

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF HARTFORD CITY

BLACKFORD COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
11/17/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Janet Gilland	01-01-12 to 12-31-15
Mayor	Benjamin E. Hodgins	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Benjamin E. Hodgins	01-01-12 to 12-31-15
President Pro Tempore of the Common Council	William Hess	01-01-13 to 12-31-14



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF HARTFORD CITY, BLACKFORD COUNTY, INDIANA

This report is supplemental to our audit report of the City of Hartford City (City), for the period from January 1, 2013 to December 31, 2013. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

September 18, 2014

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CLERK-TREASURER
CITY OF HARTFORD CITY

CLERK-TREASURER
CITY OF HARTFORD CITY
FEDERAL FINDINGS

FINDING 2013-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted the following deficiency in the internal control system of the City related to financial transactions and reporting. We believe the following deficiency constitutes a material weakness:

Control activities should be selected and developed at various levels of the City to reduce risks of error and/or fraud of the financial statement. The City has not separated incompatible activities related to the preparation of the bank reconciliation. No oversight or approval of the monthly bank reconciliation as prepared by the Clerk-Treasurer is performed by another party. The failure to establish these controls could enable material misstatements to be undetected.

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

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

FINDING 2013-002 - INTERNAL CONTROLS OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

The City did not have a proper system of internal controls in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted that the City had omitted \$180,139 in expenditures for the Economic Adjustment Assistance program from their SEFA; over reported \$79,151 in expenditures for the Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii project NSP1-009-020; and over reported \$2,499 in expenditures for the Highway Planning and Construction program. Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

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.

CLERK-TREASURER
CITY OF HARTFORD CITY
FEDERAL FINDINGS
(Continued)

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

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

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

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

CITY OF HARTFORD CITY
CLERK-TREASURER'S OFFICE
700 N. WALNUT ST.
HARTFORD CITY, IN 47348
765-348-1872
jgilland@hartfordcity.net

CORRECTIVE ACTION PLAN

FINDING 2013-001

- A. Contact Person Responsible for Corrective Action: Janet Gilland
- B. Contact Phone Number: 765-348-1872

Description of Corrective Action Plan:

Bank reconciliations will also be reviewed by the Deputy Clerk-Treasurer before monthly disbursements and revenues posted are updated and closed out.

FINDING 2013-02

- A. Contact Person Responsible for Corrective Action: Janet Gilland
- B. Contact Phone Number: 765-348-1872

Description of Corrective Action Plan:

In regards to the Federal Expenditures, the City will ensure accurate reporting of all Federal awards. We will reference all revenue received and all disbursements and record the financial activities of Federal awards to avoid inaccurate records and financial statements.

Anticipated Completion Date: Immediately

Janet Gilland
Janet Gilland
Clerk-Treasurer
Sept. 8, 2014

CLERK-TREASURER
CITY OF HARTFORD CITY
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliations contained variances each month that were not identified. These unidentified variances ranged from excess cash (cash long) of \$1,347 to cash necessary to balance (cash short) of \$772. An adjustment of \$1,347 was posted on December 31, 2013, to increase the record balance to agree with the bank balance. All variances should be identified before an adjustment is made.

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."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CREDIT CARDS

City officials and employees are using credit cards to purchase items without an approved credit card policy.

A similar comment appeared in prior Report B42341.

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

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.

CLERK-TREASURER
CITY OF HARTFORD CITY
AUDIT RESULTS AND COMMENTS
(Continued)

7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

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

RECORD OF HOURS WORKED

An adequate record of hours worked for the various department heads and for some salaried employees was not presented for audit. A timesheet signed by the employee and approved by their supervisor should be maintained for all employees.

The City's personnel policy/employee handbook requires an accurate timesheet be prepared by each employee that records hours worked and paid time off.

The Federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form 99A, Employees' Service Record
General Form 99B, Employee's Earnings Record
General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor.

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

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

A similar comment appeared in prior Report B42341.

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:

CLERK-TREASURER
CITY OF HARTFORD CITY
AUDIT RESULTS AND COMMENTS
(Continued)

- (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."

CLERK-TREASURER
CITY OF HARTFORD CITY
EXIT CONFERENCE

The contents of this report were discussed on September 18, 2014, with Benjamin E. Hodgins, Mayor; Janet Gilland, Clerk-Treasurer; and William Hess, President Pro Tempore of the Common Council.