

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF ELKHART

ELKHART COUNTY, INDIANA

January 1, 2021 to December 31, 2021



**FILED**  
12/21/2022



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statement Performed in Accordance with <i>Government Auditing Standards</i> .....	3-4
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance .....	5-8
Schedule of Expenditures of Federal Awards and Accompanying Notes:	
Schedule of Expenditures of Federal Awards .....	10-11
Notes to Schedule of Expenditures of Federal Awards.....	12
Schedule of Findings and Questioned Costs.....	13-20
Auditee-Prepared Documents:	
Summary Schedule of Prior Audit Findings.....	22-23
Corrective Action Plan .....	24-27
Other Reports.....	28

### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Jamie Arce	01-01-21 to 12-31-22
Mayor	Rod Roberson	01-01-21 to 12-31-22
President of the Board of Public Works	Michael C. Machlan	01-01-21 to 12-31-22
President of the Common Council	H. Brent Curry Arvis Dawson	01-01-21 to 12-31-21 01-01-22 to 12-31-22
Clerk of the City Court	Debra Barrett	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 ELKHART, ELKHART 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 Elkhart (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 29, 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 item 2021-002.

***City of Elkhart'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 29, 2022



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH 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 ELKHART, ELKHART COUNTY, INDIANA

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

***Qualified and Unmodified Opinions***

We have audited the City of Elkhart's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021. The City's major federal programs are identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings and Questioned Costs.

***Qualified Opinion on CDBG - Entitlement Grants Cluster***

In our opinion, except for the noncompliance described in the *Basis for Qualified and Unmodified Opinions* section of our report, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the CDBG - Entitlement Grants Cluster for the year ended December 31, 2021.

***Unmodified Opinion on Each of the Other Major Federal Programs***

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 each of its other major federal programs identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2021.

***Basis for Qualified and Unmodified Opinions***

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 EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE  
(Continued)

***Matter Giving Rise to Qualified Opinion on CDBG - Entitlement Grants Cluster***

As described in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding CDBG - Entitlement Grants Cluster as described in item 2021-003 for Allowable Costs/Cost Principles. Compliance with the requirement 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 EACH 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**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2021-004. Our opinion on each major federal program is not modified with respect to these 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 EACH 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 29, 2022, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with U.S. Generally Accepted Accounting Principles, and an unmodified opinion was issued regarding the presentation in accordance with the Regulatory Basis of Accounting. Our audit was 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 29, 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.

CITY OF ELKHART  
 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
<b>Department of Housing and Urban Development</b>					
<b>CDBG - Entitlement Grants Cluster</b>					
Community Development Block Grants/Entitlement Grants	Direct Grant	14.218			
Community Development Block Grants/Entitlement Grants			B-16-MC18-0015	\$ 4,476	\$ 41,249
Community Development Block Grants/Entitlement Grants			B-17-MC18-0015	-	69,986
Community Development Block Grants/Entitlement Grants			B-18-MC18-0015	200,000	495,931
Community Development Block Grants/Entitlement Grants			B-19-MC18-0015	8,774	305,656
Community Development Block Grants/Entitlement Grants			B-20-MC-18-0015	208,409	493,947
Community Development Block Grants/Entitlement Grants			B-21-MC-18-0015	131,566	104,233
Sub total - Community Development Block Grants/Entitlement Grants				<u>553,225</u>	<u>1,511,002</u>
COVID-19 - Community Development Block Grants/Entitlement Grants	Direct Grant	14.218			
COVID-19 - Community Development Block Grants/Entitlement Grants			B-20-MW-18-0015	314,120	316,233
Total - Community Development Block Grants/Entitlement Grants				<u>867,345</u>	<u>1,827,235</u>
Total - CDBG - Entitlement Grants Cluster				<u>867,345</u>	<u>1,827,235</u>
Fair Housing Assistance Program State and Local	Direct Grant	14.401			
Fair Housing Assistance Program State & Local			FF205K195036	-	29,800
Fair Housing Assistance Program State & Local			FF205K205036	-	26,021
Total - Fair Housing Assistance Program State and Local				<u>-</u>	<u>55,821</u>
Total - Department of Housing and Urban Development				<u>867,345</u>	<u>1,883,056</u>
<b>Department of Justice</b>					
COVID-19 - Coronavirus Emergency Supplemental Funding Program	Indiana Criminal Justice Institute	16.034			
Coronavirus Emergency Supplemental Funding Program			FY2021	-	169,472
Bulletproof Vest Partnership Program	Direct Grant	16.607			
Bulletproof Vest Partnership Program			FY2018	-	338
Bulletproof Vest Partnership Program			FY2019	-	216
Bulletproof Vest Partnership Program			FY2020	-	8,204
Total - Bulletproof Vest Partnership Program				<u>-</u>	<u>8,758</u>
Equitable Sharing Program	Direct Grant	16.922			
Department of Justice Asset Forfeiture Program			FY2021	-	28,740
Total - Department of Justice				<u>-</u>	<u>206,970</u>
<b>Department of Transportation</b>					
Highway Planning and Construction Cluster					
Highway Planning and Construction	Indiana Department of Transportation	20.205			
Bristol Street Widening			A249-19-L180113	-	45,570
Total - Highway Planning and Construction Cluster				<u>-</u>	<u>45,570</u>
Highway Safety Cluster					
State and Community Highway Safety	Elkhart County	20.600			
DUI Taskforce Grant/Operation Seat Belt			FY2021 CHIRP	-	4,399
Total - Highway Safety Cluster				<u>-</u>	<u>4,399</u>
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	Elkhart County	20.608			
DUI Taskforce Grant/Operation Pullover			FY2021 CHIRP	-	1,253
Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	Direct Grant	20.106			
Airport Improvement Obstruction Removal Wildlife Control and Security Fence - Phase 2			AIP Project 3-18-0018-32-2019	-	142,651
Airport Improvement Project Wildlife Control and Security Fence - Final Phase 3 (Construction)			AIP Project 3-18-0018-33-2020	-	801,757
Sub total - Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs				<u>-</u>	<u>944,408</u>

CITY OF ELKHART  
 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
COVID-19 - Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	Direct Grant	20.106			
COVID-19 CARES Act Airport Grant - 35			AIP-3-18-0018-35-2021	-	23,000
COVID-19 CARES Act Airport Grant - 34			AIP-3-18-0018-34-2020	-	69,000
Sub total - COVID19 - Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs				-	92,000
Total - Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs				-	1,036,408
Total - Department of Transportation				-	1,087,630
<u>Department of the Treasury</u>					
COVID-19 - Coronavirus Relief Fund	Indiana Finance Authority	21.019			
COVID-19 Grant			FY2021	-	109,345
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	Direct Grant	21.027			
American Rescue Plan Act			FY2021	-	46,159
Total - Department of the Treasury				-	155,504
<u>Small Business Administration</u>					
COVID-19 - Shuttered Venue Operators Grant Program	Direct Grant	59.075			
Shuttered Venue Operators Grant Program			SBAHQ21SV007988.2	-	335,801
Total - Small Business Administration				-	335,801
<u>Environmental Protection Agency</u>					
Clean Water State Revolving Fund Cluster	Indiana Finance Authority	66.458			
Capitalization Grants for Clean Water State Revolving Funds					
Equivalency Projects from 2022 State Capitalization Grant			FY2022	-	1,114,789
Total - Clean Water State Revolving Fund Cluster				-	1,114,789
Total - Environmental Protection Agency				-	1,114,789
<u>Department of Health and Human Services</u>					
COVID-19 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	Direct Grant	93.498			
CARES Provider Relief			FY2021	-	38,300
Total - Department of Health and Human Services				-	38,300
<u>Department of Homeland Security</u>					
COVID-19 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Direct Grant	97.036			
Studebaker Park Damages			125342	-	21,088
Hazard Mitigation Grant	Indiana Department of Homeland Security	97.039			
Hazard Mitigation Grant Program			FY2020	-	107,046
Total - Department of Homeland Security				-	128,134
Total federal awards expended				<u>\$ 867,345</u>	<u>\$ 4,950,184</u>

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

CITY OF ELKHART  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Note 1. Summary of Significant Accounting**

*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 ELKHART  
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 programs:	
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 Programs and type of auditor's report issued on compliance for each:

<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
CDBG - Entitlement Grants Cluster	Qualified
Clean Water State Revolving Fund Cluster	Unmodified
Dollar threshold used to distinguish between Type A and Type B programs: \$750,000	
Auditee qualified as low-risk auditee?	no

**Section II - Financial Statement Findings**

**FINDING 2021-001**

Subject: Financial Transactions  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2020-001.

*Condition and Context*

There were deficiencies in the internal control system of the City related to financial transactions. The City did not have adequate internal controls over cash and investments.

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

The City Controller prepared a month-end bank reconciliation which was approved by the appropriate officials; however, the review did not prevent, or detect and correct, errors on the bank reconciliation.

*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. . . ."

*Cause*

Management of the City had not established a proper system of internal controls related to financial transactions that would have ensured appropriate reconciling of the combined bank accounts.

*Effect*

The failure to establish a system of internal controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the City at risk that internal controls may not be either designed properly or operating effectively to provide reasonable assurance that internal controls will prevent, or detect and correct, misstatements in a timely manner.

*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: Preparation of the Schedule of Expenditures of Federal Awards  
Audit Findings: Material Weakness, Noncompliance

*Condition and Context*

The City had not established effective internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the City's Schedule of Expenditures of Federal Awards (SEFA).

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

The City failed to properly review the federal grant information prepared and submitted in Gateway. Although one employee prepared and entered the federal award information into Gateway, and another employee reviewed and approved the information entered, the internal control was not effective and did not detect and allow correction of errors prior to submission.

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

1. The Capitalization Grants for Clean Water State Revolving Funds grant was omitted, which understated expenditures by \$1,114,789.
2. Several additional grants had individually immaterial errors that resulted in an overstatement of expenditures of \$63,254.
3. Other errors included incorrect program names, pass-through entities, 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:

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

- (i) Effectiveness and efficiency of operations;
- (ii) Reliability of reporting for internal and external use; . . ."

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 a system of internal control that would have ensured proper reporting of the SEFA.

CITY OF ELKHART  
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.

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

**FINDING 2021-003**

Subject: CDBG - Entitlement Grants Cluster - Allowable Costs/Cost Principles

Federal Agency: Department of Housing and Urban Development

Federal Programs: Community Development Block Grants/Entitlement Grants, COVID-19 -  
Community Development Block Grants/Entitlement Grants

Assistance Listings Number: 14.218

Federal Award Numbers and Years (or Other Identifying Numbers): B-16-MC-18-0015, B-17-MC-18-0015,  
B-18-MC-18-0015, B-19-MC-18-0015,  
B-20-MC-18-0015, B-20-MW-18-0015,  
B-21-MC-18-0015

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Modified Opinion

*Condition and Context*

An effective internal control system, which would include segregation of duties, was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

The City charged employee salaries for Community Development Block Grants/Entitlement Grants (CDBG) activities to the grant based on fixed percentages. Adequate time and effort records were not maintained to support the percentages charged to the federal award. The wages paid in the amount of \$37,699 were determined to be questioned costs.

The lack of internal controls and noncompliance were systematic 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). . . ."

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

2 CFR 200.403 states in part:

"Except where otherwise authorized by statute, 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.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items. . . .
- (g) Be adequately documented. . . ."

2 CFR 200.430(i)(1) states in part:

"Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS); . . .
- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. . . ."

*Cause*

Management had not developed a system of internal controls that would have ensured compliance with the Allowable Costs/Cost Principles compliance requirement.

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the Allowable Costs/Cost Principles compliance requirement could have resulted in the loss of federal funds to the City.

*Questioned Costs*

There were known questioned costs of \$37,699.

*Recommendation*

We recommended that the City's management establish internal controls to ensure compliance and comply with the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

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

*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: CDBG - Entitlement Grants Cluster - Reporting

Federal Agency: Department of Housing and Urban Development

Federal Programs: Community Development Block Grants/Entitlement Grants, COVID-19 -  
Community Development Block Grants/Entitlement Grants

Assistance Listings Number: 14.218

Federal Award Numbers and Years (or Other Identifying Numbers): B-16-MC-18-0015, B-17-MC-18-0015,  
B-18-MC-18-0015, B-19-MC-18-0015,  
B-20-MC-18-0015, B-20-MW-18-0015,  
B-21-MC-18-0015

Compliance Requirement: 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*

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement for the Reporting compliance requirement.

*Financial Reporting*

The Community Development Specialist prepared the quarterly Cash on Hand reports (PR-29), without evidence of a review or approval process to ensure accuracy of the reports prior to submission. The quarterly Cash on Hand reports were mathematically incorrect and were not supported by the City's records.

*Performance Reporting*

There was no documentation of the preparer or evidence of a review of the HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons report that was submitted. Additionally, the HUD 60002, Section 3 report was not supported by the City's records.

The lack of internal controls and noncompliance were systematic issues throughout the audit period.

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

*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 . . .

(2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.328 and 200.329. . . ."

*Cause*

Management had not developed a system of internal controls that would have ensured compliance with the Reporting compliance requirement.

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the Reporting compliance requirement could have resulted in the loss of federal funds to the City.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish internal controls to ensure compliance and comply with the grant agreement and the Reporting compliance requirement.

*Views of Responsible Officials*

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

#### AUDITEE-PREPARED DOCUMENTS

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

**Rod Roberson**  
*Mayor*

**Jamie Arce**  
*City Controller*



**City Controller's Office**  
229 S. Second St.  
Elkhart, IN 46516

574.294.5471  
Fax: 574.294.8491

***FINDING 2020-001***

Fiscal year in which the finding initially occurred: 2020

Status of Audit Finding:

The status of this audit finding is ongoing. The City has successfully updated its ERP system from Incode 9 to ERP Pro 10 as described as part of the prior year corrective action plan; however, given the timing of the prior year audit this was not materialized until 2022. As expected, this upgrade has provided stability in fund cash balances that had previously still been variable as of the last audit year. City staff continue to monitor fund cash balances on an ongoing basis and address issues when and if they arise. Given that the variations of the fund balances have now stabilized the City is attempting to identify possible corrective action that can be taken by identifying errors prior to requesting permission to adjust from the State Board of Accounts and the Elkhart City Council

**Rod Roberson**  
Mayor

**Jamie Arce**  
City Controller



**City Controller's Office**  
229 S. Second St.  
Elkhart, IN 46516

574.294.5471  
Fax: 574.294.8491

***FINDING 2020-002***

Fiscal year in which the finding initially occurred: 2020

Status of Audit Finding:

**Original Finding (Status in Blue):**

1. Key reporting deadlines will be added to each staff member's outlook calendar so the deadlines are not missed. This includes the Cash on Hand Report and the HUD 60002 Section 3 Report;

A solution is in progress but has not yet been resolved. Action steps currently taken include deadlines being placed on staff members outlook calendar and the CDBG Grant Management Policies and Procedures annual calendar.

2. The CDBG Grant management policies and procedures manual has been updated to incorporate the FFATA subaward reporting system requirements;

The FFATA subaward reporting system requirements have been incorporated into the CDBG Grant Management Policies and Procedures.

3. Staff has verified with HUD the correct method to prepare quarterly Cash on Hand reports, and will ensure they are reviewed by management before future submissions.

Staff is currently working with our CDBG consultant and HUD to resolve issues on the HUD Cash on Hand submission form. A clear process of obtaining the correct figures between City Controller and HUD is being developed. Before submission reports will be reviewed by management.

**Rod Roberson**  
Mayor

**Jamie Arce**  
City Controller



**City Controller's Office**  
229 S. Second St.  
Elkhart, IN 46516

574.294.5471  
Fax: 574.294.8491

## CORRECTIVE ACTION PLAN

### **FINDING 2021-001** (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Jamie Arce, Controller  
Contact Phone Number: (574) 322-4863

#### Views of Responsible Official:

Controller acknowledges and agrees with the finding.

The root of the issue stems from system weaknesses that can be generally traced to the initial setup of the City's existing accounting software (ERP Pro 9). Controller & Deputy Controller have been actively working with the software provider to correct and resolve this issue. Ongoing monitoring of the month-to-month differences between the combined bank reconciliations and combined fund balances and investigating differences that were noted to correct and stabilize the issue continue to be in place.

In May of 2022 the City migrated to a new accounting software (ERP Pro 10) which has resulted in a stabilization of the differences.

#### Description of Corrective Action Plan:

1. Staff will continue their ongoing monitoring of bank balances as reported on all bank reconciliations as compared to combined fund balances reports and address any differences discovered
2. Staff will work to identify possible corrective action by reviewing past transactions that may have been the source of the error(s).
3. If the source of the errors are unable to be appropriately identified the City will work with the State Board of Accounts and the Elkhart City Council to request a correction to the error through a balance adjustment.

Anticipated Completion Date: 06/30/2023

**Rod Roberson**  
Mayor

**Jamie Arce**  
City Controller



**City Controller's Office**  
229 S. Second St.  
Elkhart, IN 46516

574.294.5471  
Fax: 574.294.8491

## CORRECTIVE ACTION PLAN

***FINDING 2021-002*** (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Jamie Arce, Controller  
Contact Phone Number: (574) 322-4863

Views of Responsible Official:

Controller acknowledges and agrees with the finding.

The City was unaware that the Sources of their State Revolving Funds (SRF) loan was federally funded until it was noted as part of the audit. It was discovered that the Indiana Finance Authority (IFA) had incorrectly listed the elected clerk treasurer as the recipient for correspondence. Due to no fault of the Clerk the Controller's office had no record of receiving notice from IFA that the funds received should be included in our Schedule of Expenditures of Federal Awards (SEFA) resulting in our understatement.

Description of Corrective Action Plan:

1. Staff has alerted the Indiana Finance Authority (IFA) that incorrect personnel were listed as contacts for all correspondence which has been corrected.
2. Staff will review any future SRF loans for use of federal funds and report accordingly on the City's future SEFA's.

Anticipated Completion Date:

Completed prior to exit conference on 11/29/2022

**Rod Roberson**  
Mayor

**Jamie Arce**  
City Controller



**City Controller's Office**  
229 S. Second St.  
Elkhart, IN 46516

574.294.5471  
Fax: 574.294.8491

## CORRECTIVE ACTION PLAN

**FINDING 2021-003** (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Mary Kazcka, Assistant Director of Community Development  
Contact Phone Number: (574) 294-5471

Views of Responsible Official:

Staff acknowledges the findings. Staff will take, or has taken, the following actions as described below

Description of Corrective Action Plan:

1. Staff will work to update existing employee service records to include appropriate time and effort log for each pay period to support appropriate use of federal funds and alignment with the program.
2. Responsible staff will acknowledge their combined service and time and effort log as part of the City's bi-weekly payroll process

Anticipated Completion Date: 11/21/2022

**Rod Roberson**  
Mayor

**Jamie Arce**  
City Controller



**City Controller's Office**  
229 S. Second St.  
Elkhart, IN 46516

574.294.5471  
Fax: 574.294.8491

## CORRECTIVE ACTION PLAN

***FINDING 2021-004*** (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Mary Kazcka, Assistant Director of Community Development  
Contact Phone Number: (574) 294-5471

Views of Responsible Official:

Staff acknowledges the findings. Staff will take, or has taken, the following actions as described below

Description of Corrective Action Plan:

1. Staff has verified with HUD the correct method to prepare quarterly Cash on Hand reports and is working actively with the Controller's office for appropriate supporting documentation.
2. Staff will ensure all submissions have been reviewed and acknowledged by management prior to submission.

Anticipated Completion Date:

Completed 2/16/2022 as part of finding on immediate prior audit

## 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/>.