

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF LINTON

GREENE COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
01/26/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	B. Jack Shelton	01-01-14 to 12-31-15
Mayor	John A. Wilkes	01-01-14 to 12-31-15
President of the Board of Public Works	John A. Wilkes	01-01-14 to 12-31-15
President Pro Tempore of the Common Council	Jathan Wright Linda D. Bedwell	01-01-14 to 12-31-14 01-01-15 to 12-31-15
General Manager of Utilities	Brent Slover	01-01-14 to 12-31-15
Operations Manager of Utilities	Brent Murray	08-14-14 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE CITY OF LINTON, GREENE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Linton (City), for the period from January 1, 2014 to December 31, 2014. 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 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

October 21, 2015

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CLERK-TREASURER
CITY OF LINTON

CLERK-TREASURER
CITY OF LINTON
FEDERAL FINDINGS

FINDING 2014-001 - PREPARATION OF 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 hired a consultant to prepare the SEFA; however, proper oversight was not in place to detect and correct the errors that were made. 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 the following errors: the federal percentage was not used to determine the correct amount to be reported as expenditures for the State Revolving Funds and a private grant was included on the SEFA. These errors resulted in an overstatement of \$872,994. In addition, there were errors with CFDA numbers, pass-through entities, identifying numbers, and grant titles that were reported on the SEFA. 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."

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.

CLERK-TREASURER
CITY OF LINTON
FEDERAL FINDINGS
(Continued)

- (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."

FINDING 2014-002 - 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 this deficiency to be a material weakness.

There is a deficiency in internal controls over the utility collections. Adequate controls have not been implemented over the reconciliations of actual utility collections to the amounts posted to customer accounts on a daily basis. The payments are entered into the billing software daily, and at the end of the day, a daily cash payment report is printed. If a variance exists (cash long/short) between the actual cash drawer and the cash payments posted to the customer accounts, that amount is automatically netted against the Electric Utility's bank deposit instead of determining the source of the cash long/short. The Utility office maintains a spreadsheet that indicates which days there is a cash long/short. This spreadsheet was reviewed and it was determined that 40 daily deposits did not agree with the cash payment reports, netting a cash short for the year of \$1,043.

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)

CITY OF LINTON

JACK SHELTON, CLERK-TREASURER

86 SOUTH MAIN STREET
LINTON, INDIANA 47441
(812) 847-7014

October 21, 2015

FINDING 2014-001: *PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*

Auditee Contact Person: B. Jack Shelton
Title of Contact Person: Clerk-Treasurer
Phone: 812-847-7014

Description of Corrective Action Plan:

We, the City, will implement new procedures pertaining to the reporting of federal grants in order to compile that information necessary for the complete and accurate preparation of the SEFA. Accordingly, we will begin with a review of the aggregate dollar amount of all awards. Additionally, we will monitor the Federal percentage of each award, carefully review the CFDA numbers, award titles and all pass-through information to insure that the Schedule of Expenditures of Federal Awards is properly compiled and timely filed.

In addition, prior to the submission of the SEFA, we will utilize the services of a professional consultant to review the proposed submission for potential errors and omissions.

Finally, prior to the submission of the SEFA, we will ask also a Council member to review the proposed submission to insure that it is materially correct in relation to the financial statement.

Anticipated Completion Date: By next Federal Grant or next audit period.

B. Jack Shelton
Signature

Clerk/Treas
Title

10/21/15
Date



CITY OF LINTON

JACK SHELTON, CLERK-TREASURER

86 SOUTH MAIN STREET
LINTON, INDIANA 47441
(812) 847-7014

October 21, 2015

FINDING 2014-002: *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*

Auditee Contact Person: B. Jack Shelton
Title of Contact Person: Clerk-Treasurer
Phone: 812-847-7014

Description of Corrective Action Plan:

1. All utility collections will be tracked as either cash or check to assist in reconciling errors.
2. A daily schedule of Deposits, as compared to Posted Payments will be maintained to insure proper posting of receipts.
3. The City anticipates utilizing new software which, in addition to providing for real-time posting of payments to customer accounts, logs and tracks separately, each utility clerk's activity. Accordingly, each clerk will be provided their own cash drawer and will be required to maintain and reconcile their respective drawer at the end of each business day, prior to submitting the day's deposit.

Anticipated Completion Date: By next Federal Grant or next audit period.

B. Jack Shelton
Signature

clerk / Treas
Title

10-21-15
Date



CLERK-TREASURER
CITY OF LINTON
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

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

Fund	Excess Amount Expended
General	\$ 19,401
New Fire Station Fund	4,500

A similar comment appeared in prior Report B44102.

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 statements presented for audit included the following funds with overdrawn cash balances at December 31, 2014:

Fund	Amount Overdrawn
Cemetery Fund	\$ 5,233
Humphrey's Park	11,979
Swimming Pool	8,220

A similar comment appeared in prior Report B44102.

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)

ORDINANCES AND RESOLUTIONS - LEAVE TIME

The City had a Personnel Policy Handbook that contained provisions concerning personal leave and compensatory leave.

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

All employees may accumulate up to 30 days of personal leave. Two City employees and six Utility employees had personal leave balances over the allowed amount as of December 31, 2014.

Non-exempt employees may accumulate up to 120 hours of compensatory leave. Employees with public safety activities may accumulate up to 240 hours of compensatory leave. One City non-exempt employee had a compensatory leave balance over the allowed amount as of December 31, 2014.

A similar comment appeared in prior Report B44102.

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

SERVICE RECORDS

Employee time, attendance, or service records were not maintained for three employees. These employees were in supervisory positions with the Street Department and the golf course.

A similar comment appeared in prior Report B44012.

The Personnel Policy adopted in August 2005, states in part: " . . . Accurately recording time worked is the responsibility of every employee. Federal and state laws require the City to keep an accurate record of time worked in order to calculate employee pay and benefits." It further states: " . . . employees should accurately record the time they begin and end their work, as well as the beginning and ending of each meal period. They should also record the beginning and ending time of any split shift or departure from work for personal reasons."

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

CLERK-TREASURER
CITY OF LINTON
EXIT CONFERENCE

The contents of this report were discussed on October 21, 2015, with John A. Wilkes, Mayor; B. Jack Shelton, Clerk-Treasurer; Linda D. Bedwell, President Pro Tempore of the Common Council; and David W. Sisk, Controller.

MUNICIPAL UTILITIES
CITY OF LINTON

MUNICIPAL UTILITIES
CITY OF LINTON
AUDIT RESULTS AND COMMENTS

SERVICE RECORDS

Employee time, attendance, or service records were not maintained for two Utility employees. These employees were in supervisory positions with the Utilities.

A similar comment appeared in prior Report B44102.

The Personnel Policy adopted in August 2005, states in part: "... Accurately recording time worked is the responsibility of every employee. Federal and state laws require the City to keep an accurate record of time worked in order to calculate employee pay and benefits." It further states: "... employees should accurately record the time they begin and end their work, as well as the beginning and ending of each meal period. They should also record the beginning and ending time of any split shift or departure from work for personal reasons."

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

CUSTOMER DEPOSIT REGISTER

The detailed customer deposit register did not reconcile with the amounts recorded on the Clerk-Treasurer's ledger as Meter Deposits. In addition, the Meter Deposit bank account was not reconciled to the ledger at year end.

A similar comment appeared in prior Report B44102.

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)

UTILITY RECEIPTS TAX

The calculation of Utility Receipts Tax (URT) erroneously included tax exempt receipts and sales tax receipts resulting in an overpayment of URT to the Indiana Department of Revenue.

A similar comment appeared in prior Report B44102.

The utility receipts tax is imposed upon the receipt of the entire taxable gross receipts of a taxpayer that is a resident or domiciliary of Indiana, and the taxable gross receipts derived from activities or business or any other sources within Indiana by a taxpayer that is not a resident or domiciliary of Indiana. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All questions concerning the law or procedure for paying the utility receipts tax should be directed to the Indiana Department of Revenue, Indiana Government Center North, Indianapolis, Indiana, 46204, telephone number (317) 233-4015. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

MUNICIPAL UTILITIES
CITY OF LINTON
AUDIT RESULTS AND COMMENTS
(Continued)

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 B44102.

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

"(c) Except as provided in subsection (m), 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.

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

(f) Using the lists and instruments prepared under subsection (c) and recorded under subsection (d), 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."

MUNICIPAL UTILITIES
CITY OF LINTON
EXIT CONFERENCE

The contents of this report were discussed on October 21, 2015, with John A. Wilkes, Mayor; B. Jack Shelton, Clerk-Treasurer; Linda D. Bedwell, President Pro Tempore of the Common Council; Brent Slover, General Manager of Utilities; and David W. Sisk, Controller.

COMMON COUNCIL
CITY OF LINTON

COMMON COUNCIL
CITY OF LINTON
AUDIT RESULT AND COMMENT

EXPENDITURES OF UTILITY FUNDS FOR PAYROLL

There were several employees that had shared responsibilities between the City and the Utilities. A review of payroll expenditures, made in accordance with the salary ordinance adopted by the Common Council, revealed that the City was not paying an adequate share of the employees' compensation. The positions and percentages paid were as follows:

Position	Funds
Mayor	2 % of City and 98% Utilities
Administrative Assistant	100% Utilities
Clerk-Treasurer	2 % of City and 98% Utilities
Deputy C-T/Utility Controller	100% Utilities
Account Analyst	100% Utilities
Sanitation and Sewer Coordinator and Superintendent of MVH, Park & Cemetery	100% Utilities

A similar comment appeared in prior Report B44102.

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. The cost of shared employees and equipment between a city or town and its utilities should be prorated in a rational manner. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COMMON COUNCIL
CITY OF LINTON
EXIT CONFERENCE

The contents of this report were discussed on October 21, 2015, with John A. Wilkes, Mayor; B. Jack Shelton, Clerk-Treasurer; Linda D. Bedwell, President Pro Tempore of the Common Council; and David W. Sisk, Controller.