

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, 2016 to December 31, 2016



FILED
12/05/2017



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Russell G. Lloyd, Jr., CPA	01-01-16 to 12-31-17
Mayor	Lloyd Winnecke	01-01-16 to 12-31-19
President of the Board of Public Works	Marty Amsler	01-01-16 to 12-31-17
President of the Common Council	Missy Mosby	01-01-16 to 12-31-17
Director of Utilities	Allen Mounts	01-01-16 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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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, 2016 to December 31, 2016. 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 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/.

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 Result and Comment contained herein describes the identified reportable instance 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 Result and Comment, incorporated within this report, was not verified for accuracy.

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

November 16, 2017

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CONTROLLER
CITY OF EVANSVILLE

CONTROLLER
CITY OF EVANSVILLE
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCES

The financial statement presented for audit included the following funds with overdrawn cash balances at December 31, 2016:

Fund	Amount Overdrawn
Parking Garages	\$ 189,731
Rental Housing Inspection	4,836
Redevelopment - Victory	226,082
Golf Course Non Reverting	704,404
Sport Non-Reverting	339,788
Hospitalization Insurance	4,978,172

The following funds contained cash deficit balances throughout the audit period:

Fund	Number of Months Ended in Deficit Balance During 2016	Highest Month-End Deficit Balance During 2016
General	10	\$ 15,745,625
Parks and Recreation	9	1,971,663
Parking Meter	5	46,924
Golf Course Non Reverting	12	706,547
Parking Garages	12	189,731
Rental Housing Inspection	8	10,236
Sports Non-Reverting	12	339,788
Park District Bond Refunding 2010	3	20,628
Redevelopment - Victory	12	882,345
Hospitalization Insurance	12	7,514,356
Berry Plastics 2011	6	6,005

Similar comments also appeared in prior Reports B43517, B44197, B45887, and B47236, entitled **OVERDRAWN CASH BALANCES**.

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 unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



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

November 22, 2017

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

Reference: Official Response to 2016 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 2016 financial statement audit for the City. We submit below our responses to your audit result and comment. 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 this finding.

For purposes of this letter, we are referring to the financial statement audit for the fiscal year ending 2016. Presented in order are the audit result and comment raised by the State and addressed by the City.

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 their 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 from another fund and establish repayment terms no later than June or December of the following year.

Additionally, some funds such as federal type funds and internal service funds 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 cash deficit fund balances on December 31, 2016:

Downtown Parking Garage – The existing management contract revenues are insufficient to cover expenditures. The City is reviewing an alternative management agreement and reducing costs. A one-time cash transfer in 2017 to restore a positive fund balance will be implemented.

Rental Housing Inspection – This new fund encompasses the City's rental registry program for landlords. As the program was set up fund expenditures exceeded revenues. 2016 revisions to the program will increase revenues to move the fund to break even status. A one-time cash transfer in 2017 to restore a positive fund balance will be implemented.

Redevelopment - Victory – Under the existing management contract revenues are insufficient to cover expenditures. A new garage has been constructed to service the downtown convention hotel that should increase revenues. Additionally, automated ticket collections are being installed to save labor costs. The City is reviewing alternative management arrangements as well as considering a separate interfund transfer to eliminate the deficit.

Golf Course Non-Reverting – The City and Parks District management has had to adjust to a decline in golf rounds occurring for the last several years. The City has initiated a restructuring of golf courses beginning in 2014 through expense reductions and new marketing promotions but the fund continued to show negative revenue versus expenditure balances through 2016. The City is implementing additional restructuring steps including cost reductions and additional fees increases to bring the fund to a positive cash flow position with the plan to reduce the deficit over time.

Sports Non-Reverting – The City and Parks District management has had to deal with a long term trend decline in softball league participation over multiple years with the corresponding decline in revenue for the fund. City management plans to eliminate this fund once revenues increase enough so the fund balance can be absorbed in the Parks District. Then the fund will be eliminated.

Hospitalization Insurance - The City utilizes a self-insured health insurance and hospitalization plan with stop loss liability insurance coverage. Fund revenues have been insufficient to cover expenditures for several years. The City's management has implemented numerous changes in the employee health insurance plan for 2015 - 2017 that should lower expenditures for future employee benefits. The City Administrative Services department is working with outside consultants to review additional ways to lower the costs of employee and retiree health insurance plan. The fund deficit will be lowered over time including using separate interfund miscellaneous revenue transfers where available.

To address funds with cash deficit balances at some point throughout the audit period of calendar 2016:

General Fund – The City General Fund is a fund with constant employee payroll, benefit and operating expense requirements coupled with sporadic revenue streams so that matching exact revenue to expenditures is near impossible. Two thirds of the fund's revenue is received through property and additional taxes twice a year while expenditures are required weekly. The City monitors the General Fund balances daily and make adjustments where possible. Due to the sporadic revenue streams and constant disbursement requests City management acknowledges times where month end fund cash balances will be negative. At year end the fund cash balance is positive.

Parks and Recreation Fund – The City Parks and Recreation Fund is another fund with various operations with constant employee payroll, benefit and operating expense requirements coupled with sporadic revenue streams so that matching exact revenue to expenditures is impossible. Over 70% of the fund's revenue is received through property and additional taxes twice a year while expenditures are required weekly. Other revenues such as summer swimming pool fees are received seasonally but expenditures are more constant. The City and Parks District management monitor the Parks and Recreation Fund balances daily and make adjustments where possible. Due to the sporadic revenue streams and constant disbursement requests City management acknowledges times where month end fund cash balances will be negative. At year end the fund cash balance is positive.

Parking Meter Fund – This new fund encompasses the City's parking meter program. The program revenue does not cover fund expenditures. For 2016 an interfund transfer was adopted in the budget for a cash transfer to restore the fund to a positive balance. At year end the fund cash balance is positive.

Golf Course Non-Reverting – The City and Parks District management has had to adjust to a decline in golf rounds played that has occurred over the last several years. The City has initiated a restructuring of golf courses beginning in 2014 through expense reductions and new marketing promotions but the fund continued to show negative revenue versus expenditure balances through 2016. The City is implementing additional restructuring steps including eliminating both a management position and golf greens superintendent position coupled with additional fee increases to bring the fund to a positive cash flow position with the plan to reduce the deficit over time.

Downtown Parking Garage – The existing management contract with the Evansville Vanderburgh Building Authority revenues are insufficient to cover expenditures. The City is reviewing an alternative management agreement and automating the parking ticket function in 2017 to reduce costs. A one-time cash transfer in 2017 to restore a positive fund balance will be implemented.

Rental Housing Inspection – This new fund encompasses the city's rental registry program for landlords. As the program was set up fund expenditures exceeded revenues. For 2016 revisions to the program including better collection of late rental fees will raise revenue to assist the fund to break even status. A one-time cash transfer in 2017 to restore a positive fund balance will be implemented.

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 participation fee revenue for the fund. City management plans to eliminate this fund once sufficient revenues are received so the fund can be absorbed in the Parks and Recreation Fund. Once the fund cash balance deficit is small enough to be absorbed into the Parks and Recreation Fund the Sports Non reverting Fund will be eliminated.

Parks District Bond Refunding 2010 – The fund balance on January 1, 2016 was insufficient to cover the Parks District bond payment on January 1, 2016. Adjustments made during the prior year budget preparation allowed the fund sufficient property tax revenue so surplus funds were on hand beginning in April 2016. At year end the fund cash balance is positive.

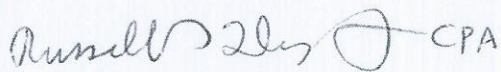
Redevelopment - Victory – Under the existing management contract with VenuWorks of Evansville and the Evansville Vanderburgh Building Authority revenues are insufficient to cover expenditures. A new garage has been constructed to service the downtown convention hotel that should increase revenues. Additionally, automated ticket collections are being installed to save labor costs and increase parking fee collections. The City is reviewing alternative management arrangements as well as considering a separate interfund transfer to eliminate the deficit

Hospitalization Insurance - The City utilizes a self-insured health insurance and hospitalization plan with stop loss liability insurance coverage. Fund revenues have been insufficient to cover expenditures for several years. The City's management has implemented numerous changes in the employee health insurance plan for 2015 - 2017 that should lower expenditures for future employee benefits. These changes included raising employee insurance premiums and deductibles coupled with a new prescription drug plan with cost saving features. The City Administrative Services department is working with outside consultants to review additional ways to lower the costs of the employee and retiree health insurance plan. The fund deficit will be lowered over time including using separate interfund miscellaneous revenue transfers where available.

Berry Plastics 2011 EDR Bond - This City economic development revenue bond fund cash balance on January 1, 2016 was a deficit from a prior year bond payment that was greater than the corresponding TIF property tax revenue. Adjustments made during the prior year budget preparation allowed the fund sufficient TIF property tax revenue so surplus funds were on hand beginning in June 2016. At year end the fund cash balance is positive.

Please contact me at 812-436-4919 or email rlloyd@evansville.in.gov if any questions.

Respectively submitted,



Russell G. Lloyd Jr., CPA
Controller

CONTROLLER
CITY OF EVANSVILLE
EXIT CONFERENCE

The contents of this report were discussed on November 16, 2017, with Lloyd Winnecke, Mayor; Russell G. Lloyd, Jr., CPA, Controller; Missy Mosby, President of the Common Council; Jonathan Weaver, Common Council member; Jenny Collins, Chief Financial Officer for the Evansville Utilities; Charlie Pride, Jr., Controller for the Evansville Utilities; and Steve Schaefer, Deputy Mayor.