

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF LAWRENCE

MARION COUNTY, INDIANA

January 1, 2017 to December 31, 2017



FILED
12/14/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Jason Fenwick	01-01-17 to 12-31-18
Mayor	Steve Collier	01-01-16 to 12-31-19
President of the Board of Public Works	Dave Freeman	01-01-17 to 12-31-18
President of the Common Council	Joe Williams Lisa Chavis	01-01-17 to 12-31-17 01-01-18 to 12-31-18
President of the Utility Service Board	Steve Hall	01-01-17 to 12-31-18
Superintendent of Utilities	Scott Salsbery	01-01-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

This report is supplemental to our audit report of the City of Lawrence (City), for the period from January 1, 2017 to December 31, 2017. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

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 Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

October 30, 2018

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CITY CONTROLLER
CITY OF LAWRENCE

CITY CONTROLLER
CITY OF LAWRENCE
FEDERAL FINDINGS

FINDING 2017-001

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

Condition

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

Context

The SEFA contained the following errors:

1. \$1,000,000 of state matching funds were improperly included.
2. Two grants totaling \$22,776 were not included.
3. State grant amounts were reported, Federal Grantor Agencies and Pass-Through Entities were misreported, and some CFDA numbers were not included.

Audit adjustments were proposed, accepted by the City, and made to the SEFA.

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 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 Financial statements. . . ."

CITY CONTROLLER
CITY OF LAWRENCE
FEDERAL FINDINGS
(Continued)

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 Basis for determining Federal awards expended. 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 CFDA number or other identifying number when the CFDA 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 Basis for determining Federal awards expended, paragraph (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 Indirect (F&A) costs."

Cause

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

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 *Context*.

Recommendation

We recommended that the City's management establish controls related to the preparation of the SEFA.

CITY CONTROLLER
CITY OF LAWRENCE
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

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

FINDING 2017-002

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

Condition

There were deficiencies in the internal control system of the City related to financial transactions and reporting.

Cash and Investments: Bank reconciliations for each bank account were not performed monthly during the audit period. Bank reconciliations were only performed monthly for the Operating and Utility accounts; however, the reconciliations did not balance to the ledger. In addition, the City did not perform a combined reconciliation for all accounts for December 31, 2017.

Context

The lack of control and noncompliance were systemic issues, which occurred throughout the audit period.

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. . . ."

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."

Cause

Management of the City had not established an effective system of internal control over financial transactions and reporting and cash and investments.

Effect

The failure to establish controls enabled material misstatements to remain undetected.

CITY CONTROLLER
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FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the City's management establish controls related to financial transactions and reporting and cash and investments.

Views of Responsible Officials

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

FINDING 2017-003

Subject: Capitalization Grants for Drinking Water State Revolving Funds - Cash Management
Federal Agency: Environmental Protection Agency
Federal Program: Drinking Water State Revolving Fund
CFDA Number: 66.468
Federal Award Number and Year (or Other Identifying Number): FY 2017
Pass-Through Entity: Indiana Finance Authority
Compliance Requirement: Cash Management
Audit Finding: Material Weakness

Condition

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

Reimbursement requests were prepared by one individual without a system of oversight, review, or approval.

Context

The lack of controls was a systemic issue, which occurred 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). . . ."

Cause

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

CITY CONTROLLER
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FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the Cash Management compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish controls to ensure compliance with the grant agreement and the Cash Management compliance supplement.

Views of Responsible Officials

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

FINDING 2017-004

Subject: Capitalization Grants for Drinking Water State Revolving Funds - Reporting
Federal Agency: Environmental Protection Agency
Federal Program: Drinking Water State Revolving Fund
CFDA Number: 66.468
Federal Award Number and Year (or Other Identifying Number): FY 2017
Pass-Through Entity: Indiana Finance Authority
Compliance Requirement: Reporting
Audit Findings: Material Weakness, Other Matters

Condition

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

The City did not have a system in place to assign and employees to complete and review the completion of the required MBE/WBE annual report. The City did not submit the required MBE/WBE report for 2017.

Context

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

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

CITY CONTROLLER
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FEDERAL FINDINGS
(Continued)

(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). . . ."

40 CFR 33.502 states in part: "MBE and WBE participation must be reported by all recipients, including those recipients exempted under § 33.411 from the requirement to apply the fair share objectives, on EPA Form 5700-52A. . . ."

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 noncompliance with the grant agreement and the Reporting compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish controls related to 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.



City of
LAWRENCE
Indiana

Jason C. Fenwick, City Controller/Deputy Mayor

FINDING 2017-001

Contact Person Responsible for Corrective Action: Jason C. Fenwick, City Controller
Contact Phone Number: 317.542.4441

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: The City has implemented policy number CC.02.035 Recording of Grants, effective immediately. This policy will implement a system of internal control designed to prevent, detect, and correct errors on the Schedule of Expenditures of Federal Awards ("SEFA") to ensure accurate reporting of federal awards. The system is effective immediately and will include reporting for the 2018 Annual Report.

Anticipated Completion Date: October 24, 2018

FINDING 2017-002

Contact Person Responsible for Corrective Action: Jason C. Fenwick, City Controller
Contact Phone Number: 317.542.4441

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: The City has implemented additional internal controls designed to ensure the accuracy and completion of the City bank reconciliations for each bank account.

Anticipated Completion Date: December 31, 2018

FINDING 2017-003

Contact Person Responsible for Corrective Action: Jason C. Fenwick, City Controller
Contact Phone Number: 317.542.4441

9001 East 59th Street, Suite 300
Lawrence, Indiana 46216
317.542.4441
jfenwick@cityoflawrence.org

Views of Responsible Official:

We concur with the finding

Description of Corrective Action Plan:

The City has implemented a review process for disbursement requests for eligible expenditures under the State Revolving Fund loan program. This review includes a system of internal controls designed to prevent, detect, and correct errors in recording expenditures and receipts for this program. The system includes a formal approval from the Controller prior to submission and includes a notation for either reimbursement or direct payment from SRF. This is effective immediately and will include reporting for the 2018 Annual Report.

Anticipated Completion Date:

October 24, 2018

FINDING 2017-004

Contact Person Responsible for Corrective Action:

Jason C. Fenwick, City Controller

Contact Phone Number:

317.542.4441

Views of Responsible Official:

We concur with the finding

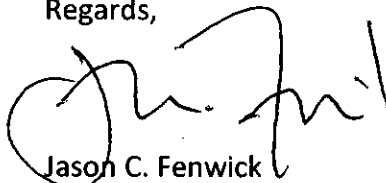
Description of Corrective Action Plan:

The City was first made aware of this requirement during the audit period. The City has complied with the filing for fiscal year 2018. The City has implemented a system of internal controls designed to prevent any future omissions of filing this report. The City also recommends that administrators of the State Revolving Loan Fund program make participants aware of this reporting requirement during the loan closing process. The City was not aware of the requirement last year.

Anticipated Completion Date:

October 24, 2018

Regards,



Jason C. Fenwick
City Controller

CITY CONTROLLER
CITY OF LAWRENCE
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Reports B39737, B40686, B42601, B46301, and B48915.

The financial statement presented for audit included the Payroll fund with an overdrawn cash balance of \$18,176 at December 31, 2017.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

BANK ACCOUNT RECONCILIATIONS

Similar comments also appeared in prior reports B39737, B40686, B42601, B46301, and B48915, entitled *BANK ACCOUNT RECONCILIATIONS*.

Bank reconciliations for each bank account were not performed monthly during the audit period. Bank reconciliations were only performed monthly for the Operating and Utility accounts, and in these cases the reconciliations did not balance to the ledger. In addition, the City did not perform a combined reconciliation for all accounts for December 31, 2017.

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."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CITY CONTROLLER
CITY OF LAWRENCE
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2018, with Jason Fenwick, City Controller; Steve Collier, Mayor; and Lisa Chavis, President of the Common Council.