

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF EVANSVILLE

VANDERBURGH COUNTY, INDIANA

January 1, 2014 to December 31, 2014



**FILED**  
02/23/2016



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Russell G. Lloyd, Jr., CPA	01-01-14 to 12-31-15
Mayor	Lloyd Winnecke	01-01-12 to 12-31-15
President of the Board of Public Works	Marty Amsler	01-01-14 to 12-31-15
President of the City Council	John E. Friend Dr. H. Dan Adams	01-01-14 to 12-31-14 01-01-15 to 12-31-15
General Manager of Utilities	Allen Mounts	01-01-14 to 12-31-15



**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](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE CITY OF EVANSVILLE, VANDERBURGH COUNTY, INDIANA

This report is supplemental to our audit report of the City of Evansville (City), for the period from January 1, 2014 to December 31, 2014. 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/](http://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

December 17, 2015

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CONTROLLER  
CITY OF EVANSVILLE

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CITY OF EVANSVILLE  
FEDERAL FINDINGS

**FINDING 2014-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following material error: The Economic Development Cluster was included in the SEFA; however, no expenditures were reported. Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. 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 award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual 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 shall 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.



CONTROLLER  
CITY OF EVANSVILLE  
FEDERAL FINDINGS  
(Continued)

- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

***FINDING 2014-002 - INTERNAL CONTROL AND COMPLIANCE - BANK ACCOUNT RECONCILIATIONS***

For the City bank reconcilements, three employees from the Controller's Office prepare the bank reconcilements and are to be reviewed and approved by the Controller. There was no documentation that could be tested or reviewed of the review of the reconcilements by the Controller. For the Utility bank reconcilements, the Utility Accountant prepares bank reconcilements and are to be reviewed and approved by the Utility Chief Financial Officer. There was no documentation that could be tested or reviewed of the review of the reconcilements by the Utility Chief Financial Officer. During testing, errors were found in the reconcilements of the City and Utilities, the City and Utilities failed to properly design and implement effective internal controls over the preparation of the bank reconciliation to prevent, or detect and correct, material misstatements.

City cash and investment fund balances, including Water and Wastewater funds, were not properly reconciled to bank balances for all twelve months of 2014. As a result of incomplete and inaccurate reconcilements and improper accounting for cash and investments, incorrect postings to records remained undiscovered. When aggregated, the errors and discrepancies noted on the bank reconciliation resulted in a difference between the records and bank balances of \$659,165, which was not considered material.

New accounting software was implemented during 2011. During 2012, the City implemented various changes to recording procedures, which included establishing separate bank accounts for Water and Wastewater Utilities. Although the City has transferred the appropriate amount of cash from the City bank account to the Utility bank accounts as of December 31, 2014, the reconciled bank accounts for the City and Utilities do not agree with the amounts reported on the ledger as described in the preceding paragraph.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 5-13-6-1(e) states in part: "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 of Evansville**  
**Office of the Controller**  
CIVIC CENTER COMPLEX, Room 300  
ONE N. W. MARTIN LUTHER KING JR. BLVD.  
EVANSVILLE, IN 47708

Lloyd Winnecke, Mayor

Russell Lloyd Jr. CPA, Controller

December 15, 2015

Indiana State Board of Accounts  
302 W. Washington St. Room E-418  
Indianapolis, IN 46204-2765

**CORRECTIVE ACTION PLAN FOR 2014 FEDERAL AWARDS**

***FINDING 2014-001* PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Contact Person Responsible for Corrective Action: Russell Lloyd, Jr. CPA  
Contact Phone Number: 812-436-4919

**Description of Corrective Action Plan:**

The City of Evansville (the City) was alerted to the reporting requirements of the U. S. Dept. of Commerce for the Economic Development Cluster ERA Revolving Loan Fund CFDA No. 11.307 in late 2014. The City Controller assigned the Deputy Controller responsibility for grant reporting and assigned an experienced manager as the new Grants Manager in late 2013. The Deputy Controller and Grants Manager review grants regularly at a minimum quarterly so that year end federal and state reporting will be correct going forward. The City still uses a decentralized system for obtaining grants so individual department managers may pursue grants specific to their areas of knowledge and expertise but the Grants Manager will follow up and be responsible for overall grant reporting except in rare circumstances.

The City has obtained training under third party vendors on grant procurement, management and reporting. The City has also worked with the Indiana State Board of Accounts staff to review reporting procedures and make corrective adjustments.

Anticipated Completion Date: December 31, 2015

**FINDING 2014-002 INTERNAL CONTROL AND COMPLIANCE - BANK ACCOUNT RECONCILIATIONS**

Contact Person Responsible for Corrective Action: Russell Lloyd, Jr. CPA  
Contact Phone Number: 812-436-4919

**Description of Corrective Action Plan:**

The City disputes the characterization that the City fund balances were not properly reconciled to the bank accounts. All entries noted on the State Board of Accounts Difference Evaluation Form have been corrected; some in prior years. A difference between the City books and the Indiana Dept. of Local Government Finance GATEWAY reported fund balances account for some of these timing differences.

The City, Water and Wastewater Utilities (the Utilities) enacted a complete conversion of an older pooled cash management bank reconciliation program to a modern Tyler Technology Inc. MUNIS financial software based treasury funds cash management and bank reconciliation system in the fall of 2012. The City and Utilities prepared numerous procedural corrections and adjustments to the new system as it operated which were reflected in the audit results performed by the Indiana State Board of Accounts for December 31, 2013. Since that time the treasury funds have performed correctly showing a daily system balance noting any exceptions and the bank accounts have been fully reconciled using the bank reconciliation module.

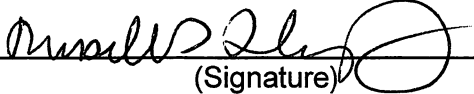
The City has enacted additional internal controls as part of the new procedures over bank transactions to include segregation of duties and supervisory approval of general ledger and cash bank accounts.

The City Finance Dept. and Utility accounting staff have become experienced in the Tyler MUNIS accounting system and have made ongoing system adjustments to the bank account reconciliation and cash transaction programs. The Controller and responsible City department directors that use federal funds believe the accounting for all the federal and state grant programs are presented in the fund balances and include all transactions.

The City Finance and Utility department management have seen great improvements made to the accounting and reporting system on an ongoing basis. The Tyler MUNIS financial software accounting treasury cash management system is a great improvement over the prior system and reconciliations are easier to accomplish and much improved over the system in use before 2012.

The City will continue to make continuing system enhancements but the bulk of the treasury cash management and bank reconciliation improvements are now in place.

Anticipated Completion Date: June 30, 2015

  
(Signature)

Controller  
(Title)

12-17-15  
(Date)

CONTROLLER  
CITY OF EVANSVILLE  
AUDIT RESULTS AND COMMENTS

**APPROPRIATIONS**

The records presented for audit indicated the following expenditures were made by the Controller in excess of budgeted appropriations:

Fund	Year	Excess Amount Expended
Motor Vehicle Highway	2014	\$ 73,035
Park District Bond Refunding 2010	2014	1,000

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

**OVERDRAWN CASH BALANCES**

The financial statement presented for audit contained some funds with deficits in cash as of December 31, 2014. Three of the funds (IHCDA Blight Elimination Fund Grant, Community Dev Block Grant and Emergency Shelter Grant) are a result of those funds being set up for reimbursable grants. The reimbursements for expenditures made by the City were not received by December 31, 2014. The Accounts Receivable Clearing fund has a cash balance deficit due to the nature of the fund. The Parking, Arts District, Golf Course, Sports Non-Reverting, Park District Bond Refunding 2010, and Hospitalization funds spent more than they received.

Although the General Fund showed a balance of \$307,140 as of December 31, 2014, the fund would have shown a deficit balance of \$5,888,660 as of December 31, 2014, if not for the following items:

1. The Wastewater Utility prepaid the 2015 payment in lieu of taxes payment totaling \$2,428,000
2. The City did not pay the General fund's portion of hospitalization bills for the 3rd quarter of 2014 totaling \$3,767,800.

A similar comment appeared in prior Report B44197.

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 7)

CONTROLLER  
CITY OF EVANSVILLE  
AUDIT RESULTS AND COMMENTS  
(Continued)

**SEPARATE BANK ACCOUNTS**

The Vanderburgh County Solid Waste District funds were accounted for in the bank account of the City of Evansville.

A similar comment appeared in prior Report B44197.

When two or more governmental units are authorized by statute to have the same fiscal officer, there should be separate bank accounts and accounting records for each governmental unit unless authorized by statute, appropriate federal or state rule or regulation. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**PARKING METER FEES**

Parking meter fees are deposited into the General Fund instead of a special fund. The City is working with the City Attorney to prepare an ordinance to be passed in the future.

A similar comment appeared in the prior Report B44197.

Indiana Code 36-9-12-4(a) states:

"A municipality must provide, by ordinance, that:

- (1) All license fees collected from parking meters shall be deposited with the municipal fiscal officer;
- (2) the fees shall be deposited to the credit of the municipality in a special fund; and
- (3) disbursements from the special fund may be made only on orders of the municipal words board, or board of transportation and only for the purposes listed in subsection (b)."



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Lloyd Winnecke, Mayor

Russell Lloyd Jr. CPA, Controller

December 23, 2015

Indiana State Board of Accounts  
302 W. Washington St. Room E418  
Indianapolis, IN 46204-2765

Reference: Official Response to 2014 State Board of Accounts Audit of the Financial Statements of the City of Evansville

Dear State Board Member(s):

The City of Evansville ("the City") recognizes the efforts put forth by the Indiana State Board of Accounts ("the State") performing the 2014 financial statement audit for the City. We submit below our responses to your audit results and comments. Our responses detail our understanding of the issues raised by the State and outline the City's expected course of action to explain and resolve these findings.

For purposes of this letter, we are referring to the financial statement audit for the fiscal year ending 2014. Presented in order are the audit results and comments raised by the State and addressed by the City.

**APPROPRIATIONS**

The City Motor Vehicle Highway Fund expended additional funds higher than the State budget order due to several unrelated factors. There was a carryover in 2014 of 2013 general expenditures of \$ 231,817.04 that was spent in calendar 2014. Additionally a harsh winter in 2013 and 2014 caused additional snow plow driver hours worked and overtime, which included extra fuel usage and supply costs.

In response to this finding, in 2015 the City Motor Vehicle Highway Department assisted by the Finance Dept. managed resources more carefully including limiting personnel costs combined with lower fuel expense. Additionally the City did not experience the seasonal winter weather severity as in the prior year. Therefore expenditures in 2015 will come in well below the State budget order.

The City Parks Bond Refunding 2010 Fund expended \$ 1,000 additional funds above the State budget order in 2014 to pay a bond trustee fee. The budget did not allow for this expenditure in an omission. In 2015 the City will correct the Parks Bond Refunding 2010 Fund to eliminate this expenditure to stay within the State budget allowance.

## **OVERDRAWN CASH BALANCES**

The City's long standing cash management policy is to minimize transfers between funds and to evaluate the annual accounting period as a whole, not as a series of 365 days. The City is aware that certain cash balances in particular funds may fall below zero on a given day. This is due to sporadic revenue streams and constant disbursement requests. It is the City's established policy that each department director and correlated fund manage their budget throughout the year to ensure all funds begin and end the year with a positive cash balance.

In a situation where the City knows in advance a fund will end the period with a negative cash balance, the City may issue a temporary loan to that fund and establish repayment terms no later than June of the following year.

Additionally, some funds such as federal type funds that are operated on a reimbursement basis. In these circumstances the City will incur costs and then be reimbursed. On an interim basis the fund balance may fall below zero. It is the City's policy to be aware of these instances and ensure that those funds with a negative balance are offset by receivables (reimbursements) in excess of the shortfall.

To address specific overdrawn funds as of December 31, 2014:

IHCDA Blight Elimination – Federal and State reimbursable expenditures not received as of year end.  
Community Development Block Grant – Federal reimbursable expenditures not received as of year end.

Emergency Shelter (Solutions) Grant – Federal reimbursable expenditures not received as of year end.

Accounts Receivable Clearing Fund – Internal service fund reimbursable expenditures not received as of year end.

Downtown Parking Garage – The existing management contract with Evansville Vanderburgh Building Authority revenues are insufficient to cover expenditures. The City is reviewing an alternative management agreement.

Arts District TIF – District TIF property tax revenues were insufficient to cover expenditures at year end. For 2015 additional revenues were received and the deficit is eliminated.

Golf Course Non Reverting – The City and Parks District management has had to adjust to a decline in golf rounds occurring for several years. The City has initiated a restructuring of golf courses through expense reductions and new marketing promotions but the fund will continue to show a negative balance in 2015. The City will review additional necessary changes to the golf courses including revenue increases and expenditure reductions to bring the fund to a positive balance including using interfund transfers.



Sports Non Reverting – The City and Parks district management has had to deal with a long term trend continual decline in softball league participation over multiple years with the corresponding decline in revenue for the fund. City management will review restructuring this fund by lowering expenses or possibly merge it with the Parks District to eliminate the deficit. The fund is projected to incur a deficit in 2015. The City will also review possible interfund transfers to eliminate the deficit.

The City is working with an external financial consultant to address the potential deficit funding situation in the General Fund. This is due to property tax controls enacted by the Indiana Legislature as well as increases in employee benefits and in particular increases in employee health insurance costs. In response the City has reduced expenditures in 2015 and the 2016 expenditure budget was lower than 2015 by (\$ 381,963). The City has implemented changes in the employee health insurance plan that should lower expenditures for future employee benefits. The City implemented new purchasing procedures to better control supply expense and eliminate waste. Additionally the City is reviewing other expenditure reductions including implementing a hiring freeze, reorganizing job duties, eliminating positions by attrition and reducing contractual expenditures.

**SEPARATE BANK ACCOUNTS**

The City maintains the funds for the Vanderburgh County Solid Waste Management District (VCSWMD) in the Civil City pooled cash general bank account. These funds are accounted for separately and the entity has claim on the cash that is available to that entity when needed and authorized. The City manages the transactions for the VCSWMD which are few in number due to the small size of the entity. The City will review the costs and benefits to be gained, if any, to opening a separate bank account for this entity.

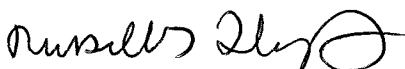
**PARKING METER FEES**

Indiana Code 36-9-12-4(2) states that parking meter receipts should be deposited into a special fund and disbursements should be made against that fund for authorized purchases.

The City, in response to the Indiana Code and prior year State requests has set up a new Parking Meter Fund in 2015 that will take effect in the 2016 City budget. The Parking Meter department has been moved out of the General Fund. While parking receipts are projected to fall short of the matching expenditures of the parking meter employees costs and department expenditures in 2015 and 2016 provision has been made in the 2016 budget to allow a transfer of funds so the fund balance will remain positive.

Please contact me at 812-436-4919 or email [rlloyd@evansville.in.gov](mailto:rlloyd@evansville.in.gov) if any questions.

Respectively submitted,

 CPA  
Russell G. Lloyd Jr., CPA  
Controller

CONTROLLER  
CITY OF EVANSVILLE  
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2015, with Russell G. Lloyd, Jr. CPA, Controller; Lloyd Winnecke, Mayor; Dr. H. Dan Adams, President of the City Council; Missy Mosby, City Council member; Stephanie Brinkerhoff-Riley, City Council member; Constance Robinson, City Council member; John E. Friend, City Council member; Jonathan Weaver, City Council member; Allen Mounts, General Manager of Utilities; Jenny Collins, Chief Financial Officer of Utilities; Julie A. Probus, Finance Officer; Marco DeLucio, City Attorney; and Steve Schaefer, Chief of Staff.

CITY COUNCIL  
CITY OF EVANSVILLE

CITY COUNCIL  
CITY OF EVANSVILLE  
AUDIT RESULT AND COMMENT

**APPROPRIATIONS**

The records presented for audit indicated the following expenditures in excess of budgeted appropriations and no additional appropriation were sought by the Council:

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
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**APPROPRIATIONS**

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In response to this finding, in 2015 the City Motor Vehicle Highway Department assisted by the Finance Dept. managed resources more carefully including limiting personnel costs combined with lower fuel expense. Additionally the City did not experience the seasonal winter weather severity as in the prior year. Therefore expenditures in 2015 will come in well below the State budget order.

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In a situation where the City knows in advance a fund will end the period with a negative cash balance, the City may issue a temporary loan to that fund and establish repayment terms no later than June of the following year.

Additionally, some funds such as federal type funds that are operated on a reimbursement basis. In these circumstances the City will incur costs and then be reimbursed. On an interim basis the fund balance may fall below zero. It is the City's policy to be aware of these instances and ensure that those funds with a negative balance are offset by receivables (reimbursements) in excess of the shortfall.

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### **PARKING METER FEES**

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The City, in response to the Indiana Code and prior year State requests has set up a new Parking Meter Fund in 2015 that will take effect in the 2016 City budget. The Parking Meter department has been moved out of the General Fund. While parking receipts are projected to fall short of the matching expenditures of the parking meter employees costs and department expenditures in 2015 and 2016 provision has been made in the 2016 budget to allow a transfer of funds so the fund balance will remain positive.

Please contact me at 812-436-4919 or email [rlloyd@evansville.in.gov](mailto:rlloyd@evansville.in.gov) if any questions.

Respectively submitted,

  
Russell G. Lloyd Jr., CPA  
Controller

CITY COUNCIL  
CITY OF EVANSVILLE  
EXIT CONFERENCE

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