

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

CITY OF LAWRENCE
MARION COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
09/16/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Kimberly M. Diller Keith Johnson	01-01-12 to 08-09-13 08-10-13 to 12-31-13
Mayor	Hon. Dean Jessup	01-01-12 to 12-31-15
Clerk	Kathleen A. Walton	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Karen Horth-Powers	01-01-12 to 12-31-13
President of the Common Council	Linda Treat Tom Shevlot	01-01-12 to 12-31-12 01-01-13 to 12-31-13
President of the Utility Service Board	Charles Thompson Marcia Walton	01-01-12 to 12-31-12 01-01-13 to 12-31-13
Superintendent of Utilities	Carlton Curry John Solenberg	01-01-12 to 01-20-12 01-24-12 to 12-31-13



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statement

We have audited the accompanying financial statement of the City of Lawrence (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City for the year ended December 31, 2012.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated August 8, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. 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 financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, 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 financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

Other Information

Included in the financial statement are the receipts and disbursements activity from emergency telephone system fees (IC 36-8-16), enhanced wireless emergency telephone fees (IC 36-8-16.5), and statewide 911 services fees (IC 36-8-16.7). In accordance with Indiana Code 36-8-16-14, Indiana Code 36-8-16.5-41, and Indiana Code 36-8-16.7-38, these fees have been subject to an annual audit performed by the Indiana State Board of Accounts and, in our opinion, are fairly stated, in all material respects, in relation to the financial statement taken as a whole.

The City's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the City's response and, accordingly, we express no opinion on it.



Bruce Hartman
State Examiner

August 8, 2013



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CITY OF LAWRENCE, MARION COUNTY, 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 statement of the City of Lawrence (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated August 8, 2013, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, 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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency or 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of 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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

determination of financial statement amounts. 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 of Lawrence's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Official Response. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman
State Examiner

August 8, 2013

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF LAWRENCE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
General	\$ 89,661	\$ 23,420,026	\$ 23,449,275	\$ 60,412
Motor Vehicle Highway	190,840	1,877,947	1,787,067	281,720
Local Road And Street	264,531	512,942	561,010	216,463
Park Nonreverting Operating	291,830	181,481	266,795	206,516
Emergency Medical Services/Ambulance	95,110	1,238,863	1,617,333	(283,360)
Animal Shelter	1,831	45	-	1,876
Law Enforcement Continuing Education	116,740	40,457	23,269	133,928
Deferral Program	8,336	25,121	6,418	27,039
Rainy Day	471,109	-	471,109	-
Hazardous Materials	7,435	11,869	6,607	12,697
Federal Revenue Sharing Trust	20,600	6,107	7,888	18,819
Levy Excess	28,563	-	-	28,563
Redevelopment Capital	1,951,606	684,831	870,325	1,766,112
Cumulative Building	52,193	-	-	52,193
Cumulative Capital Improvement	147,846	354,374	303,218	199,002
Ft. Harrison Reuse Authority	1,743,154	3,331,313	3,492,468	1,581,999
Self Funding Insurance	(514,006)	5,541,976	5,443,556	(415,586)
Police Pension	108,703	401,488	432,224	77,967
Redevelopment Debt Reserve	185,778	-	-	185,778
Flexible Spending Clearing Account	136,095	251,042	349,626	37,511
Donations	66,559	51,125	59,231	58,453
Federal Grants	(113,387)	661,825	774,690	(226,252)
State Grant	14,836	-	-	14,836
Nonreverting (Special)	711,896	-	711,896	-
Developers Escrow	95,745	-	-	95,745
Local Grant	2,112	2,000	-	4,112
LOIT - Public Safety	111,079	1,737,819	1,418,678	430,220
Park Building Debt	66,488	96,000	46,100	116,388
Park Bond - 1990	8,301	-	-	8,301
Park Debt - 1998	127,912	351,244	343,150	136,006
Fire Debt II (Station 3)	16,899	-	-	16,899
Fire Debt V (Station 4)	68,490	-	-	68,490
Fire Debt (Stn 2 - Training Ctr)	278,425	308,678	572,000	15,103
Municipal Building Corp Debt	13,194	725,251	696,284	42,161
Government Center Debt	79,214	-	-	79,214
Transportation Bond (Proceeds)	137,378	-	636	136,742
Payroll	(132,099)	12,983,595	13,912,518	(1,061,022)
Wastewater Utility - Operating	2,385,582	8,000,139	6,513,749	3,871,972
Wastewater Utility - Bond and Interest Sinking	(1,000)	-	-	(1,000)
Wastewater Utility - Sewer Capital Improvement	1,952,036	474,733	508,912	1,917,857
Wastewater Utility - Bond Proceeds	50,580	-	-	50,580
Wastewater Utility - SRF Loan	(133,928)	899,803	796,309	(30,434)
Wastewater Utility - Bond Proceeds '09	1,650,709	-	921,175	729,534
Wastewater Utility - Debt Service Reserve '09	145,497	72,793	467	217,823
Wastewater Utility - Debt Reserve	234,143	-	450	233,693
Water Utility - Operating	1,269,278	6,809,456	7,473,088	605,646
Water Utility - Bond and Interest Sinking	(1,000)	-	-	(1,000)
Water Utility - Capital Improvement	386,862	-	66,972	319,890
Water Utility - Bond Proceeds	313,000	-	-	313,000
Water Utility - Bond Proceeds '09	163,214	-	-	163,214
Water Utility - Debt Service Reserve '09	226,130	113,112	293	338,949
Water Utility - Debt Reserve	664,144	2	292	663,854
Totals	\$ 16,256,244	\$ 71,167,457	\$ 73,905,078	\$ 13,518,623

The notes to the financial statement are an integral part of this statement.

CITY OF LAWRENCE
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, electric, gas, storm water, trash, aviation, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

CITY OF LAWRENCE
NOTES TO FINANCIAL STATEMENT
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Penalties which include fees received for late payments.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

CITY OF LAWRENCE
NOTES TO FINANCIAL STATEMENT
(Continued)

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

CITY OF LAWRENCE
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The City may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

CITY OF LAWRENCE
NOTES TO FINANCIAL STATEMENT
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

B. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (INPRS) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting, and requirements for contributions by employers and by employees. Covered employees may retire at age 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy

The contribution requirements of plan members and the City are established by the Board of Trustees of INPRS.

Note 7. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of funds being set up for reimbursable grants and the disbursements made by the entity were not reimbursed before December 31, 2012. Some funds are set up as Payroll Funds and Group Insurance Funds. There may from time to time be a deficit in cash balance in these funds due to timing of premium deductions and disbursements. In addition, an enterprise fund may result in a deficit cash balance due to the timing of receipts of outstanding earned revenue.

Note 8. Holding Corporations

The City has entered into capital leases with the Lawrence Government Center Building Corporation, Lawrence Municipal Building Corporation, and the Lawrence Fire Station Building Corporation (the lessors). The lessors were organized as not-for-profit corporations pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the City. The lessors have been determined to be a related party of the City. Lease payments during the calendar year 2012 totaled \$1,317,284.

CITY OF LAWRENCE
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 9. Other Postemployment Benefits

The City provides to eligible retirees and their spouses the following benefit: retiree health insurance. This benefit poses a liability to the City for this year and in future years. Information regarding the benefit can be obtained by contacting the City.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the City. It is presented as intended by the City.

CITY OF LAWRENCE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	General	Motor Vehicle Highway	Local Road And Street	Park Nonreverting Operating	Emergency Medical Services/ Ambulance	Animal Shelter	Law Enforcement Continuing Education	Deferral Program
Cash and investments - beginning	\$ 89,661	\$ 190,840	\$ 264,531	\$ 291,830	\$ 95,110	\$ 1,831	\$ 116,740	\$ 8,336
Receipts:								
Taxes	7,698,921	673,584	-	-	-	-	-	-
Licenses and permits	829,110	17,235	-	-	-	-	18,850	-
Intergovernmental	4,110,852	1,186,022	512,942	-	-	-	13,324	25,121
Charges for services	5,964,447	-	-	177,894	1,238,863	30	8,283	-
Fines and forfeits	141,875	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	4,674,821	1,106	-	3,587	-	15	-	-
Total receipts	23,420,026	1,877,947	512,942	181,481	1,238,863	45	40,457	25,121
Disbursements:								
Personal services	17,230,895	893,951	-	-	1,240,266	-	-	-
Supplies	458,021	450,813	29,167	19,817	97,645	-	14,405	4,583
Other services and charges	1,901,871	430,865	171,218	183,894	102,667	-	8,864	1,289
Debt service - principal and interest	3,803,260	6,290	360,625	-	1,106	-	-	-
Capital outlay	36,606	5,148	-	63,084	175,649	-	-	546
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	18,622	-	-	-	-	-	-	-
Total disbursements	23,449,275	1,787,067	561,010	266,795	1,617,333	-	23,269	6,418
Excess (deficiency) of receipts over disbursements	(29,249)	90,880	(48,068)	(85,314)	(378,470)	45	17,188	18,703
Cash and investments - ending	\$ 60,412	\$ 281,720	\$ 216,463	\$ 206,516	\$ (283,360)	\$ 1,876	\$ 133,928	\$ 27,039

CITY OF LAWRENCE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Rainy Day	Hazardous Materials	Federal Revenue Sharing Trust	Levy Excess	Redevelopment Capital	Cumulative Building	Cumulative Capital Improvement	Ft. Harrison Reuse Authority
Cash and investments - beginning	\$ 471,109	\$ 7,435	\$ 20,600	\$ 28,563	\$ 1,951,606	\$ 52,193	\$ 147,846	\$ 1,743,154
Receipts:								
Taxes	-	-	-	-	683,912	-	318,137	3,331,313
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	6,107	-	-	-	35,619	-
Charges for services	-	11,869	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	919	-	618	-
Total receipts	-	11,869	6,107	-	684,831	-	354,374	3,331,313
Disbursements:								
Personal services	-	-	-	-	-	-	80,661	-
Supplies	-	5,125	4,450	-	130	-	-	-
Other services and charges	-	1,083	3,438	-	161,982	-	-	-
Debt service - principal and interest	-	-	-	-	258,155	-	190,995	-
Capital outlay	-	399	-	-	450,058	-	31,562	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	471,109	-	-	-	-	-	-	3,492,468
Total disbursements	471,109	6,607	7,888	-	870,325	-	303,218	3,492,468
Excess (deficiency) of receipts over disbursements	(471,109)	5,262	(1,781)	-	(185,494)	-	51,156	(161,155)
Cash and investments - ending	\$ -	\$ 12,697	\$ 18,819	\$ 28,563	\$ 1,766,112	\$ 52,193	\$ 199,002	\$ 1,581,999

CITY OF LAWRENCE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Self Funding Insurance	Police Pension	Redevelopment Debt Reserve	Flexible Spending Clearing Account	Donations	Federal Grants	State Grant	Nonreverting (Special)
Cash and investments - beginning	\$ (514,006)	\$ 108,703	\$ 185,778	\$ 136,095	\$ 66,559	\$ (113,387)	\$ 14,836	\$ 711,896
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	401,488	-	-	-	661,825	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	5,541,976	-	-	251,042	51,125	-	-	-
Total receipts	5,541,976	401,488	-	251,042	51,125	661,825	-	-
Disbursements:								
Personal services	-	432,224	-	-	-	426,136	-	-
Supplies	-	-	-	-	3,112	177,922	-	-
Other services and charges	5,443,556	-	-	-	55,991	126,872	-	-
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	128	43,760	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	349,626	-	-	-	711,896
Total disbursements	5,443,556	432,224	-	349,626	59,231	774,690	-	711,896
Excess (deficiency) of receipts over disbursements	98,420	(30,736)	-	(98,584)	(8,106)	(112,865)	-	(711,896)
Cash and investments - ending	\$ (415,586)	\$ 77,967	\$ 185,778	\$ 37,511	\$ 58,453	\$ (226,252)	\$ 14,836	\$ -

CITY OF LAWRENCE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Developers Escrow	Local Grant	LOIT - Public Safety	Park Building Debt	Park Bond - 1990	Park Debt - 1998	Fire Debt II (Station 3)	Fire Debt V (Station 4)
Cash and investments - beginning	\$ 95,745	\$ 2,112	\$ 111,079	\$ 66,488	\$ 8,301	\$ 127,912	\$ 16,899	\$ 68,490
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	2,000	1,737,819	-	-	-	-	-
Charges for services	-	-	-	96,000	-	264,000	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	87,244	-	-
Total receipts	-	2,000	1,737,819	96,000	-	351,244	-	-
Disbursements:								
Personal services	-	-	782,234	-	-	-	-	-
Supplies	-	-	176,185	-	-	-	-	-
Other services and charges	-	-	256,996	1,100	-	1,250	-	-
Debt service - principal and interest	-	-	180,038	45,000	-	270,242	-	-
Capital outlay	-	-	23,225	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	71,658	-	-
Total disbursements	-	-	1,418,678	46,100	-	343,150	-	-
Excess (deficiency) of receipts over disbursements	-	2,000	319,141	49,900	-	8,094	-	-
Cash and investments - ending	\$ 95,745	\$ 4,112	\$ 430,220	\$ 116,388	\$ 8,301	\$ 136,006	\$ 16,899	\$ 68,490

CITY OF LAWRENCE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Fire Debt (Stn 2 - Training Ctr)	Municipal Building Corp Debt	Government Center Debt	Transportation Bond (Proceeds)	Payroll	Wastewater Utility - Operating	Wastewater Utility - Bond and Interest Sinking
Cash and investments - beginning	\$ 278,425	\$ 13,194	\$ 79,214	\$ 137,378	\$ (132,099)	\$ 2,385,582	\$ (1,000)
Receipts:							
Taxes	284,304	655,101	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	23,890	69,059	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	7,809,347	-
Penalties	-	-	-	-	-	190,792	-
Other receipts	484	1,091	-	-	12,983,595	-	-
Total receipts	<u>308,678</u>	<u>725,251</u>	<u>-</u>	<u>-</u>	<u>12,983,595</u>	<u>8,000,139</u>	<u>-</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	1,000	-	636	-	-	-
Debt service - principal and interest	572,000	695,284	-	-	-	-	-
Capital outlay	-	-	-	-	-	54,784	-
Utility operating expenses	-	-	-	-	-	5,572,248	-
Other disbursements	-	-	-	-	13,912,518	886,717	-
Total disbursements	<u>572,000</u>	<u>696,284</u>	<u>-</u>	<u>636</u>	<u>13,912,518</u>	<u>6,513,749</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(263,322)</u>	<u>28,967</u>	<u>-</u>	<u>(636)</u>	<u>(928,923)</u>	<u>1,486,390</u>	<u>-</u>
Cash and investments - ending	<u>\$ 15,103</u>	<u>\$ 42,161</u>	<u>\$ 79,214</u>	<u>\$ 136,742</u>	<u>\$ (1,061,022)</u>	<u>\$ 3,871,972</u>	<u>\$ (1,000)</u>

CITY OF LAWRENCE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Wastewater Utility - Sewer Capital Improvement	Wastewater Utility - Bond Proceeds	Wastewater Utility - SRF Loan	Wastewater Utility - Bond Proceeds '09	Wastewater Utility - Debt Service Reserve '09	Wastewater Utility - Debt Reserve	Water Utility - Operating
Cash and investments - beginning	\$ 1,952,036	\$ 50,580	\$ (133,928)	\$ 1,650,709	\$ 145,497	\$ 234,143	\$ 1,269,278
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	474,733	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	6,700,798
Penalties	-	-	-	-	-	-	108,658
Other receipts	-	-	899,803	-	72,793	-	-
Total receipts	474,733	-	899,803	-	72,793	-	6,809,456
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	1,551
Utility operating expenses	508,912	-	796,309	921,175	467	450	5,881,938
Other disbursements	-	-	-	-	-	-	1,589,599
Total disbursements	508,912	-	796,309	921,175	467	450	7,473,088
Excess (deficiency) of receipts over disbursements	(34,179)	-	103,494	(921,175)	72,326	(450)	(663,632)
Cash and investments - ending	\$ 1,917,857	\$ 50,580	\$ (30,434)	\$ 729,534	\$ 217,823	\$ 233,693	\$ 605,646

CITY OF LAWRENCE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Water Utility - Bond and Interest Sinking	Water Utility - Capital Improvement	Water Utility - Bond Proceeds	Water Utility - Bond Proceeds '09	Water Utility - Debt Service Reserve '09	Water Utility - Debt Reserve	Totals
Cash and investments - beginning	\$ (1,000)	\$ 386,862	\$ 313,000	\$ 163,214	\$ 226,130	\$ 664,144	\$ 16,256,244
Receipts:							
Taxes	-	-	-	-	-	-	13,645,272
Licenses and permits	-	-	-	-	-	-	865,195
Intergovernmental	-	-	-	-	-	-	9,260,801
Charges for services	-	-	-	-	-	-	7,761,386
Fines and forfeits	-	-	-	-	-	-	141,875
Utility fees	-	-	-	-	-	-	14,510,145
Penalties	-	-	-	-	-	-	299,450
Other receipts	-	-	-	-	113,112	2	24,683,333
Total receipts	-	-	-	-	113,112	2	71,167,457
Disbursements:							
Personal services	-	-	-	-	-	-	21,086,367
Supplies	-	-	-	-	-	-	1,441,375
Other services and charges	-	-	-	-	-	-	8,854,572
Debt service - principal and interest	-	-	-	-	-	-	6,382,995
Capital outlay	-	19,486	-	-	-	-	905,986
Utility operating expenses	-	47,486	-	-	293	292	13,729,570
Other disbursements	-	-	-	-	-	-	21,504,213
Total disbursements	-	66,972	-	-	293	292	73,905,078
Excess (deficiency) of receipts over disbursements	-	(66,972)	-	-	112,819	(290)	(2,737,621)
Cash and investments - ending	\$ (1,000)	\$ 319,890	\$ 313,000	\$ 163,214	\$ 338,949	\$ 663,854	\$ 13,518,623

CITY OF LAWRENCE
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2012

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental activities	\$ 9,346	\$ 323,782
Wastewater	-	812,365
Water	<u>44,957</u>	<u>899,001</u>
Totals	<u>\$ 54,303</u>	<u>\$ 2,035,148</u>

CITY OF LAWRENCE
SCHEDULE OF LEASES AND DEBT
December 31, 2012

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
Chase Equipment Leasing	New World System ERP	\$ 190,995	02-04-09	02-04-14
First Bankers	Fire Rescue Trucks (2)	92,896	10-01-09	02-01-17
GE Capital	Bobcat Lease	9,193	10-01-08	10-01-13
Oshkosh Capital	2006 Pierce Arrow XT Pumper Truck	-	12-13-07	01-13-12
TCF Equipment Finance	2009 Trash Truck - Petersen Lightning Loader	31,710	10-21-09	10-21-14
TCF Equipment Finance	2009 Trash Truck & Toters - Labrie Automated	236,793	12-15-09	12-15-14
TCF Equipment Finance	2010 Trash Truck - Labrie Automated	64,199	02-16-10	02-16-15
TCF Equipment Finance	2010 Trash Truck - Labrie Automated	61,189	09-08-10	09-08-15
US Bank	Lawrence Government Center Building Corporation: Park Facility Improvement Bonds 2012	76,000	07-15-13	07-15-19
US Bank	Lawrence Municipal Building Corporation: Government Center & Addition	695,419	02-15-07	02-15-22
US Bank	Lawrence Fire Station Building Corporation: Fire Station #2	<u>370,000</u>	07-05-12	01-05-23
Total governmental activities		<u>1,828,394</u>		
Wastewater:				
GE Capital	Bobcat Lease	4,597	10-01-08	10-01-13
Kansas State Bank	Sewer Truck Lease 2010	<u>20,560</u>	06-02-10	06-09-15
Total Wastewater		<u>25,157</u>		
Water:				
Banc of America	Meter Replacement Program	235,964	05-27-11	05-27-26
GE Capital	Bobcat Lease	<u>4,597</u>	10-01-08	10-01-13
Total Water		<u>240,561</u>		
Total of annual lease payments		<u>\$ 2,094,112</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
General obligation bonds	General Obligation Bonds	\$ 5,017,000	\$ 616,593
Wastewater:			
Revenue bonds	Revenue Bonds	<u>9,002,307</u>	<u>787,401</u>
Water:			
Revenue bonds	Revenue Bonds	<u>12,220,000</u>	<u>1,235,828</u>
Totals		<u>\$ 26,239,307</u>	<u>\$ 2,639,822</u>

CITY OF LAWRENCE
SCHEDULE OF CAPITAL ASSETS
December 31, 2012

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	Ending Balance
Governmental activities:	
Land	\$ 3,289,058
Infrastructure	122,565,521
Buildings	577,888
Improvements other than buildings	4,784,373
Machinery, equipment, and vehicles	8,277,265
Total governmental activities	139,494,105
Wastewater:	
Infrastructure	36,790,481
Improvements other than buildings	5,493
Machinery, equipment, and vehicles	347,039
Total Wastewater	37,143,013
Water:	
Land	610,062
Infrastructure	68,412,129
Buildings	3,311,800
Improvements other than buildings	1,386
Machinery, equipment, and vehicles	3,667,905
Total Water	76,003,282
Total capital assets	\$ 252,640,400

CITY OF LAWRENCE
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statements presented in this report included the following nonreimbursable funds with overdrawn cash balances at December 31, 2012:

Fund	Amount
Emergency Medical Services/Ambulance	\$ 283,360
Self Funding Insurance	415,586
Payroll	1,061,022
Wastewater Utility – Bond and Interest Sinking	1,000
Water Utility – Bond and Interest Sinking	1,000

A similar comment appeared in the previous reports, most recently Report B40686.

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)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted; however, at December 31, 2012, there were 17 deposits in transit from November 2011 thru April 2012 totaling \$2,866.04 and 10 current year small adjustments totaling \$1,261.34 that are still unresolved. The amounts were not material to the financial statement; therefore an audit adjustment was not necessary. A similar comment appeared in several previous reports, most recently Report B40686.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

CITY BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

No written policy was presented for audit for writing off bad debts, uncollectible accounts receivable, or other adjustments relating to emergency medical and trash accounts receivable. A similar comment appeared in several previous reports, most recently Report B40686.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS - FUEL CARDS

The City uses cards for access to fuel for the City vehicles and equipment at the Street Department facility. The City provided a listing of employees with fuel cards for audit. It was observed that a total of 243 cards were listed as active and 28 as invalid. An additional review indicated that 5 active cards were issued

CITY OF LAWRENCE
AUDIT RESULTS AND COMMENTS
(Continued)

in the name of a vehicle or equipment, 1 employee was listed as having 2 cards, and 21 individuals were listed as having active cards that were not listed on the City's current employee list or on the police roster. In addition, 1 employee was determined to have a valid card but is not included on the fuel card listing. No activity was observed for 2012 related to this card. There were 6 cards issued that have never been used and an additional 17 cards have not been used after January 1, 2012.

A similar comment appeared in the prior Report B40686.

It is recommended that the City of Lawrence establish proper controls related to the issuance, use and deactivation of fuel cards.

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. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

UTILITY OPERATING FUNDS TRANSFERRED TO CITY

Monthly transfers of funds from the Water and Wastewater Utilities' Operating Funds to the City funds were authorized by the Utility Service Board but were not in accordance with Indiana Code 8-1.5-3-11 which requires the establishment of a "Utility Surplus Cash Fund." In 2012, \$3,179,220 was transferred from the Utilities to the City and receipted to the General (\$2,819,220), Park Building Debt (\$96,000), and Park Debt - 1998 funds (\$264,000).

A similar comment appeared in several previous reports, most recently Report B40686.

Indiana Code 8-1.5-3-11(c) states:

"Surplus earnings' are those cash earnings remaining after provision has been made to take care of current obligations, including:

- (1) operating expense;
- (2) depreciation or replacement fund;
- (3) bond and interest sinking fund;
- (4) retirement fund; or
- (5) any other priority fund requirements fixed by law."

Indiana Code 8-1.5-3-11(b) states: "A cash reserve fund shall be created by ordinance and carried on the records of the utility or utilities by providing for monthly contributions or transfers to the cash reserve fund of surplus earnings of the utility or utilities."

Indiana Code 8-1.5-3-11(d) states in part: ". . . transfers may not be made from any utility funds to the general fund except from the cash reserve fund."

CITY OF LAWRENCE
AUDIT RESULTS AND COMMENTS
(Continued)

UTILITY BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

Accounts receivable contained several delinquent accounts which have not been written off which collection appears unlikely. The Utility used a collection agency and has filed liens to collect from some nonpaying customers. There were several more customers with delinquent wastewater account balances which have not had liens filed on their properties. The Accounts Receivable balance at year end was inflated due to a large number of customer's accounts having unpaid balances. The total accounts receivable on December 31, 2012, was \$1,982,217.40 as reflected on the Aging Balance Report and \$811,314.14 had been outstanding over 120 days which represents 41 percent of the entire outstanding balance. It was not possible to determine the collectability of the amounts in the report.

No written policy was presented for audit for writing off bad debts or uncollectible accounts receivable.

A similar comment appeared in the prior Report B40686.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DELINQUENT WASTEWATER ACCOUNTS

Testing of the balances on the accounts receivable listing indicated there were delinquent customer accounts that should have had a lien filing made on their accounts. The delinquent wastewater fees and penalties should have been recorded with the County Recorder and certified to the County Auditor which would result in a lien against the property. A similar comment appeared in the prior Report B40686.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

(1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:

(A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.

(B) A description of the premises, as shown by the records of the county auditor.

(C) The amount of the delinquent fees, together with the penalty.

(2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

(c) The officer shall record a copy of each list or each individual instrument with the county recorder . . .

(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May."

CITY OF LAWRENCE
AUDIT RESULTS AND COMMENTS
(Continued)

ANNUAL REPORT FILED LATE

The Annual Report for 2012 was not filed electronically until June 5, 2013.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

REDEVELOPMENT COMMISSION REAL PROPERTY PURCHASE

On February 28, 2012, the City's Redevelopment Commission closed on the purchase of property located at 4326 & 4328 Sellers Street for a total price of \$500,000. The City only requested one independent appraisal which was submitted for \$395,000, \$105,000 less than the purchase price. Based on inquiry it was determined that the final total price included demolition costs; however, if the demolition process needed to be added to the total purchase, the appraisal process should have been conducted again or they should have purchased the property at the average of two appraisals and then paid for the demolition as separate public works project.

Indiana Code 36-7-14-19(b) states in part: "The prices to be offered may not exceed the average of two (2) independent appraisals of fair market value procured by the commission . . ."

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Excess Amount Expended</u>
Park Debt - 1998	\$ <u>11,658</u>

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."

OFFICIAL BOND – UTILITY SUPERINTENDENT

The Utility Superintendent did not obtain an individual surety bond for 2012. The Utility Superintendent obtained a bond on December 19, 2012, for a one-year term beginning on that date but the bond obtained was not payable to the State of Indiana.

CITY OF LAWRENCE
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 8-1.5-3-5(c) states:

"The superintendent shall give bond in the sum not less than double the estimated amount of money that may be in his hands at any time. The bond shall be conditioned upon the faithful discharge of his duties and the payment to the proper person of all money in his hands. The bond is subject to the approval of the executive of the municipality."

Indiana Code 5-4-1-10 states:

"All official bonds shall be payable to the state of Indiana; and every such bond shall be obligatory to such state, upon the principal and sureties, for the faithful discharge of all duties required of such officer by any law, then or subsequently in force, for the use of any person injured by any breach of the condition thereof."

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Lawrence's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2012.

Other Matters

The City's response to our audit is described in the accompanying Official Response. 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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with 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 type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 to be material weaknesses.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. 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.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman
State Examiner

August 8, 2013

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved prepared by management of the City. The schedule and note are presented as intended by the City.

CITY OF LAWRENCE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>Department of Housing and Urban Development</u>				
CDBG - State Administered CDBG Cluster Community Development Block Grant/ State's Programs and Non-Entitlement Grants in Hawaii Sanitary Sewer Rehab	Indiana Housing and Community Development Authority	14.228	A192-12-CF-11-210	\$ 474,733
Total - Department of Housing and Urban Development				<u>474,733</u>
<u>Department of Justice</u>				
JAG Program Cluster	Direct grant	16.738		
Edward Byrne Memorial Justice Assistance Grant Program			2009-DJ-BX-0591	21,318
Safety, Crime Detection and Officer Evaluation Grant			2010-DJ-BX-0439	18,302
2010 JAG Program			2011-DJ-BX-2336	14,592
2011 JAG Program				<u>14,592</u>
Total - JAG Program Cluster				<u>54,212</u>
Total - Department of Justice				<u>54,212</u>
<u>Department of Transportation</u>				
Highway Planning and Construction Cluster				
Highway Planning and Construction	Indiana Department of Transportation	20.205	1172116	17,064
2011 Local Highway Safety Improvement Program				
Recreational Trails Program	Indiana Department of Natural Resources	20.219	RT-10-012	59,161
2011 Lawrence Community Trails Grant				<u>59,161</u>
Total - Highway Planning and Construction Cluster				<u>76,225</u>
ARRA - Surface Transportation - Discretionary Grants for Capital Investment	Indiana Department of Transportation	20.932	0810331	23,616
2011 Indian Lake Bridge Project				<u>23,616</u>
Total - Department of Transportation				<u>99,841</u>
<u>Environmental Protection Agency</u>				
ARRA - Capitalization Grants for Clean Water State Revolving Funds Sewer Planning	Indiana Finance Authority	66.458	WW09274901	899,803
Total - Environmental Protection Agency				<u>899,803</u>
<u>Department of Energy</u>				
ARRA - Energy Efficiency & Conservation Block Grant 2010 EECBG	Direct grant	81.128	DE-EE002189	58,600
Total - Environmental Protection Agency				<u>58,600</u>
<u>Department of Homeland Security</u>				
Assistance to Firefighters Grant	Direct grant	97.044	EMW-2009-FO-11051	2,920
2009 Assistance to Firefighters Grant				<u>2,920</u>
Staffing for Adequate Fire and Emergency Response (SAFER) SAFER Fire Grant	Direct grant	97.083	EMW-2008-FF-00783	426,136
Total - Department of Homeland Security				<u>429,056</u>
Total federal awards expended				<u>\$ 2,016,245</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF LAWRENCE
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Lawrence and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

CITY OF LAWRENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
	CDBG - State Administered CDBG Cluster
66.458	ARRA - Capitalization Grants for Clean Water State Revolving Funds
97.083	Staffing for Adequate Fire and Emergency Response (SAFER)

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

CITY OF LAWRENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-1 - INTERNAL CONTROLS OVER DAVIS BACON

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grant for Clean Water State Revolving Fund
CFDA Number: 66.458
Federal Award Number and Year (or Other Identifying Number): WW09274901
Pass-Through Entity: Indiana Finance Authority

The Davis Bacon requirement which requires that contractors submit weekly certified payrolls was tested and the weekly certified payrolls were properly received. There were, however, insufficient controls over the process by which the City of Lawrence verified that the weekly payrolls were being submitted by the contractor.

There was a third party designated to monitor the certified payrolls for the SRF project. There were no controls identified at the City that would ensure the weekly certified payrolls were being properly submitted to the designated party.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the compliance requirement of Davis Bacon will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, to ensure that material noncompliance with the Davis Bacon requirements would not go undetected.



City of Lawrence

Indiana

Kimberly M. Diller, Controller
Controller's Office
9001 East 59th Street, Suite 205
Lawrence, IN 46216-1008

Phone: 317-549-4804
Fax: 317-549-6409
Email: kdiller@cityoflawrence.org

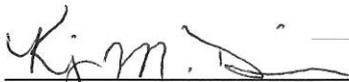
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number 2011-1

Original SBA Audit Report Number:	B40686
Fiscal Year	January 1, 2011 to December 31, 2011
Auditee Contact Person	Kimberly Diller
Title of Contact Person	Controller
Phone Number	317-549-4804
Status of Finding	Corrected reports have been filed with the U.S. Department of Homeland Security.

FINDING 2011-1 – REPORTING AND ALLOWABLE COSTS

The corrective action plan stated that the U.S. Department of Homeland Security had been contacted and been made aware of the situation. Tony Faison, the SAFER Grant state point of contact has asked the department to report future periods correct, which was done. Since the prior audit, the following actions have been taken: before the final report is submitted, the City Payroll Coordinator along with the Administrative Chief double checks the report data. Reports are kept on hand in a file for future reference.



Kimberly M. Diller
Controller

10/12/13

Date



City of Lawrence

Indiana

Kimberly M. Diller, Controller
Controller's Office
9001 East 59th Street, Suite 205
Lawrence, IN 46216-1008

Phone: 317-549-4804
Fax: 317-549-6409
Email: kdiller@cityoflawrence.org

FINDING 2012-1 - INTERNAL CONTROLS OVER DAVIS BACON

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grant for Clean Water State Revolving Fund
CFDA Number: 66.458
Federal Award Number and Year (or Other Identifying Number): WW09274901
Pass-Through Entity: Indiana Finance Authority Environmental Programs
Auditee Contact Person: Kimberly Diller
Title of Contact Person: Controller
Completion Date: July 25, 2013

Regarding the 2012-1 – Internal Controls over Davis Bacon finding the City of Lawrence responds as follows:

During the SRF project process it is apparent that the City was not as diligent as we should have been in administering internal controls over the Davis Bacon Wage Rate process. The City was however, diligent in implementing internal controls for Davis Bacon during the administration of the OCRA -CDBG grant for the " Old Lawrence Sewer Rehabilitation Project".

The City utilized the services of a Certified Federal Grant Administrator to help in administration of the OCRA-CDBG grant. The grant administrator worked very closely with City of Lawrence Controller's Office on internal controls with regard to the Davis Bacon process. The State Board of Accounts recognized that under the CDGB grant that there were no issues with internal controls in the implementation of the Davis Bacon process. City management has demonstrated that it does utilize successful internal controls for Davis Bacon activities on federally funded projects, as we did with the OCRA-CDBG funded sewer project.

The internal controls process for City Management for implementing Davis Bacon activities on future federally -funded projects is as follows:

1. Designate a Labor Standards Officer for the Project.
2. Establish Davis Bacon Wage Rates for the federal project.
3. The Contractor must submit weekly payrolls on a computerized printout or standard payroll report with an attached Statement of Compliance Form. Both of these forms will require the original signature of the contractor or subcontractor.
4. The weekly payrolls will be first submitted to the Grant Administrator for review and approval. The Grant Administrator will then sign off on the weekly payrolls.
5. After the Grant Administrator reviews and approves they will submit the payrolls to the City of Lawrence Controller for review and approval. The Controller will also sign off on the payrolls.

6. A quarterly report will be prepared to document all financial activities that is occurring on federally-funded projects. This report will be prepared by the Grant Administrator, Reviewed and approved by the City Controller and Review approved by the Mayor.
7. This report is the submitted to the State for review. Most or all federal programs now require this type of report. The implementation of activities with regard to the Davis Bacon Act is a part of this quarterly reporting system.

This internal controls process will help better manage the project process for implementing the activities of the Davis Bacon Act.

Kimberly Diller
Controller
City of Lawrence
9001 E. 59th St.
Lawrence, IN 46216
317-549-4804
kdiller@cityoflawrence.org

CITY OF LAWRENCE
EXIT CONFERENCE

The contents of this report were discussed on August 8, 2013, with Kimberly M. Diller, Controller; Hon. Dean Jessup, Mayor; Karen Horth-Powers, President of the Board of Public Works and Safety; Tom Shevlot, President of the Common Council; Timothy C. Joyce, Chief of Staff/Economic Development Director; and Keith Johnson, Director of Public Relations. The Official Response has been made a part of this report and may be found on pages 46 through 57.



City of Lawrence

Indiana

Kimberly M. Diller, Controller
Controller's Office
9001 East 59th Street, Suite 205
Lawrence, IN 46216-1008

Phone: 317-549-4804
Fax: 317-549-6409
Email: kdiller@cityoflawrence.org

“OFFICIAL RESPONSE”

**State Board of Accounts
302 West Washington Street, Room E 418
Indianapolis, IN 46204-2738**

Re: City of Lawrence Audit for Year 2012

The City of Lawrence wishes to file an official response to the Audit Results and Comments per Option No. 4 of the Exit Conference Officials' Response for the Examination Year 2012. This response is to the portions of the Audit Results and Comments associated with the Controller.

Overdrawn Cash Balances

The funds showing as overdrawn at the fiscal year end 2012 were the Self-Funding Insurance Fund, the Payroll Fund, the Emergency Medical Services Fund, and Sinking Funds for the Water & Wastewater Utilities.

The Self-Funding Insurance Fund ended in a negative balance for the fiscal year 2011. The reason is stated below, and was the response in last year's management response.

“The City makes monthly transfers into the Self-Funding Insurance Fund to cover health claims. The person responsible for doing those transfers did not complete the transfers monthly and there were outstanding transfers to be made in 2012. Also, because the monthly bank reconciliations were behind, the mistake was not found until after the close of the fiscal year. The person responsible for making the monthly transfers is no longer with the city. The Controller initiates the transfers and ensures it is done on a monthly basis. The bank reconciliations are also done in a timely manner so if a transfer is not done, it will be resolved immediately.”

The receipts into the Self-Funding Insurance Fund were \$98,420.08 more than disbursement during the 2012 fiscal year, reducing the negative balance. Given the trend in lower health claims in 2013, it is expected the Self-Funding Insurance Fund will end in a positive balance by the end of 2013.

The Payroll Fund is used to record benefits, withholdings, and deductions and their corresponding payments to vendors. This fund should be at zero at the end of the fiscal year. In order to ensure that happens, a separate payable account should be set up for each type of benefit, withholding and deduction. When the current accounting software was implemented in

2010, the separate payable accounts were not established. Only one vendor payable account was set up. The result is the balance of the Payroll Fund cannot be easily attributable to each type of deduction and benefit.

It was commented in the 2011 audit, which took place in 2012, that the payroll fund should be reconciled in order to determine the balances for each deduction and benefit. Once the 2011 and 2012 fiscal years were reconciled, it was found the payments to the Self-Funding Insurance Fund from the Payroll Fund in 2011 were sporadic at best. There was nine months' worth of payments to the Self-Funding Insurance Fund in 2011. The remaining three months' payments were made in 2012. Once the Controller took over responsibility of making the payments to the Self-Funding Insurance Fund in 2012, payments were made monthly. This means fifteen payments were made in 2012 when only twelve payments should have been made. Receipts into the fund were less than what went out, resulting in a negative balance.

In 2013, the payroll fund has been reconciled monthly and is up to date through July 2013. To bring the Payroll Fund back to a positive balance, April, May, and a portion of June health insurance payments were charged to the department budgets rather than the Payroll Fund. This allowed the Payroll Fund to build up to a positive balance starting in May and continuing to remain positive year to date.

In order to avoid this from happening in the future, the Payroll Fund must be reconciled monthly prior to health insurance payments being made. Only the amount available for health insurance in the Payroll Fund should be disbursed from the Payroll Fund, and any remaining needs should be charged to the department budgets.

The negative balances of \$1,000 each in the Sinking Funds of the Water and Wastewater Utility are solely related to an accounting error at the time of our conversion to the new accounting software in 2010 and have been corrected.

Bank Account Reconciliations

During 2012, the Controller made great progress in resolving outstanding reconciling issues between the bank and the utility revenue. By the end of the 2012, there are a few items from 2011 and 2012 that, after working with the Billing Office Manager, have been determined to be unresolved. Given the immaterial amount of these difference, it is the Controller's recommendation that these items be written off of the financial records.

It should be noted that the bank reconciliations did take place monthly throughout 2012 and these old outstanding items have remained on the bank to fund reconciliation.

City Bad Debts and Uncollectible Accounts

The City obtained a draft ordinance to present to the City Council to establish a bad debt and uncollectible account write-off procedure. It did

not get introduced by the Council in 2012. It is hoped that this will be resolved in 2013. A copy of the proposed policy is attached.

Annual Report Filed Late

The Annual Report was filed in June 2013, rather than by March 1, 2013. The Controller was given the duties of the former HR & Benefits Coordinator. That included open enrollment and the implementation of the health insurance elections for 2013. This task took up the majority of the first two months of the year. In March, it was learned that the revenues for 2013 would be far less than originally anticipated, creating an expected \$1.2 million deficit for the end of the 2013. That led to the Controller being involved in numerous meetings through March, April and May. It was not until near the end of May that the Controller had the ability to work on the Annual Report. The Controller notified the Mayor before the due date of the Annual Report that the report would be filed late.

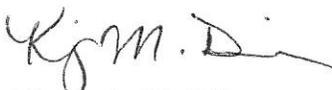
Appropriations

The Park Debt – 1998 Fund had expenditures in excess of the budgeted appropriations of \$11,658. The bond associated with this fund was refinanced in 2012. Because there was no escrow account or trustee for the bond that was refinanced, all of the bond proceeds were received by the City and then all refinancing costs were paid by the City. This resulted in excess expenses over approved appropriations. An additional appropriation should have been requested of the Council to allow for these expenses. The expenses were required for the refinancing and could not be avoided.

Official Bond – Utility Superintendent

In the prior year's audit, the Controller reported through the management response that the Superintendent was bonded in 2012. This statement was made based on the fact that an application had been given to the new Superintendent early in 2012 and an assumption was made by the Controller that the official bond was issued through the usual process. The Controller learned in early November 2012 that the bond was not approved. It was at that time a new application was given to the Superintendent and he was instructed to fill it out and submit it. The second bond application was denied. At that point, the Controller contacted the State Board of Accounts for direction. That correspondence is attached. In December, the Superintendent obtained an official bond with the assistance from the Mayor's office in finding an insurer. However, the bond that was issued was payable to the City of Lawrence rather than the State of Indiana as required by law. The Controller was not aware of this discrepancy.

Sincerely,



Kimberly M. Diller
Controller
City of Lawrence

CITY OF LAWRENCE OFFICE OF THE CONTROLLER	Compliance Policies and Procedures
	DRAFT

Bad Debt Policy

POLICY:

It is the policy of City of Lawrence to ensure that debts owed by residents for services delivered by the City are collected in a timely manner. Payment for such debts will be pursued according to uniform criteria and procedures applicable to all City.

GOALS:

The goal of this policy is to allow the City of which is the authority to establish an allowance for bad debts to accurately reflect the estimated accounts receivable deemed to be collectible and to write off those debts that are deemed uncollectible.

POLICY CROSS REFERENCES:

- Resident Payment Policy

GENERAL INFORMATION and DESIRED OUTCOME:

1. Costs attributable to the amounts owed by residents that remain unpaid are added to the delinquency list of unpaid bills.
2. **Definitions:**
 - 2.1 **Bad Debt:** Bad debts are amounts considered to be uncollectible from accounts and notes receivable that were created or acquired in providing City services. “Accounts receivable” and “notes receivable” are designations for claims arising from the furnishing of services and are collectible in money in the relatively near future.

3. Allowable Bad Debt:

3.1 Method of calculation: an allowance for bad debt will be calculated as follows:

Bankruptcy - 95%

Foreclosure - 50%

Lien List over 1 Year - Builder -10%

Lien List over 1 Year - Individual - 15%

Lien List over 2 Years - 35%

These percentages may be readjusted periodically.

3.2 The calculation for the allowance of bad debts will be done at the end of each quarter .

4. Write Off Bad Debt

4.1 Each receivable account will be reviewed monthly.

4.2 The City Council will authorize any write offs of \$1000 or more.

4.3 Write offs will occur at the end of each calendar quarter, or as directed by the City's Corporate Counsel.

PROCEDURE:

1. Staff of the Controller's office will review unpaid accounts on a regular basis to identify nonpayment of City Services.
2. If a bill remains unpaid more than 165 days from the date it was first mailed to the beneficiary, and reasonable collection attempts have failed, the debt may be deemed bad debt.
3. Reasonable collection efforts include, but are not limited to the following:
 - 3.1 The issuance of a bill for City services on or shortly after delivery of services.
 - 3.2 Subsequent billings, collection letters, telephone calls or personal contacts with the party, demonstrating a genuine collection effort.
4. A collection agency may be used to obtain payment. The fee charged by the collection agency is merely a charge for providing the collection service, and is not a bad debt.

References:

Development Date: _____
Developed by: _____
Revised Date: _____
Reviewed By: _____
Approved By: _____
Approved Date: _____

DRAFT

Diller, Kim

From: Diller, Kim
Sent: Monday, November 19, 2012 11:44 AM
To: Austin, Todd
Cc: Pride, Charlie; Cannon, Sommer
Subject: RE: Superintendent Bond

Thank you so much for the quick response. I will forward this to our Corporation Counsel and determine if a minimal bond will be necessary. In my eyes it wouldn't hurt if we can get it.

-Kim

From: Austin, Todd [mailto:taustin@sboa.IN.gov]
Sent: Monday, November 19, 2012 11:35 AM
To: Diller, Kim
Cc: Pride, Charlie; Cannon, Sommer
Subject: RE: Superintendent Bond

Kim,

I discussed the issue again with Charlie. Charlie believes that a bond for the superintendent still might be, technically, required, but that it could be in a minimal amount.

We do agree that the modification of job responsibilities will be sufficient to eliminate the requirement that the bond amount be based upon collections. (I believe you had mentioned that the amount of the bond was the problem.)

I know you've looked at the statute; however, for clarity, I've pasted it below.

You might consult with your attorney to determine whether a bond is necessary, and rely upon that opinion. If required, certainly the bond could be for a minimal amount or, alternatively, the superintendent's inclusion in a blanket bond, covering all City employees, might be considered to be sufficient.

As for your response to the management letter, I don't believe we'd be too concerned over that. I'll copy our Field Supervisor for the area.

IC 8-1.5-3-5

Superintendent; powers and duties; compensation; bond; removal

Sec. 5. (a) The superintendent of each utility shall:

- (1) appoint, supervise, and dismiss all employees of the utility;
- (2) employ unskilled labor when needed, without competitive examination;
- (3) investigate all claims against the utility;
- (4) oversee the operation of the utility and any construction work, repairs, or alterations to the system; and
- (5) advise the board in all matters that will bring about an efficient and economical operation and maintenance of the utility.

(b) The superintendent is entitled to the compensation for his services that is determined by resolution of the board.

(c) **The superintendent shall give bond in a sum not less than double the estimated amount of money that may be in his hands at any time. The bond shall be conditioned upon the faithful discharge of his duties and the payment to the proper person of all money in his hands. The bond is subject to the approval of**

the executive of the municipality.

(d) The superintendent may be removed by the board for cause at any time after notice and a hearing.

As added by Acts 1982, P.L.74, SEC.1.

Todd Austin, CPA
IN State Board of Accounts
302 W. Washington Street, Suite E418
Indianapolis, IN 46204
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From: Diller, Kim [<mailto:KDiller@cityoflawrence.org>]

Sent: Monday, November 19, 2012 10:58 AM

To: Austin, Todd

Subject: Superintendent Bond

Hi Todd,

Thanks for taking my call last week. I want to clarify everything that has happened to this point regarding the bond for the superintendent, and let you know our plan of action to see if this will be okay.

During the 2011 fiscal year audit, we were informed that the utility superintendent needed to have an official bond. We did not know about this before. A new Mayor and administration took over in 2012 and a new superintendent was chosen January 1st, before the 2011 fiscal audit. Once we learned that the superintendent needed to be bonded, I had a bond application sent to our new superintendent. I assumed that he filled it out and got it taken care of. Because of that assumption, I stated in the management response to our audit comments that the current superintendent was bonded. I learned in the last two weeks that statement was false. As soon as I found out, I contacted the superintendent and asked that he fill out the most recent application that had been sent to him. He did that and we found out in the next few days that his second application was denied. I contacted you to confirm that he does need a bond given his supervision of the billing office and the ability to make adjustments. You confirmed that yes, he did need an official bond.

This has been discussed with the Mayor and the decision has been made to move the billing office operations under my supervision. I will be responsible for making final decisions on adjustments and reporting any necessary items to the Utility Service Board. The superintendent will have no access to the billing software or the billing office. If this is done, will it eliminate the need for the official bond?

My other concern was my response in the management letter. I honestly thought at the time of the response that the official bond had been issued. Will there be understanding by the SBA that once the issue was known a quick plan of action was put into place?

Thank you for your response on this. Mayor Jessup and I want to ensure that our operations are ran legally and correctly and will do anything to we need to do to make that happen.

Kimberly M. Diller
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City of Lawrence

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FINDING 2012-1 - INTERNAL CONTROLS OVER DAVIS BACON

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grant for Clean Water State Revolving Fund
CFDA Number: 66.458
Federal Award Number and Year (or Other Identifying Number): WW09274901
Pass-Through Entity: Indiana Finance Authority Environmental Programs
Auditee Contact Person: Kimberly Diller
Title of Contact Person: Controller
Completion Date: July 25, 2013

Regarding the 2012-1 – Internal Controls over Davis Bacon finding the City of Lawrence responds as follows:

During the SRF project process it is apparent that the City was not as diligent as we should have been in administering internal controls over the Davis Bacon Wage Rate process. The City was however, diligent in implementing internal controls for Davis Bacon during the administration of the OCRA -CDBG grant for the " Old Lawrence Sewer Rehabilitation Project".

The City utilized the services of a Certified Federal Grant Administrator to help in administration of the OCRA-CDBG grant. The grant administrator worked very closely with City of Lawrence Controller's Office on internal controls with regard to the Davis Bacon process . The State Board of Accounts recognized that under the CDGB grant that there were no issues with internal controls in the implementation of the Davis Bacon process. City management has demonstrated that it does utilize successful internal controls for Davis Bacon activities on federally funded projects, as we did with the OCRA-CDBG funded sewer project.

The internal controls process for City Management for implementing Davis Bacon activities on future federally -funded projects is as follows:

1. Designate a Labor Standards Officer for the Project.
2. Establish Davis Bacon Wage Rates for the federal project.
3. The Contractor must submit weekly payrolls on a computerized printout or standard payroll report with an attached Statement of

Compliance Form. Both of these forms will require the original signature of the contractor or subcontractor.

4. The weekly payrolls will be first submitted to the Grant Administrator for review and approval. The Grant Administrator will then sign off on the weekly payrolls.

5. After the Grant Administrator reviews and approves they will submit the payrolls to the City of Lawrence Controller for review and approval. The Controller will also sign off on the payrolls.

6. A quarterly report will be prepared to document all financial activities that is occurring on federally-funded projects. This report will be prepared by the Grant Administrator, Reviewed and approved by the City Controller and Review approved by the Mayor.

7. This report is the submitted to the State for review. Most or all federal programs now require this type of report. The implementation of activities with regard to the Davis Bacon Act is a part of this quarterly reporting system.

This internal controls process will help better manage the project process for implementing the activities of the Davis Bacon Act.

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“OFFICIAL RESPONSE”

State Board of Accounts

302 West Washington Street, Room E418

Indianapolis, IN 46204-3738

Re: City of Lawrence Audit for Year 2012

The City of Lawrence wishes to file an official response to the Audit Results and Comments per Option No. 4 of the Exit Conference Officials’ Response for the Examination Year 2012. This response is meant to supplement the official response previously submitted by then-City Controller, Kimberly M. Diller, on August 9, 2013.

Overdrawn Cash Balances

The City intends to work with our IT Director and our software vendor to investigate the possibility of creating separate payable accounts for each type of benefit, withholding and deduction. As we bring on a new Controller, the City will work to mitigate the possibility of these issues occurring in the future.

Bank Account Reconciliations

The City understands the importance of conducting reconciliations in a timely manner and will work to mitigate the possibility of these issues occurring in the future.

City Bad Debts and Uncollectible Accounts

The City will work to establish a policy for write off of bad debts and uncollectible accounts and seek support for approval of the policy by the Common Council.

Internal Controls – Fuel Cards

A spreadsheet is maintained manually, but the software that tracks the fuel cards is extremely outdated (1980’s). It is believed that the spreadsheet has not been diligently kept up to date and that most of the cards assigned to previous employees have actually been deactivated, even if not correctly reflected on the spreadsheet. The staff person who was responsible for issuing, activating and deactivating fuel cards left her position with the City in the latter half of 2012, and the position was not filled due to budget constraints. However, it is necessary for street department to conduct a complete audit of all cards and work with the new Controller to develop a policy for issuance, use and deactivation of fuel cars to ensure proper internal controls are in place.

Utility Operating Funds Transferred to City

The City will continue to work, with the help of Crowe Horwath, our financial consultants, and our new Controller to resolve this issue.

Utility Bad Debts and Uncollectible Accounts

In October, 2012, the Utilities Billing Manger presented a proposed amendment to a previous Resolution of the Utility Services Board (USB) to the Controller that included a procedure for write off of bad debts. That proposal was never presented to the USB. Utility will work to establish a policy for write off of bad debts and uncollectible accounts and seek support for

approval of the policy by the Utility Services Board. The transition to new accounting software caused significant delays in collections, and it is believed that a major portion of the \$811,314 in accounts payable that had been outstanding over 120 days reflects accounts that were still being pursued through the collection process.

Delinquent Wastewater Accounts

The delays in collections caused by the transition to new software, the relocation of the billing office to a new location and changes in staffing caused a lag in the filing of liens. That procedure is now running in a much timelier manner. In addition, the Utility has tightened up its procedure for ensuring that a new account may not be established for an address until past due sewer fees are paid.

Annual Report Filed Late

The City understands the importance of submitting financial reports in a timely manner.

Redevelopment Commission Real Property Purchase

The decision to purchase the property was approved by the Redevelopment Commission in 2011; however the closing did not take place until early 2012, after the new administration was in place. Legal counsel who then represented the Redevelopment Commission handled the sale on behalf of the Commission. When the new administration took office, the only task remaining regarding the sale was the closing, which the former legal counsel handled. The Redevelopment Commission has since purchased additional properties and has obtained two appraisals for each purchase.

Appropriations

The City will work to ensure that any necessary appropriations are presented to the Common Council in a timely manner.

Official Bond – Utility Superintendent

The City has obtained a rider from the issuer of the bond, making the bond payable to the State of Indiana.

Keith Johnson
Interim Controller
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