

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MARTINSVILLE

MORGAN COUNTY, INDIANA

January 1, 2013 to December 31, 2014



FILED
04/26/2016

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|--|---|--|
| Clerk-Treasurer | Mary Lou Peden Valerie Hugart | 01-01-12 to 12-13-13 12-14-13 to 12-31-19 |
| Mayor | Phil R. Deckard, Sr. Shannon E. Kohl | 01-01-12 to 12-31-15 01-01-16 to 12-31-19 |
| President of the Board of Public Works | Phil R. Deckard, Sr. Shannon E. Kohl | 01-01-12 to 12-31-15 01-01-16 to 12-31-16 |
| President Pro Tempore of the Common Council | Eric Bowlen | 01-01-13 to 12-31-16 |
| Superintendent of Utilities | Kevin Broyer | 01-01-13 to 12-31-16 |
| Utility Office Manager | Mary Malone Mae Cooper | 01-01-13 to 06-07-14 06-08-14 to 12-31-16 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF MARTINSVILLE, MORGAN COUNTY, INDIANA

This report is supplemental to our examination report of the City of Martinsville (City), for the period from January 1, 2013 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Examination Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement Examination Report of the City, which provides our opinion 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 Examination 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 Examination Results and Comments, incorporated within this report, was not verified for accuracy.

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

March 8, 2016

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CLERK-TREASURER
CITY OF MARTINSVILLE

CLERK-TREASURER
CITY OF MARTINSVILLE
EXAMINATION RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

The Annual Financial Reports for 2013 and 2014 contained a number of errors and did not properly reflect the financial activity of the City of Martinsville. The City did not properly report expenditures of federal awards. The errors included local funding being reported as federal expenditures, as well as, three federal programs being omitted.

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."

OVERDRAWN CASH BALANCES

The financial statement presented for examination included the following funds with overdrawn cash balances at December 31, 2013 and 2014:

| <u>Fund</u> | <u>Year Ending December 31,</u> | <u>Amount Overdrawn</u> |
|---------------------------|-------------------------------------|-----------------------------|
| Downtown Blight | 2013 | \$ 2,000 |
| Judicial Salary | 2013 | 6,080 |
| Sewer Operations (Hb) | 2013 | 452,672 |
| Water Meter Deposits (Hb) | 2013 | 6,243 |
| Sewer Operations (Hb) | 2014 | 194,728 |

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)

CLERK-TREASURER
CITY OF MARTINSVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

BANK ACCOUNT RECONCILIATIONS

Individual depository reconciliations of the fund balances to the individual bank account balances were conducted. The individual depository reconciliations were not combined to verify that the total reconciled bank balances agreed to the total fund balances reported on the fund report each month. This resulted in a material difference of \$322,000 not being detected during the monthly reconciliation process.

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."

PUBLIC RECORDS RETENTION

Checks not used for the purpose intended were not retained for examination. Several checks that were not used, due to printer issues, were not presented for examination. No evidence was found where these checks were used to pay vendors.

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."

OVERPAYMENT COLLECTIONS

During the examination, it was discovered that payments were made to the Deputy Clerk-Treasurer in excess of the approved Salary Ordinance in the amount of \$2,947. The Deputy Clerk-Treasurer agreed to resolve the overpayment through garnishment of wages in equal biweekly amounts from her 2016 payroll checks.

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

March 14, 2016

State Board of Accounts,

This letter is my correspondence concerning the recent exit conference held on Tuesday, March 8, 2016. I was appointed to the office of Clerk Treasurer on December 13, 2014. The previous Clerk Treasurer, Mary Lou Peden, held this position until my appointment.

The following are my responses to the examination results:

Annual Financial Report

A change in Clerk-Treasurer's occurred during the audit period. The previous CT had an outside agency prepare the annual report. Therefore, a miscommunication may have occurred and the information accidentally omitted. The current CT keeps this report in-house to better control, enter and disclose the information. This is effective January 1, 2015. This process is a learning in progress concerning this section of the report and with each new annual report audit past experiences will be taken in consideration when reviewing annual report.

Overdrawn Cash Balances

The current CT reviews all end of month and end of year procedures. No month is allowed to be closed if any fund is negative. This is effective January 1, 2014. Also, specifically judicial salary, is now coordinated with the salary ordinance and appropriations. Years past the salary ordinance and appropriations weren't corresponding hence the negative balance because the salary ordinance had to be followed and could not be changed after adopted in previous year.

Water and Sewer negative cash balances were largely due to overspending. Claims are now split 50/50 when presented for payment. This will help with each of these funds.

Regarding Bank Account Reconciliations

The clerk assigned to bank reconciliation was released from her position in December 2013 when it was discovered she failed to reconcile the bank statement to the computer to the manual records. It was discovered she kept information to herself and not sharing with personnel and the then field examiner.

Regarding Public Records Retention

Effective November 2015, all checks that need to be destroyed shall be presented to the Common Council for approval. Documentation will include bank account number and series. In reference to these particular checks, the city banked with BMO Harris and when checks were printed the numbers at the bottom of the checks used for scanning were not compatible with the banks machines. These checks were sporadic in nature as to which they would scan as written. This happened for over 2 years and the bank reconciliation prepared by BMO Harris would add or delete a number hence making reconciliation of funds both difficult and time consuming. Council approved the moving of the general fund from BMO Harris to Home Bank SB and this problem with our bank reconciliation has ceased. We shredded the boxes of unused checks printed for BMO Harris due to the fact we were not going to be using them or the bank.

Overpayment Collections

Current CT had given a raise to the deputy in question. This was a raise verified via the salary ordinance. When the payroll clerk figured the raise it was figured incorrectly resulting in an overpayment. The deputy is paying back the overage during the 2016 year via deduction from payroll check.

This concludes my actions concerning the 2013 and 2014 audit review and the examination results and comments. I would appreciate if this is added to my audit as part of the 2013 & 2014 exit review for distribution.

Sincerely,

A handwritten signature in blue ink that reads "Valerie Hugart". The signature is written in a cursive, flowing style.

Valerie Hugart

CLERK-TREASURER
CITY OF MARTINSVILLE
EXIT CONFERENCE

The contents of this report were discussed on March 8, 2016, with Mary Lou Peden, former Clerk-Treasurer; Valerie Hugart, Clerk-Treasurer; Terry Buster, member of Common Council; Diane Selch, Assistant Utility Office Manager; Shannon Kohl, Mayor; Kristopher A. Fuller, Attorney for Clerk-Treasurer; and Dale S. Coffey, City Attorney.

COMMON COUNCIL
CITY OF MARTINSVILLE

COMMON COUNCIL
CITY OF MARTINSVILLE
EXAMINATION RESULTS AND COMMENTS

COMPENSATION AND BENEFITS

During the period of examination, a car was provided to an elected official as part of their benefits and compensation. The Common Council had not adopted a policy or resolution stating the guidelines for the use of the car.

In addition, an elected official was not covered by the City health insurance plans for 2013, 2014, and subsequent to the examination period in 2015. The elected official obtained medical care coverage through Medicare, and vision, dental, and prescription coverage through a private insurance policy. The elected official paid the premiums out of pocket for this coverage. The City reimbursed the elected official for the premiums paid.

The reimbursement was not part of the Common Council adopted salary ordinance for 2013, 2014, or 2015, nor was a policy or resolution adopted by the Common Council provided for examination authorizing the reimbursement of the insurance premium amounts.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CREDIT CARDS

The City used credit cards to purchase items without an approved credit card policy.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.

COMMON COUNCIL
CITY OF MARTINSVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

City of Martinsville

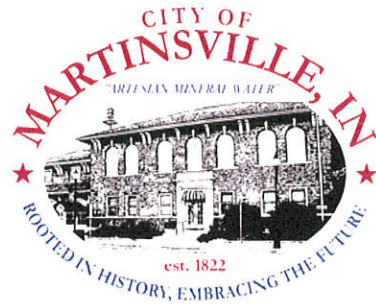
Department of Law

59 N. Jefferson Street
Martinsville, Indiana 46161

March 16, 2016

Dale S. Coffey

City Attorney



State Board of Accounts
302 W. Washington Street
Room E418
Indianapolis, IN 46204-2765

Attn: Lisa David, Via Email: ldavid@sboa.in.gov

Re: **OFFICIAL RESPONSE**

Dear State Board of Accounts,

Please let this letter serve as an official response on behalf of the Common Council of the City of Martinsville to the recent audit performed for years 2013, 2014 and part of 2015.

The City Council acknowledges that in regards to the car that was used by the former Mayor, there should have been a resolution adopted by the Common Council, setting forth the guidelines for use of that car. In the future, if a city owned car is going to be used an elected official, a resolution will be adopted concerning guidelines for that use.

In regards to reimbursement or payment of health insurance monies for the former Mayor, the City Council acknowledges that in the future, if this practice will take place, the salary ordinance should set forth the monies that will be used in the correct amounts for those particular payments.

Also, a resolution will be adopted by the City Council covering the reimbursement of insurance premiums.

In regards to the credit cards, the City has, this year, adopted a resolution concerning the use of credit cards for the City of Martinsville. Such resolution was passed in February, 2016.

I thank you for your attention to this matter.

Sincerely,

Dale S. Coffey, Martinsville City Attorney
dalecoffey@boclawyers.com

DSC/lis

COMMON COUNCIL
CITY OF MARTINSVILLE
EXIT CONFERENCE

The contents of this report were discussed on March 8, 2016, with Phil Deckard, Sr., former Mayor, and Roger T. Coffin, Attorney.

The contents of this report were discussed on March 8, 2016, with Terry Buster, member of Common Council; Mary Lou Peden, former Clerk-Treasurer; Valerie Hugart, Clerk-Treasurer; Diane Selch, Assistant Utility Office Manager; Shannon Kohl, Mayor; Kristopher A. Fuller, Attorney for Clerk-Treasurer; and Dale S. Coffey, City Attorney.