - Highway Planning and Construction Cluster				-	42,751

CITY OF MARION  
 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
Highway Safety Cluster State and Community Highway Safety Operation Pullover	Direct Grant	20.600	CHIRP-2020-0045	-	5,687
Total - Highway Safety Cluster				-	5,687
COVID-19 - Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs Aviation Grant Aviation Grant	Indiana Department of Transportation Direct Grant	20.106	3-18-0053-031-2021 3-18-0053-032-2021	-	13,000
Total - COVID-19 - Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs				-	329,328
COVID-19 - Formula Grants for Rural Areas and Tribal Transit Program Operating Assistance	Indiana Department of Transportation	20.509	DES18039060	-	954,008
Total - Department of Transportation				-	1,344,774
Total federal awards expended				\$ -	\$ 1,687,508

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

CITY OF MARION  
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 MARION  
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:

Assistance Listings Number	Name of Federal Program or Cluster	Opinion Issued
20.509	COVID-19 - Formula Grants for Rural Areas and Tribal Transit Program	Unmodified

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

Auditee qualified as low-risk auditee?	no
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**Section II - Financial Statement Findings**

**FINDING 2021-001**

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

*Repeat Finding*

This is a repeat finding from the immediately prior Report B58766. The prior audit finding number was 2020-002.

*Condition and Context*

The City had not established effective internal controls over the fund financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the City's Statement of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis (financial statement).

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

In August of 2020, the City Utilities began experiencing significant problems with its accounting software, which prevented them from preparing accurate financial reports and bank reconciliations for several months. The issues continued through 2021 and were eventually resolved in October 2022. These issues caused the City Utilities' fund financial information entered by the City Controller into Gateway to be inaccurate.

Due to the lack of effective internal controls, the financial statement presented for audit included the following errors:

- Three internal Utilities Clearing Accounts were improperly included on the financial statement. Beginning Cash and Investments was understated by \$148. Receipts were overstated in total by \$8,614,666, and disbursements were overstated in total by \$8,614,518.
- The Storm Water Operating fund receipts and disbursements were both understated by \$1,548,917.
- The Wastewater Operating fund receipts and disbursements were both understated by \$5,747,443.
- The Water Operating fund receipts and disbursements were both understated by \$3,929,609.
- The Solid Waste Operating fund receipts and disbursements were both understated by \$1,708,591.
- Several additional funds had individually immaterial errors that resulted in the understatement of Beginning Cash and Investments by \$218,970 in total; understatement of receipts by \$499,292 in total; understatement of disbursements by \$713,685 in total; and understatement of Ending Cash and Investments by \$4,553 in total.

Additionally, the errors noted above also occurred in the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis.

Audit adjustments were proposed, accepted by the City, and made to the financial statement and the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented in the Financial Statement Audit 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.

CITY OF MARION  
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 an effective system of internal control that would have ensured proper reporting of the financial statement.

*Effect*

Without a proper system of internal control in place that operated effectively, material misstatements of the financial statement remained undetected. The financial statement included the errors identified in the *Condition and Context*.

*Views of Responsible Officials*

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

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

No matters are reportable.

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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.



## **CITY***of* **MARION**

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

#### *FINDING 2020-001*

Fiscal year finding initially occurred: 2020

Status of Audit Finding: The Corrective Action Plan submitted February 8, 2022, was implemented during the preparation of the 2021 Annual Financial Report.



## CITY *of* MARION

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

#### *FINDING 2020-002*

Fiscal Year Finding Occurred: 2020

Status of Audit Finding: The Corrective Action Plan submitted February 8, 2022, was not Implemented as planned. (2021 AFR Submission). The Corrective Action Plan submitted February 8, 2022 will be implemented for the submission of the 2022 AFR due March 1, 2023.



## **CITY** *of* **MARION**

### **CORRECTION ACTION PLAN 10/20/2022**

#### **Finding 2021-001**

Julie Flores, Controller  
765-382-3779 (P)  
765-668-4461 (F)  
jflores@cityofmarion.in.gov

We concur with the findings in reference to the financial transactions and reporting. While the utilities is a part of the City, they are a standalone facility with their own accounting department and their own financial advisors. They are to report their activity to the Controller's office monthly. The year end data for 2020 was received in this office February 18, 2021. This gave our office nine (9) days to review, enter data into Gateway, and get newspaper advertisement prepared for review and publication. The corrective action plan submitted 2/8/22 did not get implemented before the 2021 AFR got submitted in Gateway. In the future, after the Controller's office receives utilities data, we will enter into the Gateway AFR and send it to the utility office for verification before submitting the AFR through Gateway.

Estimated Completion Date: December 31, 2022 for 2022 AFR

## 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/>.