

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

SUPPLEMENTAL COMPLIANCE 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



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF MARION, GRANT COUNTY, INDIANA

This report is supplemental to our audit report of the City of Marion (City), for the period from January 1, 2021 to December 31, 2021. 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.

Beth Kelley, CPA, CFE
Deputy State Examiner

November 21, 2022

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CITY CONTROLLER
CITY OF MARION

CITY CONTROLLER
CITY OF MARION
AUDIT RESULT AND COMMENT

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND DISBURSEMENTS

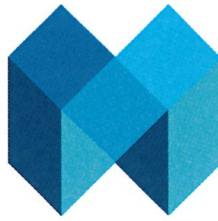
A similar comment also appeared in prior Report B58765, entitled *MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND DISBURSEMENTS*.

Condition and Context

We identified MVH Restricted Fund disbursements totaling \$112,793 that did not qualify as expenses for construction, reconstruction, and preservation of the City's highways. The disbursements included truck and equipment lease payments, the purchase of equipment, and other payments for repairs, maintenance, and supplies.

Criteria

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



CITY of MARION

OFFICIAL RESPONSE
CITY OF MARION
November 27, 2022

MOTOR VEHICLE HIGHWAY RESTRICTED FUND DISBURSEMENTS

The 2020 audit was completed in March 2022, at which time, our office was made aware that the lease payment for MVH trucks paid from the MVH Restricted Fund was not permitted. Since 2021 year had ended, it was too late to make the change to the lease payment being made from the MVH Restricted Fund.

My response to this same finding originally cited in the 2020 audit was as follows:

In June 12, 2017 Memorandum from State Examiner referencing the "Use of MVH Fund pursuant to PL 218-2017 (HEA 1002)", requiring 50% of MVH funds be used for Construction, Reconstruction, and Maintenance, under the Maintenance heading it states "such term also means and includes the acquisition and use in any manner, of all needed equipment, fuel, materials, and supplies essential and incident thereto." Using the funds for equipment was also discussed in many workshops attended regarding the 50% rule. I believe the \$63,673 spent on leasing vehicles for the Street Department was done in good faith based on this language.

Respectfully submitted,

CITY CONTROLLER
CITY OF MARION
EXIT CONFERENCE

The contents of this report were discussed on November 21, 2022, with Julie Flores, City Controller; Jess Alumbaugh, Mayor; and Brad Luzadder, President of the Common Council.

CITY UTILITIES
CITY OF MARION

CITY UTILITIES
CITY OF MARION
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT - FINANCIAL STATEMENT

A similar comment also appeared in prior Report B58765, entitled *ANNUAL FINANCIAL REPORT - FINANCIAL STATEMENT*.

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).

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.

CITY UTILITIES
CITY OF MARION
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

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](#)."

PENALTIES, INTEREST, AND OTHER CHARGES

Condition and Context

The City Utilities paid a total of \$21,650 in penalties and interest due to the late payments of sales tax to the Indiana Department of Revenue.

Criteria

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CITY UTILITIES
CITY OF MARION
EXIT CONFERENCE

The contents of this report were discussed on November 21, 2022, with John Binkerd, Utilities Director; Misty Humphries, Executive Assistant; Tiffany Snyder, Accounting Specialist; Robert Logan, President of the Utility Service Board; and Douglas Carl, Utility Service Board member.

The contents of this report were discussed on November 21, 2022, with Julie Flores, City Controller; Jess Alumbaugh, Mayor; and Brad Luzadder, President of the Common Council.