

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF TERRE HAUTE

VIGO 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>
Controller	Leslie A. Ellis	01-01-13 to 12-31-14
Mayor	Duke A. Bennett	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Robert J. Murray	01-01-13 to 12-31-14
President of the Common Council	Norman Loudermilk Amy Auler	01-01-13 to 12-31-13 01-01-14 to 12-31-14
Wastewater Utility Director	Christopher M. Thompson	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 TERRE HAUTE, VIGO COUNTY, INDIANA

This report is supplemental to our audit report of the City of Terre Haute (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 Finding, identified in the above referenced audit report, is 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 Finding and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

August 21, 2014

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CONTROLLER
CITY OF TERRE HAUTE

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CITY OF TERRE HAUTE
FEDERAL FINDING

***FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE OVER
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The City did not have a proper system of internal control 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 several federal grants that had expenditures during the year that were not reported, and two grants were reported with incorrect amounts. Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

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)

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."

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CITY OF TERRE HAUTE
FEDERAL FINDING
(Continued)

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 the 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 Terre Haute

2013

**CITY OF
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OFFICE OF THE
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CORRECTIVE ACTION PLAN

LESLIE ELLIS
City Controller

FINDING 2013-001- INTERNAL CONTROLS AND COMPLIANCE OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact Person Responsible for Corrective Action: Leslie A Ellis, Controller
Contact Phone Number: 812-244-2359

Corrective Action Plan:

The city will continue to require all department heads to submit original grant letters to the Controller's office to ensure that specific titles and CFDA numbers can be verified against the state electronic version of the SEFA. A new internal audit process will be implemented to verify that the procedures are being followed and the information submitted is accurate.

The city will also implement a verification process to determine the proper designation of federal and state monies received. The internal audit will substantiate that these measures are in place and working appropriately.

Anticipated Completion Date: The procedures and internal audit will be completed by December 31, 2014.

Leslie A. Ellis
(Signature)

Controller
(Title)

August 21, 2014
(Date)

CONTROLLER
CITY OF TERRE HAUTE
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations for the year 2013:

<u>Fund</u>	<u>Excess Amount Expended</u>
Transit	\$ 423,878
Fire Pension	162,152
Cemetery	17,781

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."

OVERDRAWN CASH BALANCES

The financial statement presented for audit included the following funds with overdrawn cash balances at December 31, 2013:

<u>Fund</u>	<u>Amount Overdrawn</u>
General	\$ 4,486,801
Transit	995,898
Parks & Recreation	162,218
Fire Pension	388,732
JAG 2013 DJ-BX-0625	12,448
THFD Contractual Serv N/R	1,209
TH Police Operation Pullover	60,420
Hulman Links Non-Reverting	2,761,868
Rea Park Non-Reverting	637,867
Sanitary District General	574,615
COPS Hiring Recover Program	26,493

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)

DELINQUENT WASTEWATER ACCOUNTS

The City has contracted out the billing for wastewater services for many years. A change in contractors from American Water Billing to TPi Billing Solutions was made in late 2012. The companies encountered software incompatibilities resulting in the inability to bill customers between November 2012 and

CONTROLLER
CITY OF TERRE HAUTE
AUDIT RESULTS AND COMMENTS
(Continued)

February 2013. TPi Billing Solutions was not prepared to process the various types of billings the wastewater utility required. American Water changed their in-house computer system during this time and was unable to send accurate meter readings to TPi Billing Solutions.

As a result of the billing processing delays, the City suspended the application of the 10 percent late payment penalty required by Indiana Code to be assessed to delinquent accounts since the contract with TPi Billing Solutions began. The Wastewater Utility accounts receivable balance increased from \$888,413 at December 31, 2012, to \$3,126,285 at December 31, 2013. Billing problems persist, and the 10 percent penalty has not yet been reinstated as of August 21, 2014.

In addition, the City has not properly certified delinquent wastewater accounts in compliance with Indiana Code 36-9-23-33 since November 2012. Delinquent wastewater fees and penalties should be recorded with the County Recorder and certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-31 states in part:

"If fees assessed against real property under this chapter . . . are not paid within the time fixed by the municipal legislative body, they are delinquent. A penalty of ten percent (10%) of the amount of the fees attaches to the delinquent fees."

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; and
 - (C) The amount of the delinquent fees, together with the penalty; or
- (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."

August 31, 2014

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LESLIE ELLIS
City Controller

Indiana State Board of Accounts
302 West Washington St.
Room E 418
Indianapolis, IN 46204-2765

RE: Official Response to the Audit Results and Comments December 31, 2013

APPROPRIATIONS:

Due to property tax caps implemented by the State of Indiana, the circuit breaker credit caused the Transit Fund and the Cemetery Fund budgets that were approved by the City Council to be reduced by the Department of Local Government and Finance (DLGF). These reductions precipitated the expenditures exceeding those of the DLGF approved budgets. The DLGF also reduced the Fire Pension fund because accumulated health insurance expenses surpassed the amount available.

OVERDRAWN FUND BALANCES:

There are several factors contributing to the negative cash position in these funds Transit, JAG 2013 Grant, Police Operation Pull-over Grant and the COPS Hiring Recover Program Grant are reimbursement non-reverting funds. Funds are required to be expended first before they can be submitted for reimbursement by a government or private source of funds and therefore the negative cash position in these funds is strictly based on timing. As of December 31, 2013 there were outstanding reimbursements that had not yet been received for these funds and were subsequently received in 2014.

The General Fund reflects a negative cash balance as of December 31, 2013 as a result of the City not receiving a tax anticipation warrant (TAW) until January 30, 2014. The TAW was issued with the understanding that taxes will be collected to repay this temporary loan within the allotted time period. The City will repay the TAW in December of 2014. It is anticipated that revenues will exceed expenditures in 2014 and a smaller TAW will be necessary for 2015. This trend will continue until a TAW is no longer needed.

The Fire Pension Fund is a pre-1977 pension fund that is reimbursable by the State of Indiana. However, administrative and health care costs are not included as a reimbursable expense. This deficit was caused by the large amount of health care costs incurred. A portion of property tax revenue has been budgeted to the Fire Pension fund for 2014 and a positive fund balance is expected.

The Terre Haute Fire Department Contractual Services Fund deficit reflects a shortage in expected revenue during the 2013 fiscal year. This small shortfall has

been corrected in 2014 and the fund currently has a very healthy positive fund balance.

The Parks General Fund is supported via property tax and services income. The administration has made significant cuts to live within the property tax reductions based on property tax cap discounts. We are currently working on the fund's current budget to bring it back to a positive cash balance. The Golf courses have been running at a deficit for years. However, we continue to strive to reduce the overall deficit for the combined courses and there are strategic initiatives in place that should continue that reduction.

The Sanitary District General Fund completes projects for the Waste Water Treatment Plant. A budgeted transfer from the Waste Water Treatment Fund to the Sanitary District General Fund was deferred until 2014 which created the deficit. A positive fund balance is anticipated in the Sanitary District General Fund for the period ending December 31, 2014.

DELINQUENT WASTEWATER ACCOUNTS:

The billing conversion from Indiana American Water Company to TPI Billing Solutions caused several billing problems since the new system was implemented. Several issues were encountered and have been solved during the changeover process. We did not charge late payment penalties since we were uncertain that all records were accurate. Penalties will be charged starting in the fall of 2014 and liens will be filed. We have refined the data conversion process between the two vendors and have made significant progress. The incompatibilities are shrinking and we are confident in a complete resolution.

PUBLIC RECORDS RETENTION:

A new process of issuing and storing receipts at the Police Department will be implemented in 2014. The Controller's office will provide a periodic internal audit of the receipts to assure the documents are being retained as required.

APPROVAL OF FORMS:

The State Board of Accounts prescribed receipt forms will be used in the Police Department starting in the fall of 2014. This will ensure that all required information is available to examine or audit the collection and deposit of funds received by the Police Department.

Sincerely,



Leslie A Ellis
City Controller
City of Terre Haute

CONTROLLER
CITY OF TERRE HAUTE
EXIT CONFERENCE

The contents of this report were discussed on August 21, 2014, with Duke A. Bennett, Mayor; Amy Auler, President of the Common Council for 2014; Norman Loudermilk, President of the Common Council for 2013; Robert J. Murray, President of the Board of Public Works and Safety; and Leslie A. Ellis, Controller.

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POLICE DEPARTMENT
CITY OF TERRE HAUTE

POLICE DEPARTMENT
CITY OF TERRE HAUTE
AUDIT RESULTS AND COMMENTS

PUBLIC RECORDS RETENTION

Receipts used by the Police Department are preprinted numerically, but are not always issued in sequence. Receipts tested indicated 37 out of 354 receipts were missing or voided and not presented for audit.

Indiana Code 5-15-6-3(f), concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

APPROVAL OF FORMS

The City Police Department is using receipt forms which do not include all required pertinent information and which had not been approved for use in lieu of the prescribed receipt form.

The receipt forms in use do not include some pertinent information necessary to examine or audit the collection and deposit of funds received by the department. The pertinent information missing from the forms is the documentation of the type of payment received, such as cash, check, money order, etc.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."

August 31, 2014

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City Controller
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