

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF WABASH

WABASH COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
12/18/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Wendy D. Frazier	01-01-12 to 12-31-15
Mayor	Robert E. Vanlandingham	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Robert E. Vanlandingham	01-01-12 to 12-31-15
President Pro Tempore of the Common Council	James W. Wenrich Douglas Konkle	01-01-14 to 01-11-15 01-12-15 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the City of Wabash (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

September 24, 2015

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CLERK-TREASURER
CITY OF WABASH

CLERK-TREASURER
CITY OF WABASH
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 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.

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 2014-002 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: Department of Transportation
Federal Program: Airport Improvement Program
CFDA Number: 20.106
Federal Award Number and Year: 3-18-0084-14
Pass-Through Entity: Direct Grant

Management of the City has not established an effective internal control system, which would include segregation of duties, related to its grant agreements and the Equipment and Real Property Management compliance requirement.

The failure to establish an effective internal control system puts the City at risk of noncompliance with the grant agreement and the Equipment and Real Property Management compliance requirements. A lack of a properly established internal control system, including segregation of duties could allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

The failure to establish an effective internal control system resulted in the City being in noncompliance with Equipment and Real Property Management compliance requirements related to the Airport Improvement Program. Information and cost amounts related to the acquisition of some airport infrastructure related improvements was not properly captured and accounted for as an addition to the City's capital asset records. Additionally, the City did not conduct an inventory of property as required.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

CLERK-TREASURER
CITY OF WABASH
FEDERAL FINDINGS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

49 CFR 18.32(d) states in part:

- "(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated."

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and the Equipment and Real Property Management compliance requirement to ensure the City complies with all requirements.

FINDING 2014-003 - SUSPENSION AND DEBARMENT

Federal Agency: Department of Transportation
Federal Program: Airport Improvement Program
CFDA Number: 20.106
Federal Award Number and Year: 3-18-0084-014
Pass-Through Entity: Direct Grant

Management of the City has not established an effective internal control system related to suspension and debarment compliance requirements. As a result, the City did not effectively monitor whether vendors were debarred, suspended, or otherwise excluded.

The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the Suspension and Debarment compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

CLERK-TREASURER
CITY OF WABASH
FEDERAL FINDINGS
(Continued)

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, to ensure the City complies with all requirements related to the grant agreement and the Suspension and Debarment compliance requirements.



City of Wabash

WENDY FRAZIER
CLERK-TREASURER

CITY HALL
202 S. WABASH ST
WABASH, IN 46992

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FAX: (260) 563-0876
wfrazier@cityofwabash.com

September 23, 2015

Corrective Action Plan for the City of Wabash

State Board of Accounts
3302 Washington St., Room E418
Indianapolis, IN 46204-2765

FINDING 2014-001

Contact Person Responsible for Corrective Action: Wendy D. Frazier
Contact Phone Number: (260) 563-4171

Description of Corrective Action Plan:

The Clerk-Treasurer's Office, will train the new deputy, Amber Khirin to prepare for the review of the Clerk-Treasurer, (which is where the deputy will get said information to enter into gateway) data entered into the Gateway system to ensure that all financial transactions are correctly reported and that the financial statement is accurate in its presentation. We do not anticipate changing of Employees and each deputy will cross-train in 2016 and share more responsibility.

Anticipated Completion Date: December 31, 2015

FINDING 2014-002

Federal Agency: Department of Transportation
Federal Program: Airport Improvement Program
CFDA Number: 20.106
Federal Award Years: 2014
Pass-Through Entity: Direct Grant

Contact Person Responsible for Corrective Action: Wendy D. Frazier
Contact Phone Number: (260) 563-4171

Description of Corrective Action Plan:

The Clerk-Treasurer's Office will share as whole, meaning Wendy, Judy, and Amber, to the best of our ability, and coordinate with the grant administrator NGC, and the Board of Aviation president to get the best up to date information on gateway in regard to the in regard to Capital Assets.

Anticipated Completion Date: September 23, 2015

FINDING 2014-003

Federal Agency: Department of Transportation
Federal Program: Airport Improvement Program
CFDA Number: 20.106
Federal Award Years: 2014
Pass-Through Entity: Direct Grant

Contact Person Responsible for Corrective Action: Wendy D. Frazier
Contact Phone Number: (260) 563-4171

Description of Corrective Action Plan:

The Clerk-Treasurer's Office will share as whole, meaning Wendy, Judy, and Amber, to the best of our ability, and coordinate with the City Attorney and the Board of Aviation president to test for Suspension and Debarment for companies paid over \$25,000 on a federal project.

Wendy Franjin, IAMC
(Signature)

CLERK-TREASURER
(Title)

9-24-15
(Date)

CLERK-TREASURER
CITY OF WABASH
AUDIT RESULTS AND COMMENTS

ORDINANCES AND RESOLUTIONS

The Wastewater Utility Superintendent's position was vacant for a portion of 2014 and 2015. The Street Superintendent and the Assistant Wastewater Utility Superintendent assumed the duties of the Wastewater Utility Superintendent during that vacancy. These two employees received an additional \$500 bi-weekly pay to assume these duties. The City has an ordinance concerning salaries by position; however, the salary ordinance was not amended to increase the pay of these two employees to assume these additional duties.

Firemen received additional pay for on call duties and fire watch duties. The City has an ordinance concerning salaries by position; however, the salary ordinance did not include additional pay for on call duties or fire watch duties.

The Clerk-Treasurer did not deem it necessary to include these additional pays in the salary ordinance and therefore, never pursued amendment of the salary ordinance through the Common Council.

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)

Payments for services provided by an organization should go directly to the organization and not to an individual employee of the organization. All payments for services should be supported by a written contract. Compensation should be made in such a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONDITION OF RECORDS - PAYROLL FUND

Financial records presented for audit were incomplete and not reflective of the activity of the Payroll fund. The Payroll fund is intended to be used as a clearing fund for payroll related reporting.

The following errors were noted:

1. Receipts received from outside organizations for donations or grants to be used to reimburse the City for salaries already paid were posted to the Payroll Fund - Net Pay. Salaries covered by these contributions had previously been paid from other funds. These receipts should have been posted to the fund that originally paid the salary to reimburse it.
2. The Wastewater Utility's share of Public Employees Retirement Fund payments were incorrectly posted in the Payroll fund.
3. There are some withholding accounts within the Payroll fund that contain balances that are incorrect.

CLERK-TREASURER
CITY OF WABASH
AUDIT RESULTS AND COMMENTS
(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)

CONDITION OF RECORDS - TAX INCREMENT FINANCING (TIF) DISTRICT FUNDS

Multiple Tax Incremental Financing (TIF) funds have been established for several economic development projects. It was difficult to verify the respective fund balances for these projects. There should be sufficient information to prove beginning balances, receipts, disbursements, ending balances, or the accuracy or correctness of the transactions. Several transactions were recorded as "negative" receipts and disbursements.

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)

ANNUAL FINANCIAL REPORT

Within the Annual Financial Report information filed in Gateway, the following errors were noted.

A similar comment appeared in prior Report B44207.

1. On the "Detail Receipts 2014" report, receipts were not properly classified for numerous funds. Enterprise fund transactions were also not properly classified on both the "Detail Receipts 2014" and "Detailed Disbursements for All Funds 2014" reports.
2. The Accounts Payable and Receivable information at December 31, 2014, was inaccurate. The Clerk-Treasurer did not recognize invoices dated 2014 and paid in 2015 as a payable.

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

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality 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."



City of Wabash

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wfrazier@cityofwabash.com

September 24, 2015

TO WHOM IT MAY CONCERN:

RE: Response to all comments made for the 2014 Audit

When the City of Wabash received the resignation of John Wonderly, Superintendent of the Wastewater Treatment Plant, the Mayor and City Attorney Doug Lehman decided to have Rick Price, Forman of the Wastewater Treatment Plant, and Scott Richardson, Street Department Superintendent, share the duties until a replacement could be found. In essence it was determined that Rick Price would continue to serve the position of Forman and as Co-interim Wastewater Treatment Plant Superintendent. Scott Richardson would continue to serve as Street Superintendent and as Co-interim Wastewater Treatment Plant Superintendent. Since each retained their position they were paid that salary and since each also shared Co-superintendent they were paid from that position previously approved salary.

In 2014 for the first time the District Fire Marshal determined that certain fire watch activities are mandated by state law and required the Wabash City Fire Department to institute a procedure for providing for fire watches. Fire watch and on call duties are duties performed by firefighters on off duty time. Under Federal labor standards such off duty services constitutes over time and the fire fighters were paid from the Ambulance overtime line item in the salary ordinance. It was felt that such duties and pay are not part of the firefighter's salary so the salary ordinance was not amended.

The Mayor and the City Attorney and the Clerk-Treasurer made the decision to not amend the salary ordinance based on the fact that we felt that we were in compliance with the salary ordinance and also we were told that it would be a comment even if we had amended the salary ordinance.

The issue with payroll has been ongoing ever since the State decided to start making all cities and towns pay PERF per pay period instead of per quarter. Our software system was not set up to accommodate the change and when the software was updated the state web site was

down and once the web site was up and running the state started taking the PERF payments at such a fast pace the bank was behind and by the time everything caught up with each other payments had crossed months and even years. Last year we were given adjustments deemed necessary per the State Board of Accounts and those adjustments were made and we felt the auditor was now in agreement that the payments that had crossed years were ok and then this audit we find out more adjustments are being requested. We will continue to make all adjustments at the request of the auditor until there is complete satisfaction.

The TIF districts were originally established for the County to collect and hold all monies until such time as the bond payments were due. The City came into the picture after the fact of some of the first payments being made and also several new subsidiary TIF monies have come into play since the original start up. I have reached out to London White Group and am in the process of getting the necessary beginning information and will hopefully have



Wendy Frazier, IAMC
Clerk-Treasurer
City of Wabash

CLERK-TREASURER
CITY OF WABASH
EXIT CONFERENCE

The contents of this report were discussed on September 24, 2015, with Wendy D. Frazier, Clerk-Treasurer; Robert E. Vanlandingham, Mayor; and Douglas Konkle, President Pro Tempore of the Common Council.

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CITY COURT
CITY OF WABASH

CITY COURT
CITY OF WABASH
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were incorrect and were not prepared in a timely manner. Reconcilements prepared by the City Court Clerk contained inaccurate record balances and outstanding check lists and unidentified variances from the last three years resulting in a cash long of \$1,372 at December 31, 2014.

A similar comment appeared in prior Report B44207.

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 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 City and Town Courts, Chapter 4)

CONDITION OF RECORDS

The following deficiencies, relating to the recordkeeping that were cited in prior Report B44207, were again present during our period of audit.

1. Disbursements had to be totaled manually because the computerized records did not provide accurate totals.
2. Cash balances on the computerized Cash Book did not agree with the manual Cash Book summary spreadsheet maintained by the City Court Clerk.
3. Several receipts per the Cash Update Transaction Listing were not posted to the computerized Cash Book. In February, approximately 20 receipts were not posted to the computerized Cash Book. One case tested included four receipts collected over a three week time period and all four receipts were posted to the computerized Cash Book on one day as a single amount.
4. The manual Cash Book summary spreadsheet was inaccurate. The December 31, 2013 balances did not agree with the January 1, 2014 balances. On two occasions, monthly receipts from one month were copied to the subsequent month.
5. The manual Cash Book summary spreadsheet did not agree with the City Court fund on the City's financial statement presented in the Financial Statement and Federal Single Audit Report.
6. The December 2013 collections for city, county and ambulance were not disbursed by the next month.

CITY COURT
CITY OF WABASH
AUDIT RESULTS AND COMMENTS
(Continued)

7. No disbursements were made to the state during 2014 for state court costs and fees collected.
8. The Total Register of Trust Funds subsidiary account balances did not agree with the Trust Fund balance on the Cash Book summary spreadsheet at December 31, 2014.
9. Old outstanding checks have not been addressed for several years and are still presented on the Cash Book.
10. Numerous receipts were voided without supporting documentation or oversight approval. Previous requests have been made that these voided receipts be approved by the judge, and the reason for the void and a replacement receipt number, if applicable, be documented.
11. Some receipts were posted to an incorrect collection type on the computerized Cash Book and manual Cash Book summary spreadsheet.
12. Numerous checks were voided each month without documentation or oversight approval.
13. Numerous cases tested for subsequent payment included the handwritten phrase "closed due to plaintiff." The Chronological Case Summary was not updated to note this, nor was a reason stated why cases were closed. Documentation for reason of dismissal and oversight approval should be presented.
14. There is a high percentage of dormant cases without follow-up or activity on the respective Chronological Case Summary. Numerous ambulance billings were included in these dormant cases.

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 City and Town Courts, Chapter 4)

At all times, the manual and 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 City and Town Courts, Chapter 4)

CITY COURT
CITY OF WABASH
EXIT CONFERENCE

The contents of this report were discussed on September 24, 2015, with Timothy A. Roberts, City Court Judge; Robert E. Vanlandingham, Mayor; and Douglas Konkle, President Pro Tempore of the Common Council.