

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF AURORA

DEARBORN COUNTY, INDIANA

January 1, 2023 to December 31, 2023



FILED

09/23/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Benjamin Turner	01-01-23 to 12-31-24
Mayor	Mark Drury Patrick Schwing	01-01-23 to 12-31-23 01-01-24 to 12-31-24
President of the Board of Public Works	Mark Drury Patrick Schwing	01-01-23 to 12-31-23 01-01-24 to 12-31-24
President Pro Tempore of the Common Council	Terry Hahn	01-01-23 to 12-31-24
Superintendent of Utilities	Randolph J. Turner	01-01-23 to 12-31-24



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

TO: THE OFFICIALS OF THE CITY OF AURORA, DEARBORN COUNTY, INDIANA

This report is supplemental to the audit report of the City of Aurora (City), for the period from January 1, 2023 to December 31, 2023. 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 11, 2024

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CLERK-TREASURER
CITY OF AURORA

CLERK-TREASURER
CITY OF AURORA
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

The same comment appeared in prior Report 000000599S.

Condition and Context

There were deficiencies in the internal control system of the City related to financial transactions and reporting. The City had not established a system of internal controls that included segregation of duties over incompatible activities related to the City receipts.

All three employees in the Clerk-Treasurer's office had the ability to write receipts, post receipts, prepare bank deposits, and make adjustments in the accounting system. There was no documentation of an internal control in place, such as an oversight, review, or approval process, to ensure that receipts were properly recorded and deposited.

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. . . ."

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 information entered into Gateway, which resulted in the following errors:

Grant Schedule

- The 14.228 Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii expenditures were understated by \$700,000.

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

- The 20.205 Highway Planning and Construction expenditures were understated by \$201,379.
- The 93.391 COVID-19 - Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises expenditures were understated by \$20,000.

Adjustments were proposed, accepted by the City, and made to the Schedule of Expenditures of Federal Awards presented in the Federal Compliance Audit Report of the City.

Capital Assets

The Utilities did not maintain a detailed listing of capital assets; therefore, the amounts reported for the Utilities on the Schedule of Capital Asset were unable to be verified. The Utilities reported \$22,030,567 in total capital assets on the AFR.

The City elected not to report the Schedule of Capital Assets in the Financial Statement Audit Report of the City.

Criteria

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 as set forth in the uniform compliance guidelines. 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](#)."

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 AURORA
AUDIT RESULTS AND COMMENTS
(Continued)

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

A similar comment appeared in prior Report 000000599S.

Condition and Context

Internal controls were not in place in order to ensure compliance with State Examiner Directive 2018-2 (Directive) regarding the Motor Vehicle Highway (MVH) restricted sub-fund.

The City did not properly allocate 50 percent of the distributions from the State Motor Vehicle Highway Account to the MVH Restricted (MVH-R) sub-fund at the time of the transaction as required. All monies received from the State Motor Vehicle Highway Account, totaling \$149,829, were posted to the Motor Vehicle Highway fund. 50 percent of this amount, or \$74,915, should have been posted to the MVH-R fund at the time of the distributions were received.

In November of 2023, the City transferred \$189,424 and \$490,986 from the MVH Fund and CCMG Fund, respectively, into the MVH-R fund. These amounts were then subsequently used to pay the expenses related to the City's Community Crossing Grant. While our audit position allows a transfer from the MVH-R to the CCMG for the City's required local match of the grant, the expenses related to the City's local match should have been paid from the grant fund instead of being transferred to MVH-R before being expended.

Criteria

Indiana Code 8-14-1-5(c) states: "Except as provided in subsection (d), for funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

The purpose of this Directive is to authorize and require counties, cities, and towns that receive distributions from the State Motor Vehicle Highway Account to **create a new sub-fund within the MVH Fund** to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018.

The sub-fund will be referred to throughout this Directive as "MVH Restricted" and will be used to account for MVH monies which have been statutorily restricted for construction, reconstruction, and preservation purposes. . . .

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted.

(State Examiner Directive 2018-2)

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

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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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. . . ."

MONTHLY AND ANNUAL UPLOADS

A similar comment appeared in prior Report 000000599S.

Condition and Context

Internal controls were not in place to ensure that all required monthly and annual engagement uploads were performed. Not all monthly bank information was upload, including some bank statements and bank reconciliations. These uploads were subsequently requested and uploaded during the audit. Additionally, the annual excel Data Capture/Data Dump was not uploaded.

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 AURORA
AUDIT RESULTS AND COMMENTS
(Continued)

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients. (Amended State Examiner Directive 2018-1, Updated November 9, 2020, and effective with uploads due February 15, 2021)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

PRESCRIBED FORMS

A similar comment appeared in a Management Letter addressed to the Clerk-Treasurer for the audit period ending December 31, 2022.

Condition and Context

Internal controls were not in place to ensure that all prescribed forms were utilized as required. The City did not use the prescribed Form 99 (Payroll Schedule and Voucher) nor have they requested approval for an alternative form in lieu of the prescribed form.

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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Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
CITY OF AURORA
EXIT CONFERENCE

The contents of this report were discussed on September 11, 2024, with Benjamin Turner, Clerk-Treasurer; Terry Hahn, President Pro Tempore of the Common Council; and Patrick Schwing, Mayor.

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UTILITY SERVICE BOARD
CITY OF AURORA

UTILITY SERVICE BOARD
CITY OF AURORA
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

The same comment appeared in prior Report 000000599S.

Condition and Context

The City's Utilities department had not established a system of internal controls that included segregation of duties over incompatible activities related to the Utilities receipts. All the employees in the Utilities office had the ability to write receipts, post receipts, prepare bank deposits, and take deposits to the bank. There was no documentation of an internal control in place, such as an oversight, review, or approval process, to ensure that receipts were properly recorded and deposited.

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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UTILITY SERVICE BOARD
CITY OF AURORA
AUDIT RESULTS AND COMMENTS
(Continued)

CAPITAL ASSETS

A similar comment appeared in prior Report 000000599S.

Condition and Context

Internal controls were not in place to ensure that all capital assets were properly recorded. The City's Utilities department did not maintain a record of capital assets which reflected their acquisition value at any time during the audit period. Additionally, a physical inventory of assets was not taken at least every two years as required.

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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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)

UTILITY SERVICE BOARD
CITY OF AURORA
EXIT CONFERENCE

The contents of this report were discussed on September 11, 2024, with Benjamin Turner, Clerk-Treasurer; Terry Hahn, President Pro Tempore of the Common Council; and Patrick Schwing, Mayor.

COMMON COUNCIL
CITY OF AURORA

COMMON COUNCIL
CITY OF AURORA
AUDIT RESULTS AND COMMENTS

TRAINING ON INTERNAL CONTROL STANDARDS

A similar comment appeared in prior Report 000000599S.

Condition and Context

Internal controls were not in place to ensure that all required employees received training on internal control standards. No documentation was retained showing that employees whose official duties included receiving, processing, depositing, disbursing, or otherwise having access to funds that belonged to the City, received training over internal control standards that was developed or approved by the Indiana State Board of Accounts.

Criteria

Indiana Code 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

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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COMMON COUNCIL
CITY OF AURORA
EXIT CONFERENCE

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