

**STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765**

AUDIT REPORT
OF

CITY CONTROLLER
CITY OF FORT WAYNE
ALLEN COUNTY, INDIANA

January 1, 2005 to December 31, 2005



FILED
7/18/06

TABLE OF CONTENTS

| <u>Description</u> | <u>Page</u> |
|---|-------------|
| City Officials | 2 |
| Transmittal Letter | 3 |
| Audit Results and Comments: | |
| Conflict of Interest | 4 |
| Federal and State Agencies Compliance Requirements | 4-5 |
| Various Accounting Guides, Manuals and Other Publications - Receivable Procedures | 5 |
| Condition of Capital Asset Records | 5-6 |
| Credit Cards (P-Cards) | 6 |
| Departmental Receipt Deposits | 6-7 |
| CDBG - CFDA 14.218 - Federal and State Agencies Compliance Requirements | 7-8 |
| Exit Conference | 9 |
| Official Response | 10-11 |

CITY OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|--|-------------------------------------|--|
| Controller | Patricia A. Roller | 01-01-05 to 12-31-06 |
| Mayor | Graham A. Richard | 01-01-04 to 12-31-07 |
| Director of the City Utilities and Public Works | Gregory A. Meszaros | 01-01-05 to 12-31-06 |
| Co-Directors of Public Safety | Timothy M. Davie Russell P. York | 01-01-05 to 12-31-06 01-01-05 to 12-31-06 |
| President of the Common Council | Tom Smith Dr. John N. Crawford | 01-01-05 to 12-31-05 01-01-06 to 12-31-06 |



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TO: THE OFFICIALS OF THE CITY OF FORT WAYNE

We have audited the records of the City Controller for the period from January 1, 2005 to December 31, 2005, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments. The financial transactions of this office are reflected in the Annual Report of the City of Fort Wayne for the year 2005.

STATE BOARD OF ACCOUNTS

June 21, 2006

CITY CONTROLLER
CITY OF FORT WAYNE
AUDIT RESULTS AND COMMENTS

CONFLICT OF INTEREST

Kirk Scott, a Fort Wayne Firefighter and owner of a company called Extrication Solutions, LLC, conducted \$37,084.80 in business with the City Fire Department in 2005 without filing a Uniform Conflict of Interest Disclosure Statement.

Indiana Code 35-44-1-3 states, in part:

"(a) A public servant who knowingly or intentionally: (1) has a pecuniary interest in; or (2) derives a profit from; a contract or purchase connected with an action by the governmental entity served by the public servant commits conflict of interest, a Class D felony. . . ."

"(c) This section does not prohibit a public servant from having a pecuniary interest in or deriving a profit from a contract or purchase connected with the governmental entity served . . . (3) if the public servant; (A) is an elected public servant. . . . and (B) makes a disclosure under subsection (d)(1) through (d)(6)."

"(d) A disclosure required by this section must: (1) be in writing; (2) describe the contract or purchase to be made by the governmental entity; (3) describe the pecuniary interest that the public servant has in the contract or purchase; (4) be affirmed under penalty of perjury; (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the governmental entity prior to final action on the contract or purchase; (6) be filed within fifteen (15) days after final action on the contract or purchase with: (A) the state board of accounts; and (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase. . . ."

"(g) A public servant has a pecuniary interest in a contract or purchase if the contract or purchase will result or is intended to result in an ascertainable increase in the income or net worth of: (1) the public servant; or (2) a dependent of the public servant who: (A) is under the direct or indirect administrative control of the public servant; or (B) receives a contract or purchase order that is reviewed, approved, or directly or indirectly administered by the public servant. . . ."

"(k) As used in this section, 'dependent' means any of the following: (1) The spouse of a public servant. (2) A child, stepchild, or adoptee (as defined in IC 31-9-2-2) of a public servant who is: (A) unemancipated; and (B) less than eighteen (18) years of age. (3) Any individual more than one-half (1/2) of whose support is provided during a year by the public servant."

FEDERAL AND STATE AGENCIES COMPLIANCE REQUIREMENTS

The City needs to obtain a Federal IRS Form W-9, Request for Taxpayer Identification Number and Certification, from all vendors entered into the Accounts Payable System. It was noted that these forms were not available for all of the vendors requested during the audit. It was also determined that several of the vendors should have been issued an IRS Form 1099 Information Return for 2005 and were not. The task for entering vendor information into the City's financial records program currently is delegated to the Purchasing Department. A similar comment appeared in prior Audit Report B25237.

CITY CONTROLLER
CITY OF FORT WAYNE
AUDIT RESULTS AND COMMENTS
(Continued)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

VARIOUS ACCOUNTING GUIDES, MANUALS AND OTHER
PUBLICATIONS - RECEIVABLE PROCEDURES

The initial December 31, 2005, receivable records were not accurate or complete. This resulted in additional audit time spent verifying transactions and balances to arrive at corrections and adjustments required to fairly present the receivables at December 31, 2005. The following represents recommendations to help ensure accuracy and completeness:

- There needs to be documented procedures on how the City conducts its search for unrecorded receivables at year-end.
- There needs to be documented procedures for intergovernmental receivable accruals and miscellaneous receivable accruals (miscellaneous receivable accruals include risk management, neighborhood code and violations receivables) including collection agency amounts.
- The reports to document the violations receivable accrual (the Violation Summary and Detail Reports) need to be run on the close of business on 12/31 or the last working day of the year. These reports are cumulative and cannot be accurately rerun at a later date.

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals and other publications. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONDITION OF CAPITAL ASSET RECORDS

The capital asset records were improved from the prior year, however, there are still some deficiencies in the records and controls that were not corrected. Also, a few new issues came to our attention that need to be addressed. A similar comment appeared in prior Audit Report B25237. The following is a brief summary of significant deficiencies noted during our audit:

- Verification of capital assets inventory overdue.
- Internal service and enterprise funds capital assets and accumulated depreciation did not agree between GFAM and Advantage Financial.

CITY CONTROLLER
CITY OF FORT WAYNE
AUDIT RESULTS AND COMMENTS
(Continued)

- Vehicle accounting conversion from GFAM to Faster was not handled properly.
- Right-of-way capitalization procedures were not clearly stated in the capital asset policy and were not consistently handled for capital assets purposes.
- Park construction in progress summaries were not provided for audit.

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals and other publications. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CREDIT CARDS (P-CARDS)

The Civil City, Park and City Utilities are using credit cards (P-Cards) to purchase smaller dollar items and also for travel purposes. It was noted that they are not always complying with the following sections of their P-Card Policy and Procedure Manual:

- (10) Ordering and Receipt of Materials and Services
- (11) Tax Exemption
- (13) Documentation

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.

Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DEPARTMENTAL RECEIPT DEPOSITS

We noted instances where receipts were remitted to the Controller's Office for deposit later than two business days after receipt from the following departments:

CITY CONTROLLER
CITY OF FORT WAYNE
AUDIT RESULTS AND COMMENTS
(Continued)

Board of Works
Fire Department
Purchasing Department
C & ED Zoning

A similar comment appeared in prior Audit Report B25237.

The City Clerk's Department deposits parking meter collections into the bank in a timely manner. However the bank deposit slips for the collections were not remitted to the Controller's Office in a timely manner, in some instances as late as two weeks later. The deposit slips for parking meter collections should be remitted to the Controller's Office at least once a week.

The City Clerk's Department cashed checks for an individual in charge of Parking Control. The computer system was designed to allow a check to be received and cash change given in order to zero out the transaction.

The Purchasing Department needs to write receipts for all money received. The receipts should be filled out in their entirety and remitted in a timely manner to the City Controller's Office along with a Cash Receipts Transmittal Form. The purchasing Department should match a copy of the cash transmittal form to the copy of the receipt from the Controller's office.

Indiana Code 5-13-6-1(d) states in part: "A city or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories selected by the city or town as provided in an ordinance adopted by the city or the town and approved as depositories of state funds."

Public funds shall be deposited in the same form in which they were received. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CDBG CDFA 14.218 - FEDERAL AND STATE AGENCIES COMPLIANCE REQUIREMENTS

The City's Community Development Block Grant (CDBG) program is funded on a reimbursement basis. When funding is by reimbursement, the entity must pay program costs before a reimbursement is requested from the federal government. Procedures over receipting, disbursing, recording and accounting for cash management activities were insufficient since disbursements could not be matched to their subsequent reimbursement.

As a result, the drawdowns received could not be traced to a payment voucher or other supporting documentation to determine if the disbursement was made prior to the date of the reimbursement request. However, records on hand were reviewed analytically to determine that grant transactions were not materially incorrect.

CITY CONTROLLER
CITY OF FORT WAYNE
AUDIT RESULTS AND COMMENTS
(Continued)

Also, the financial reports filed by the City could not be traced to the supporting documentation and accounting records to determine accuracy and completeness. Performance and evaluation reports in turn will not provide adequate information for measuring the program's progress. However, records on hand were reviewed analytically to determine that grant reports were not materially incorrect.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY CONTROLLER
CITY OF FORT WAYNE
EXIT CONFERENCE

The contents of this report were discussed on June 21, 2006, with Patricia A. Roller, City Controller; Valerie A. Ahr, Deputy Controller; and Lynn E. Trittipo, Director of Internal Audit. The official response has been made a part of this report and may be found on pages 10 and 11.



CITY OF FORT WAYNE

GRAHAM RICHARD, MAYOR

July 6, 2006

Mr. Bruce Hartman, CPA
State Board of Accounts
302 W. Washington St., Room E418
Indianapolis, IN 46204-2765

CONFLICT OF INTEREST

The City of Fort Wayne does issue conflict of interest forms annually to department heads. It is the responsibility of each department head to ensure any employee who may have a conflict report it to the proper authority. We will look into the process and identify better practices to ensure any possible conflict of interest is documented.

FEDERAL AND STATE AGENCIES – COMPLIANCE REQUIREMENTS

The Controller's Office will continue to work with the Purchasing Department. There have been several meetings between the Controller's Office and the Purchasing Department in order to ensure the City is compliant with the issuance of the W-9 forms as well as the 1099 Information Returns. The Controller's Office has assigned a Senior Financial Accountant to research and oversee the 1099 Information Return compliance. We will also work with Purchasing to ensure the issuance and return of W-9 forms for each vendor.

VARIOUS ACCOUNTING GUIDES, MANUALS AND OTHER PUBLICATIONS – RECEIVABLE PROCEDURES

The City is implementing a new financial system referred to as MUNIS. We kicked off the implementation process on June 27, 2006. One of the first discovery projects is to identify everything that is being billed by every department as well as how the information is being tracked and processed. The Controller's Office has assigned a Senior Financial Accountant to not only work on this discovery phase, but to also take the process several steps further. We will be identifying the processes of billing and collection, as well as the process of recording all accounts receivable. The goal is to have all receivables running through the new financial system and a streamlined procedure in place on collecting any outstanding balances.

CONDITION OF CAPITAL ASSETS RECORDS

We feel the City of Fort Wayne did an excellent job in bringing these records to an acceptable level. The City of Fort Wayne has hired an intern to work directly with the Senior Financial Accountant in charge of Capital Assets to complete a city-wide inventory. We will continue to document processes

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and procedures to ensure State Board of Accounts can properly audit the capital assets. The City is implementing a new financial system referred to as MUNIS. We will ensure all information converted will have an auditable trail.

With continued communication and direction from State Board of Accounts, the Controller's Office is confident we will be in compliance with all reporting structures.

CREDIT CARDS (P-CARDS)

The Controller's Office will work with the Purchasing Department in order to ensure the City is compliant with the use of the p-cards. We will ensure that supporting documentation and approvals are obtained for each transaction just as we would with any other claim.

RECEIPT DEPOSIT AND ISSUANCE

The receipt process will be evaluated. The Controller's Office will develop written procedures for receipts received from all departments regardless of their location. Internal Audit has provided the Controller's Office with information they had prepared several years ago. We will use that information as a basis for current procedures. Once again, the implementation of the MUNIS Financial System will require these processes and procedures to be developed, fine-tuned, documented and implemented.

CDBG CDFA 14.218 – FEDERAL AND STATE AGENCIES COMPLIANCE REQUIREMENTS

The Controller was informed of the critical issues and took immediate action. Disbursements and reimbursements were researched. A spreadsheet was developed to reconcile our financial system to the HUD financial system. We believe there were administrative problems as well as problems within the processes. Those issues have been addressed. In a five-day Lean Six Sigma process improvement session, the HUD grant processing was reengineered to ensure effective procedures, per HUD requirements, and reconciliation with the ledger system. This session included Community Development Directors, City Controller, Deputy Controllers and individuals who process the work. This process was completed in spring of 2006. The Controller's Office has started to implement some of the necessary changes to ensure proper processing of this information. We believe the outcome of that training will provide a stable base from which we can continuously improve the entire process of grant tracking.

With continued direction and support from the City Controller and the Controller's Office, Community Development has created three new positions focused on various aspects of the accounting functions for the entire Community Development Division.

We feel immediate corrective action has already occurred and will continue throughout 2006.

Sincerely,



Patricia A. Roller, CPA
City Controller