

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF SULLIVAN

SULLIVAN COUNTY, INDIANA

January 1, 2022 to December 31, 2022



FILED
09/25/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Donna Sue Pitts	01-01-22 to 12-31-23
Mayor	Clint D. Lamb	01-01-22 to 12-31-23
President of the Board of Public Works	Clint D. Lamb	01-01-22 to 12-31-23
President Pro Tempore of the Common Council	Tom McClanahan	01-01-22 to 12-31-23



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF SULLIVAN, SULLIVAN COUNTY, INDIANA

This report is supplemental to the audit report of the City of Sullivan (City), for the period from January 1, 2022 to December 31, 2022. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the City. It should be read in conjunction with the Financial Statement Audit Report of the City, which provides our opinions on the City's financial statement. This report may be found at www.in.gov/sboa/.

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 Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Beth Kelley, CPA, CFE
Deputy State Examiner

September 19, 2023

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CLERK-TREASURER
CITY OF SULLIVAN

CLERK-TREASURER
CITY OF SULLIVAN
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

Condition and Context

Financial, supplemental, and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. The City had not established effective internal controls over the AFR entered into Gateway, which was the source of the City's financial statement.

Due to the lack of effective internal controls, the financial statement presented for audit did not reflect all of the financial transactions of the City. The City entered into a Build-Operate-Transfer lease financing agreement in February 2021. During 2022, \$2,265,904 was paid from the lender to the contractors and developer on behalf of the City; however, these transactions were not posted to the City's ledger or reported on the AFR. Therefore, the receipts and disbursements were both understated by \$2,265,904.

Adjustments were proposed, accepted by the City, and made to the financial statement and to the combining schedule presented as required supplementary information.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

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

"The state examiner shall require from every audited entity 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](#)."

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

ANNUAL FINANCIAL REPORT - OTHER INFORMATION

Condition and Context

Financial and other information are required to be entered annually into the Annual Financial Report via the Indiana Gateway for Government Units (Gateway) financial reporting system. The capital assets and leases and debt information entered into Gateway contained the following errors:

Capital Assets

The City did not provide detailed subsidiary records which supported the \$22,455,131 of capital assets reported in Gateway as of December 31, 2022. Therefore, we were unable to determine the accuracy of the information. The Schedule of Capital Assets will not be included in the Financial Statement Audit Report.

Leases and Debt

The City had several errors on the Schedule of Leases and Debts. The errors were as follows:

1. The 2022 Sewage Works Taxable Revenue Bond was omitted from the schedule for the principal amount of \$1,200,000, and the principal due within one year by \$41,500.
2. The State Revolving Wastewater 2006 & 2019 loan principal was understated by \$338,816.
3. The BOT annual lease payment was omitted, and, therefore, understated by \$217,000.
4. The 2022 vehicle loan principal was understated by \$48,050, and principal due within one year by \$11,487.

Adjustments were proposed, accepted by the City, and made to the Schedule of Leases and Debt reported as Other Information in the Financial Statement Audit Report.

Criteria

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

CAPITAL ASSETS

The same comment appeared in prior Report B60363.

Condition and Context

The City could not provide a complete detailed listing of capital assets. The records were not updated during the audit period, and prior additions were posted as a lump sum amount instead of a detailed listing of the individual assets purchased. In addition, the City did not perform a physical inventory, which is required every other year.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

INTERNAL CONTROLS OVER SERVICE ORGANIZATION FOR AMBULANCE SERVICE

The same comment appeared in prior Reports B56247 and B60363.

Condition and Context

The City did not have a proper system of internal controls in place to prevent, or detect and correct, errors related to receipts of its ambulance service. The City Fire Department uses a service organization to bill and process patient payments for its ambulance service on behalf of the City. The service organization remits daily, patient payments to the City's bank account; however, collections are posted by the Clerk-Treasurer monthly after receiving the bank statement. Additionally, there is no internal verification of the cash receipts by the City Fire Department, such as reconciling ambulance collections in the City's bank account to the service organization's cash receipt reports.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

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

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

CLERK-TREASURER
CITY OF SULLIVAN
EXIT CONFERENCE

The contents of this report were discussed on September 19, 2023, with Donna Sue Pitts, Clerk-Treasurer; Clint D. Lamb, Mayor and President of the Board of Public Works; Tom McClanahan, President Pro Tempore of the Common Council; and Patti Mayfield, Common Council member.