

City of Bloomington, Indiana

Federal Compliance Report
December 31, 2020

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**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With Government Auditing Standards**

Independent Auditor's Report

City Council
City of Bloomington, 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 statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Bloomington, Indiana (the City) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 30, 2022. Our report includes a reference to other auditors who audited the financial statements of the Bloomington Public Transit Corporation, as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. Our report also contains emphasis of matter paragraphs for the restatements of errors and the omission of Management's Discussion and Analysis. Our opinions are not modified with respect to these matters.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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 opinions on the financial statements, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 financial statements. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and management's corrective action plan. The City's responses were not subject to the auditing procedures applied in the audit of the financial statements 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Chicago, Illinois
December 30, 2022

**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**

Independent Auditor's Report

City Council
City of Bloomington, Indiana

Report on Compliance for Each Major Federal Program

We have audited the City of Bloomington, Indiana'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 the City's major federal programs for the year ended December 31, 2020. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

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 major federal programs for the year ended December 31, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-003. Our opinion on the major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. 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

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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. 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 consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 30, 2022, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. 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 basic financial statements. 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, 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 basic financial statements as a whole.

RSM US LLP

Chicago, Illinois
January 31, 2023

CITY OF BLOOMINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2020

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listing Number	Pass-Through Entity (or Other) Identifying Number	Pass-Through To Subrecipient 12-31-20	Total Federal Awards Expended 12-31-20
<u>Department of Agriculture</u>					
Summer Food Service Program for Children 2020 Summer Food 201-18-G20011	Indiana Department of Education	10.559	FY2020	\$ -	\$ 33,346
Total - Child Nutrition Cluster				-	33,346
Local Food Promotion Program USDA Local Food Promotion Program 249-04-G18013	Direct grant	10.172	AM180100XXXXG124	-	25,928
Total - Department of Agriculture				-	59,274
<u>Department of Housing and Urban Development</u>					
CDBG - Entitlement Grants Cluster					
Community Development Block Grant/Entitlement Grants	Direct grant				
CDBG 250-15-150000		14.218	B15MC180013	-	270
CDBG 250-15-150000		14.218	B16MC180013	-	1,830
Total - Community Development Block Grant/Entitlement Grants				-	2,100
Community Development Block Grant/Entitle Grants CDBG 250-15-150000	Direct grant	14.218	B17MC180013	-	46,343
Community Development Block Grant/Entitle Grant CDBG 250-15-150000	Direct grant	14.218	B18MC180013	-	167,205
Community Development Block Grant/Entitlement Grants CDBG 250-15-150000	Direct grant	14.218	B19MC180013	-	457,125
CDBG 250-15-150000		14.218	B20MC180013	-	104,040
Total - Community Development Block Grant/Entitlement Grants				-	561,165
Total - CDBG - Entitlement Grants Cluster				-	776,813
Housing Counseling Assistance Program Housing Counseling 256-15-150002	Direct grant	14.169	HC190421043	-	2,672
Home Investment Partnerships Program	Direct grant				
HOME 254-15-150000		14.239	M15MC180200	-	92,889
HOME 254-15-150000		14.239	M16MC180200	-	264,280
HOME 254-15-150000		14.239	M17MC180200	-	98,049
HOME 254-15-150000		14.239	M18MC180200	-	77,466
HOME 254-15-150000		14.239	M19MC180200	-	221,094
HOME 254-15-150000		14.239	M20MC180200	-	31,616

Continued

CITY OF BLOOMINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2020

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listing Number	Pass-Through Entity (or Other) Identifying Number	Pass-Through To Subrecipient 12-31-20	Total Federal Awards Expended 12-31-20
Total - Home Investment Partnerships Program				\$ -	\$ 785,394
Total - Department of Housing and Urban Development				-	1,564,879
<u>Department of the Interior</u>					
Fish and Wildlife Cluster					
Wildlife Restoration and Basic Hunter Education CHAP Grant 201-18-G19008	Indiana Department of Natural Resources	15.611	W47D2	-	25,000
Total - Fish and Wildlife Cluster				-	25,000
Total - Department of the Interior				-	25,000
<u>Department of Justice</u>					
JAG Program Cluster					
Edward Byrne Memorial Justice Assistance Grant Program 2016 JAG 249-14-G17015	Indiana State Police	16.738	2016-DJ-IX-0698	5,325	26,624
Total - JAG Program Cluster				5,325	26,624
Missing Children's Assistance 2019 Internet Crimes Against Children 249-14-G19006	Indiana State Police	16.543	#24467	-	18,855
Total - Missing Children's Assistance				-	18,855
Bulletproof Vest Partnership Program 2018-19 Bulletproof Vest Partnership Program 249-14-G18012	Direct Grant	16.607	None noted	-	32,402
Equitable Sharing Program Equitable Sharing 2019 355-14-149999	Direct Grant	16.922	FY2019	-	143,922
Total - Department of Justice				5,325	221,803
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster					
Highway Planning and Construction	Indiana Department of Transportation				
Sare Rd Multi Use Path 978-6-06016B		20.205	835664	-	66,357
Bike Ped Facility 2nd/Bloomfield Rd 439-15-159001		20.205	PO 0017817365	-	8,614
Intersection Improvement on ST Tapp and Rockport 601-02-020000 & 439-15-159015		20.205	PO 10813662 & 17807671	-	54,582
Intersection Improvement W/ New Signals at Various Locations 978-06-06016B		20.205	PO 18808381	-	27,258

Continued

CITY OF BLOOMINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2020

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listing Number	Pass-Through Entity (or Other) Identifying Number	Pass-Through To Subrecipient 12-31-20	Total Federal Awards Expended 12-31-20
Total - Highway Planning and Construction				\$ -	\$ 156,811
Highway Planning & Construction Bike/Pedestrian Facilities on Jackson Creek Trail Phase 2 978-06-06016C	Indiana Department of Transportation	20.205	PO 18815049	-	44,920
Highway Planning and Construction MPO Reimbursement FY 2020 101-13-130000	Indiana Department of Transportation	20.205	PO 20021893	147,827	394,902
Total - Highway Planning and Construction Cluster				147,827	596,633
Highway Safety Cluster					
State and Community Highway Safety 2020 CHIRP Admin 249-14-G19020	Indiana Criminal Justice Institute	20.600	2020 CHIRP 2020-00005 Admin	402	966
2020 CHIRP DRE 249-14-G19021		20.600	2020 CHIRP 2020-00005 DRE	165	165
Total - State and Community Highway Safety				567	1,131
State and Community Highway Safety Program 2020 CHIRP Click it 249-14-G19015	Indiana Criminal Justice Institute	20.600	CHIRP 2020-00005 Click-it	15,580	17,321
Total - Highway Safety Cluster				16,147	18,452
Minimum Penalties for Repeat Offenders for Driving While Intoxicated 2020 CHIRP DUI 249-14-G19016	Indiana Criminal Justic Institute	20.608	CHIRP 2020-00005 DUI	2,927	2,927
National Priority Safety Programs 2020 CHIRP Motorcycle 249-14-G19017	Indiana Criminal Justic Institute	20.616	2020-0000 Motorcycle	908	908
Total - Department of Transportation				167,809	618,920
<u>Department of the Treasury</u>					
COVID-19: Coronavirus Relief Fund Corona Virus Reimbursement 160-06-G20018-42120	Indiana Finance Authority	21.019	None noted	-	2,757,105
Total - Department of the Treasury				-	2,757,105

Continued

CITY OF BLOOMINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2020

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listing Number	Pass-Through Entity (or Other) Identifying Number	Pass-Through To Subrecipient 12-31-20	Total Federal Awards Expended 12-31-20
<u>National Endowment for the Humanities</u>					
Promotion of the Arts Partnership Agreements	Direct Grant				
2019 Community Engagement 249-04-G19007		45.025	32949	\$ -	\$ 1,250
FY2020 Cultural District Grant 249-04-G20003		45.025	32949	-	1,875
Total - Promotion of the Arts Partnership Agreements				-	3,125
Promotion of the Humanities Federal/State Partnership	Indiana Humanities Council				
2020 Humanities 312-09-G20012		45.129	#20-1037	-	2,000
Total - National Endowment for the Humanities				-	5,125
<u>Environmental Protection Agency</u>					
Community Wide Brownfield Assessment	Direct grant				
ASAP Grant Community Wide Brownfield Assessment 249-04-G17018		66.818	00E02280	-	216,097
Total - Environmental Protection Agency				-	216,097
<u>Department of Education</u>					
Twenty-First Century Community Learning Center	Monroe County Community School Corp				
2019-2020 21st CCLC Grant for Monroe County School Corporation 201-18-G19012		84.287	FY2019	-	18,679
2020-2021 21st CCLC Grant for Monroe County School Corporation 201-18-G20019		84.287	FY2020	-	2,881
Total - Twenty-First Century Community Learning Center				-	21,560
Total - Department of Education				-	21,560
<u>Department of Health and Human Services</u>					
Developmental Disabilities Basic Support and Advocacy Grants	Indiana University				
2019 ADA Ride Hailing 312-09-G19001		93.630	None noted	-	3,000
Maternal and Child Health Services Block Grant to the States	Indiana Department of Health				
Yapa Grant 201-18-G17014		93.994	SCHM# 0022365 PO 18524512	-	-
Total - Department of Health and Human Services				-	3,000
<u>Department of Homeland Security</u>					
National Urban Search and Rescue (US&R) Response System	Direct Grant				
FEMA Task Force One 249-08-G20017		97.025	EMW-2018-CA-USR-0013	-	5,732
Total - Department of Homeland Security				-	5,732
Total federal awards expended				\$ 173,134	\$ 5,498,495

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

City of Bloomington, Indiana

**Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2020**

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal award activity of the City under programs of the federal government for the year ended December 31, 2020. 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 or changes in financial position of the City.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. For reimbursement grants passed through the State of Indiana, in accordance with Uniform Guidance, the award is deemed to be expended when evidence of approval is received from the State. For direct award grants, in accordance with Uniform Guidance, the award is deemed to be expended when the cash is disbursed.

Note 3. Indirect Cost Recovery

The City has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

City of Bloomington, Indiana

Schedule of Findings and Questioned Costs
Year Ended December 31, 2020

I. SUMMARY OF AUDITOR'S RESULTS

A. Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified
2. Internal control over financial reporting:
 - Material weakness(es) identified? X Yes No
 - Significant deficiency(ies) identified? Yes X None reported
3. Noncompliance material to the financial statements noted? Yes X No

B. Federal Awards

1. Internal control over federal major programs:
 - Material weakness(es) identified? Yes X No
 - Significant deficiency(ies) identified? Yes X None reported
2. Type of auditor's report issued on compliance for the major federal program: Unmodified
 - Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? X Yes No

3. Identification of major program:

Federal Assistance Listing Number	Name of Federal Program or Cluster
14.218	Community Development Block Grants (CDBG) - Entitlement Grants Cluster
14.239	HOME Investment Partnerships Program
21.019	COVID 19: Coronavirus Relief Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee? Yes X No

(Continued)

Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2020

II. FINANCIAL STATEMENT FINDINGS

Finding 2020-001: Financial Accounting and Reporting under US GAAP

Condition and Context followed by Criteria

The City is required to maintain books and records under both the regulatory basis of accounting and convert those records to report under accounting principles generally accepted within the United States of America (GAAP). Given that the requirements for reporting under GAAP are relatively new for the City (first required starting with the City's fiscal year ending December 31, 2019), there is an inherent risk associated with the specificities of certain accounting and reporting requirements allowed for under GAAP for various operations relating to city government. While the City has a system of internal controls in place over accounting and financial reporting, as a result of the aforementioned risks and fairly new reporting requirements, there were material errors detected by the auditors and corrected by management associated with the financial statements as noted below:

Analysis performed on the City's opening balance sheet determined the City had improperly reported the net pension liabilities associated with both the 1925 Police Pension Plan and 1937 Firefighters' Pension Plan. Audit procedures revealed the City improperly recorded the Plan's total pension liability rather than the net pension liability as of December 31, 2019. The City restated opening balances to correct the net pension liability for the 1925 Police Pension Plan and 1937 Firefighters' Pension Plan, which reduced the liabilities by each Fund's fiduciary net position as of December 31, 2019. The impact of this error resulted in the liabilities as of December 31, 2019 to be overstated. The adjustment resulted in a restatement of opening net position that increased the governmental activities opening net position by approximately \$2.8 million.

GASB Codification P20 Pension Activities-Reporting for Benefits Provided Through Trusts That Meet Specified Criteria-Defined Benefit requires a government that participates in a pension plan administered through a Trust recognize the net pension liability. The net pension liability should be measured as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements (total pension liability), net of the pension plan's fiduciary net position. The City's net pension liability is equal to the total pension liability net of the pension plan's fiduciary net position.

During our testing to search for unrecorded liabilities, we identified exceptions with approximately 23% of transactions tested (13 out of a sample of 56 transactions) in which invoices relating to goods received or services performed prior to year-end were not recorded as payables in the proper period. At the end of the fiscal year, the City should record an accounts payable liability for any goods received or services performed before the end of the year which were subsequently paid after the year-end. Based on the results of testing, we determined the City's accounts payable balance was understated and the following adjustments and uncorrected misstatements were evaluated and either recorded or passed on by the City due to not being material:

- The City's Consolidated TIF Bond Proceeds Fund recorded an audit adjustment to increase accounts payable and related expenditure accounts by approximately \$536,000.
- The City's Aggregate Nonmajor Funds recorded an audit adjustment to increase accounts payable and related expenditure accounts by approximately \$3.0 million.
- The City's Water Fund reported an uncorrected misstatement to increase accounts payable and related expenditures by approximately \$59,000.
- The City's Wastewater Fund reported an uncorrected misstatement to increase accounts payable and related expenditures by approximately \$72,000.
- The City's Consolidated TIF Fund reported an uncorrected misstatement to increase accounts payable and related expenditures by approximately \$48,000.

Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2020

II. FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2020-001: Financial Accounting and Reporting under US GAAP (Continued)

GASB Codification section 1600 *Basis of Accounting* requires a government to accrue a governmental fund liability and expenditure under the modified accrual basis of accounting for most operational expenditures in the period in which the government incurs the liability, which is not dissimilar from the full accrual basis used by enterprise funds and the government-wide financial statements.

During our testing over capital assets reported by the City

- Capital asset records are maintained manually in Microsoft Excel and there was a formula error identified within the capital asset schedule that impacted the City's reporting of construction in progress as of December 31, 2019, resulting in a \$4.2 million understatement of opening net position. To correct this error, the City included the assets as current year additions, resulting in an overstatement of additions in 2020 of \$4.2 million. The \$4.2 million misstatement to opening net position was reported as an uncorrected misstatement on opening balances.
- An error was identified within the capital asset schedule that impacted the City's reporting of construction in progress as of December 31, 2020, resulting in an understatement of \$7.6 million of current year additions. An audit adjustment was recorded to correct the balance at year-end.
- During our testing for unrecorded liabilities, we identified numerous exceptions in which the City had improperly excluded capital outlay expenditures from its general ledger as of December 31, 2020. As a result of our search for unrecorded liabilities, we determined the City had omitted approximately \$3.5 million of capital assets additions.
- For capital assets associated with governmental activities, the acquisition of capital assets is generally reported as capital outlay expenditures in the governmental fund statement of revenues, expenditures and changes in fund balance. Based on our review of the City's unadjusted trial balance, the capital asset schedules and detailed expenditures, it was determined that the City's capital outlay expenditures were understated and that multiple capital outlay expenditures were reported as expenditures in other various expenditure categories. After a detailed review of governmental fund expenditures by the City a reclassification adjustment to several governmental funds was recorded to reclassify multiple expenditures to capital outlay totaling \$13.1 million with corresponding reductions to the City's other expenditure categories within the governmental funds.

GASB Codification section 1400 *Reporting Capital Assets* requires that governmental entities report capital assets at historical cost, or at acquisition value if donated. In addition, general capital assets are associated and generally arise from governmental activities and most often they result from the expenditures of governmental fund financial resources and should be reported as capital outlay expenditures in governmental funds.

City of Bloomington, Indiana

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2020

II. FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2020-001: Financial Accounting and Reporting under US GAAP (Continued)

During the analysis of the City's governmental fund balance classifications and fund types, it was identified that the City had fund reported as special revenue funds which did not meet the requirements for being defined as special revenue fund:

Indiana Code (IC 36-1-8-5.1) permits for local governments to establish and report a separate rainy day (stabilization) fund through the passage of a local ordinance. The City established their local Rainy Day Fund (the Fund) through Ordinance 01-19 and continued to operate and report the activity within a special revenue fund. Subsequent guidance issued by the SBOA in the form of a Memorandum suggested that applicable local governments review their previous conclusion relating to the fund classification created by Indiana code, which as a Rainy Day Fund to verify it was appropriately reported in accordance with the requirements of GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. Based on the results of that review, management determined that the Fund did not meet the definition of a special revenue fund and would need to be reclassified as a sub-fund of the General Fund. The impact of this reclassification resulted in a restatement of fund balance of \$4.9 million.

GASB Codification section 1300 *Fund Accounting* requires that in order for stabilization arrangements to satisfy the criteria to be reported as a separate special revenue fund only if the resources derive from a specific restricted or committed revenue source. Governments should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

During our testing of the business-type activities long term debt obligations, it was identified that the City did not have adequate controls in place to ensure proper reporting of debt transactions at the time of issuance. In summary we identified that:

- The amounts historically reported for bond issuance costs, bond premiums and discounts did not agree to the amounts included in the official statements or closing documents for various debt issuances including current issuances during the fiscal year.
- Bond premiums and discounts, which were recorded, were being amortized using the straight-line method over the life of the bonds, however, these balances are required to be amortized utilizing the effective interest method.

Based on our analysis, the City's reporting of bond issuance costs, bond premiums and bond discounts for business-type activities is inconsistent and generally not in accordance with US GAAP. Since the inconsistent treatment had been applied during 2020 and prior periods, the Water Fund and Wastewater Fund's individual opening net position was overstated by approximately \$272,000 and \$49,000, respectively. These errors combined resulted in business-type activities opening net position to be overstated by \$321,000. As these errors are not material to the opening balances, the City chose to correct the errors in the current period. A summary of the corrections recorded by the Water Utility Fund and Wastewater Utility Fund as of December 31, 2020 is as follows:

- \$201,800 overstatement of bond discounts in the Wastewater Utility Fund
- \$213,457 overstatement of bond discounts in the Water Utility Fund
- \$154,322 overstatement of bond premiums in the Wastewater Utility Fund
- \$88,087 overstatement of bond premiums in the Water Utility Fund
- \$60,000 understatement of bond issuance costs in the Wastewater Utility Fund
- \$172,848 understatement of interest expense (including \$125,370 in the Water Utility Fund and \$47,478 in the Wastewater Utility Fund)

Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2020

II. FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2020-001: Financial Accounting and Reporting under US GAAP (Continued)

GASB Codification Section I30 *Interest Costs-Imputation* requires the imputation, the difference between the present value and face amount should be treated as a discount or premium and amortized as interest expense or revenue over the life of the note in such a way as to result in a constant rate of interest when applied to the amount outstanding at the beginning of any given period, which is known as the interest method. In addition, issuance costs, except any portion related to prepaid insurance costs, should be recognized in as an expense in the period incurred.

Cause

City management stated that while there are controls in place to address the risks associated with converting the books and records from the regulatory basis to GAAP basis for financial reporting purposes, the City realizes there is an inherent risk associated with the fact that these requirements are new for the City and due to the volume of activities that are required to be evaluated, there are items that are not addressed within their existing controls and review process to timely identify all errors.

Effect

The City's financial statements would be materially misstated without recording of the adjustments identified by management and the auditors.

Recommendation

We recommend that the City continue to refine their existing controls over financial reporting and the year-end close process, including steps taken to ensure the completeness and accuracy of year-end general ledger account balances, supporting reconciliations, closing entries, schedules, footnotes and other documentation.

Views of responsible officials

The City accepts the finding, please refer to the Corrective Action Plan for more information.

Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2020

II. FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2020-002: Revenue Recognition

Condition and Context followed by Criteria

Governmental entities that receive significant amounts of federal, state and local funding have specific internal control and compliance requirements. Sound internal controls over revenue recognition should include the following:

- Policies, procedures and controls in place to ensure it accurately identifies if revenue is both measurable and available as defined by Government Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.
- Effective grant monitoring at interim periods, including expenditures and revenues in comparison to budget and status of cash receipts and outstanding receivables.
- All receivables should be measured net of estimated uncollectible amounts. Charges for uncollectible revenues should reduce receivables and recognize a bad debt expense or deferred inflows of resources for the reported allowance for uncollectible accounts, as applicable.
- System that allows for the timely determination of federal funds received and expended for each individual assistance listing number for its fiscal year.

Governmental Activities and Governmental Funds

During 2020, the City was awarded approximately \$2.8 million in coronavirus relief funding through the Coronavirus Aid, Relief, and Economic Stability Act (CARES Act) grant program passed through the State of Indiana, specifically administered by the Indiana Finance Authority (IFA) and formally accepted by the City. During the year, the City accepted the award and received \$2.8 million in distributions from the Indiana Finance Authority based on expenditure information provided by the City to the IFA. However, the City recognized some of the funding as revenue with the remaining amount as unearned revenue, which was incorrect. Based on the grant agreement's eligibility requirements, which were met prior to year-end, the City understated revenue by \$2.1 million. In order to correct this misstatement, the City recorded an audit adjustment to increase intergovernmental revenues and decrease unearned revenue by the \$2.1 million within the aggregate non-major governmental fund, a part of the aggregate remaining fund information.

GASB Statement No. 33 states that governmental entities should recognize revenues when all applicable eligibility requirements have been met and that the recognition of assets and revenues should not be delayed pending completion of purely routine requirements, such as the filing of claims for allowable costs or filing of progress reports with the provider.

Local income taxes are a locally imposed derived tax revenue for which the State of Indiana administers the collection of tax revenue, processing of tax returns and disbursement of revenues on behalf of the underlying local government entities. The disbursements from the State are sent directly to the applicable County for their benefit or are to be passed through the County government on behalf of other units of local government located within the applicable County. In accordance with Indiana Code (IC 6-3.6-9-1), the State has established a trust account within the State general fund for each County that has locally imposed income tax. Any revenue derived from the imposition of the tax shall be deposited in the County's trust account in the State's general fund, of which a portion is taxes earned by the City. Any revenue remaining in a trust account at the end of a fiscal year does not revert to the State's general fund but is maintained by the State on behalf of the City. As of December 31, 2020 and 2019, the State Budget Agency estimates the amount maintained at the State on the City's behalf was \$5.4 million and \$5.6 million, respectively.

Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2020

II. FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2020-002: Revenue Recognition (Continued)

These amounts have not previously been reported by the City. Utilizing the State's certified distribution percentages, the balance of the trust account can be allocated to various governmental funds and custodial funds of the City, which in the aggregate resulted in an estimate of the allocation attributable to the City and a restatement of Governmental Activities net position of \$5.6 million.

GASB Codification section N50 *Nonexchange Transactions* requires that derived tax revenues from assessments imposed by governments on exchange transactions (which includes taxes on income) recognize assets from derived tax revenues in the period in which the exchange transaction on which the tax is imposed occurs or when resources are received, whichever occurs first.

Business-Type Activities, including the Water Utility Fund and Wastewater Utility Funds
Reconciliations: During testing of the accounts receivable balances reported on the initial trial balances provided by the Water Utility Fund and the Wastewater Utility Fund, it was identified that the City was not properly reconciling the accounts receivable reported on the general ledger to the utility billing system on a regular basis. The City performs an annual reconciliation of the change in the accounts receivable balance reported on the general ledger for the two utility funds and identified various reasons for the changes but did not reconcile the ending balance reported to the utility billing system. An adjustment was posted to reduce the accounts receivable balance in the Water Fund by \$139,705 and increase the balance in the Wastewater Fund by \$182,596.

Allowance for doubtful accounts: The City does not have a formal policy in place to report an estimate for uncollectible customer balances nor did the City report an allowance for doubtful accounts. An appropriate allowance for uncollectible receivable balances should be established based on the City's ability to collect on outstanding balances. As outstanding balances age, the probability of collections decreases substantially over time. Account aging and trends are important tools in evaluation of collectability of accounts. In evaluating an allowance, consideration should be given to the impact of such factors as the economic environment, credit conditions, account mix, and change in credit practices. During substantive testing of the accounts receivable aging reports, from the utility billing system, noted above, it was determined that most of the receivable balance related to uncollected balances from stale accounts with little to no activity in the over 120 days aging category in the current or immediate prior year. The City restated the opening accounts receivable balance to reflect an estimate of uncollectible accounts as of the beginning of the year. The impact of the restatement reduced net position of the Water Utility Fund by \$565,350, the Wastewater Utility Fund by \$653,564 and the combined Business-Type Activities by \$1,218,914. The allowance estimate was then adjusted for activity during the year as appropriate.

Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2020

II. FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2020-002: Revenue Recognition (Continued)

Unbilled Water and Wastewater Usage: The City bills for water usage and wastewater usage in arrears based on actual usage measured by meters installed on properties throughout the City. During testing of the accounts receivable balance reported by the City it was determined that the total accounts receivable balance reported was based on billing date and any bills not processed within the billing system as of December 31st are not included. The City did not and has not historically performed an analysis to adjust accounts receivable at fiscal year-end to estimate usage through the end of the year but not yet billed. This results in an understatement of accounts receivable and revenue at both the beginning of and end of the year. In order to correct this error, the City estimated the unbilled accounts receivable as of the beginning of the year and reported a restatement of opening net position for the Water Utility Fund of \$1,438,254, the Wastewater Utility Fund of \$1,863,097 and the combined effect on Business-Type Activities of \$3,301,351. The unbilled estimate was then adjusted at fiscal year-end as appropriate to report activity as of the end of the year.

Improper Recording of Unearned Revenue: The Wastewater Fund's unearned revenue account was overstated as of fiscal year-end due to an error in a manual adjustment associated with the posting of single payments from a large customer with more than 200 individual accounts. The aggregate impact resulted in an overstatement of unearned revenue of \$1.1 million which was subsequently corrected and recognized as revenue.

GASB Codification Section 1600 requires governments to recognize revenue in the proprietary fund statements of net position and revenues, expenses, and changes in fund net position should be presented using the economic resources measurement focus and the accrual basis of accounting. Revenue from exchange transactions generally should be recognized when an exchange, in the ordinary course of operations, is affected unless the circumstances are such that the collection of the exchange is not reasonable assured. Accordingly, revenues from exchange transactions should generally be accounted for at the time a transaction is completed, with appropriate provisions for uncollectible accounts.

Cause

City management stated that while there are controls in place to address the risks associated with converting the books and records from the regulatory basis to GAAP basis for financial reporting purposes, the City realizes there is an inherent risk associated with the fact that these requirements are new for the City and due to the volume of activities that are required to be evaluated, there are items not addressed within their existing controls and review process to identify errors on a timely basis.

Effect

The City's financial statements would be materially misstated without recording of the adjustments identified by management and the auditors.

Recommendation

We recommend that the City continue to refine their existing controls over revenue recognition and the year-end close process, including steps taken to ensure the completeness and accuracy of accounts receivable accruals supporting reconciliations, closing entries, and other documentation.

Views of responsible officials

The City accepts the finding, please refer to the Corrective Action Plan for more information.

City of Bloomington, Indiana

**Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2020**

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Internal Controls over Federal Awards

No matters to report.

Compliance Findings

Finding 2020-003 Late issuance of the 2020 Single Audit Reporting Package

Federal Programs

All Assistance Living Numbers (ALN's) included on the schedule of federal awards for the year ended December 31, 2020

Condition and Context followed by Criteria

The City's submission of the 2020 single audit reporting package was formally due to the Federal Audit Clearinghouse by March 31, 2022, but was not submit by the due date.

Under the Uniform Grant Guidance, Section 200.512, *Report Submission*, the audit must be completed and the data collection form must be submitted within the earlier of 30 calendar days of the auditor's report or nine months after the end of the audit period which was extended an additional six months by the OMB due to the COVID-19 pandemic.

Questioned Costs

None noted

Cause

The audit of the City's financial statements as of December 31, 2020 was not completed until December 30, 2022 for multiple reasons, including a component unit's December 31, 2019 financial statements being recalled and re-issued, multiple restatements and other audit adjustments identified by the auditors and the timeliness of the auditors in completing and finalizing audit procedures and reviews.

Effect

The Federal reporting package was not received timely by the Federal Audit Clearinghouse which could impact granting agencies.

Recommendation

We recommend that the City ensure timely filing of the single audit reporting package with the Federal Audit Clearinghouse.

Views of Responsible Officials

The City accepts the finding, please refer to the Corrective Action Plan for more information.



**JOHN HAMILTON
MAYOR**

CITY OF BLOOMINGTON

401 N Morton St 240
Post Office Box 100
Bloomington IN 47402

**JEFFREY UNDERWOOD
CONTROLLER**

CONTROLLER'S OFFICE

p 812.349.3412
f 812.349.3456
controller@bloomington.in.gov

**City of Bloomington, Indiana
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2020**

Reference Number	Summary of Finding	Status
2019-001	Preparation of the Schedule of Expenditures of Federal Awards Inadequate internal controls over the federal award information entered in the Indiana Gateway for Government Units financial reporting system, which was the source of the City's SEFA.	Resolved
2019-002	Internal Controls over Financial Transactions and Reporting Inadequate internal controls over the reporting of capital assets on the financial statements.	Partially Resolved- see finding 2020- 001





**JOHN HAMILTON
MAYOR**

CITY OF BLOOMINGTON

401 N Morton St 240
Post Office Box 100
Bloomington IN 47402

**JEFFREY UNDERWOOD
CONTROLLER**

CONTROLLER'S OFFICE

p 812.349.3412
f 812.349.3456
controller@bloomington.in.gov

**City of Bloomington, Indiana
CORRECTIVE ACTION PLAN
Year Ended December 31, 2020**

FINDING 2020-001 (Financial Accounting and Reporting under US GAAP)

Contact Person Responsible for Corrective Action: Jeff McMillian

Contact Phone Number: 812-349-3412

Views of Responsible Officials: We concur

Description of Corrective Action Plan: The City has implemented additional review procedures in conjunction with the completion of the 2021 financial statements to be issued in accordance with GAAP. As the City continues to refine its process of preparing full GAAP financial statements, additional reviews will be performed over year end account balances. Additionally, disbursements subsequent to year end will be reviewed in detail to ensure those balances for services/goods provided prior to year-end are properly captured and reported as payable as of year-end. Of additional note is that management's internal control policies and procedures identified a number of the corrections necessary as noted in finding 2020-001.

Anticipated Completion Date: 12/31/21 financial statement issuance

FINDING 2020-002 (Revenue Recognition)

Contact Person Responsible for Corrective Action: Jeff McMillian

Contact Phone Number: 812-349-3412

Views of Responsible Officials: We concur

Description of Corrective Action Plan: The City has implemented additional review procedures in conjunction with the completion of the 2021 financial statements to be issued in accordance with GAAP to ensure all revenues are properly captured and reported within the full accrual financial statements. Receivables will be recorded and reported for those revenues deemed earned by City management as of year-end

Anticipated Completion Date: 12/31/21 financial statement issuance

FINDING 2020-003 (Late issuance of the 2020 Single Audit Reporting Package)

Contact Person Responsible for Corrective Action: Jeff McMillian

Contact Phone Number: 812-349-3412

Views of Responsible Officials: Understood

Description of Corrective Action Plan: There were significant delays in finalizing the 2020 audit reporting and subsequently filing the 2020 single audit reporting package for a number of reasons, including several that were beyond the control of the City management team. The City is in the process of beginning the audit of the 2021 financial statements, more than a year following the close of the December 31, 2021 financial statements which will result in the 2021 single audit reporting package being filed late also. City management continues to work with new auditors to more timely complete the annual audit process of the City, and subsequently file the required single audit reporting package.

Anticipated Completion Date: 12/31/22 financial statement issuance (currently due to be filed with the Federal Audit Clearinghouse September 30, 2023).

