

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF ELKHART

ELKHART COUNTY, INDIANA

January 1, 2021 to December 31, 2021



FILED

12/21/2022

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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



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF ELKHART, ELKHART COUNTY, INDIANA

This report is supplemental to our audit report of the City of Elkhart (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 29, 2022

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CITY CONTROLLER
CITY OF ELKHART

CITY CONTROLLER
CITY OF ELKHART
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

Condition and Context

The City had not established effective internal controls over the financial statement information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the City's Annual Financial Report.

The City failed to properly review the Other Information prepared and submitted in Gateway. Although one employee prepared and entered the Other 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. The Schedule of Leases and Debt contained the following errors:

1. The Park District Refunding Bond Series 2019 ending principal balance was understated by \$255,000.
2. The 2010 Revenue Bond Series A EPA Brownfield ending principal balance was overstated by \$257,550, and the principal due within one year was overstated by \$30,300.
3. The 2010 Revenue Bond Series B EPA Brownfield ending principal balance was overstated by \$386,325, and the principal due within one year was overstated by \$45,450.
4. The Sewage Works Refunding Bond 2021 was omitted understating the ending principal balance by \$5,335,000, and the principal due within one year by \$540,000.

Audit adjustments were proposed, accepted by the City, and made to the Other Information presented in this report.

Criteria

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](#)."

CITY CONTROLLER
CITY OF ELKHART
AUDIT RESULTS AND COMMENTS
(Continued)

BANK ACCOUNT RECONCILIATIONS

A similar comment appeared in the immediately prior Report B58702, entitled *BANK ACCOUNT RECONCILIATIONS*.

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.

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. Immaterial variances, which fluctuated from month to month, were included on each monthly bank reconciliation.

The lack of adequate internal controls and noncompliance were systemic issues, which occurred throughout the audit.

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

CITY CONTROLLER
CITY OF ELKHART
EXIT CONFERENCE

The contents of this report were discussed on November 29, 2022, with Jamie Arce, City Controller; Arvis Dawson, President of the Common Council; and Rose Rivera, Board of Public Works member.