

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

COMPLIANCE REPORT
OF

UTILITIES
CITY OF LAWRENCBURG
DEARBORN COUNTY, INDIANA

September 1, 1999 to December 1, 2015



FILED
05/24/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jacqueline A. Stutz	01-01-04 to 12-31-15
	Tyler Rainey	01-01-16 to 12-31-19
Mayor	William Cunningham	01-01-04 to 12-31-11
	Dennis Carr	01-01-12 to 12-31-15
	Kelly Mollaun	01-01-16 to 12-31-19
President of the Board of Public Works	William Cunningham	01-01-04 to 12-31-11
	Dennis Carr	01-01-12 to 12-31-15
	Kelly Mollaun	01-01-16 to 12-31-19
President of the Utility Service Board	William Cunningham	01-01-04 to 12-31-11
	Dennis Carr	01-01-12 to 12-31-15
	Kelly Mollaun	01-01-16 to 12-31-19
President of the Common Council	William Cunningham	01-01-04 to 12-31-11
	Doug Taylor	01-01-12 to 12-31-12
	William M. Lawrence	01-01-13 to 12-31-13
	Aaron Cook	01-01-14 to 12-31-14
	Jane Pope	01-01-15 to 12-31-15
	Aaron Cook	01-01-16 to 12-31-16
	Randy Abner	01-01-17 to 12-31-17
Director of Utilities	Charles M. Davis	01-01-06 to 08-29-14
	(Vacant)	08-30-14 to 11-17-14
	Olin Clawson	11-18-14 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

As authorized under Indiana Code 5-11-1, we performed certain procedures to the accounting records and related documents of City of Lawrenceburg (City), for the period September 1, 1999 to December 1, 2015, to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts.

The 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.

The City Annual Financial Reports filed for years prior to 2011 can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/. For years 2011 and later, the Annual Financial Reports filed by the City can be found on the Gateway website: <https://gateway.ifionline.org/>.

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

March 8, 2017

UTILITIES
CITY OF LAWRENCEBURG
RESULTS AND COMMENTS

BACKGROUND INFORMATION

Utility officials conducted an internal review of utility customer billings. The internal review identified customers who were either under billed or not billed for utility services resulting in financial losses to the Utilities and to the City. On May 19, 2015, Utility and City officials notified the Indiana State Board of Accounts of the financial losses. This notification was required by Indiana Code 5-11-1-27.

The internal review has been an ongoing process. Financial losses identified totals \$1,182,275 as of March 8, 2017, as summarized below:

Description	Amount
Financial Loss - Rate Increase Not Implemented	\$ 455,523
Financial Loss - Individual Customer Accounts	376,548
Financial Loss to City	<u>350,204</u>
Total Financial Losses	<u><u>\$ 1,182,275</u></u>

The above financial losses are more fully described in the subsequent Results and Comments.

FINANCIAL LOSSES - RATE INCREASES NOT IMPLEMENTED

The City Council amended the Rate Ordinance No. 1980-7 on June 1, 2010. The amendment included a significant rate increase for customers with fire sprinkler systems (used for fire suppression) and fire hydrants. The rate increase was required to be phased in over a four year period from the year 2010 through the year 2013. The rate increase was implemented for customers that had accounts on the Utilities' billing system. However, no process was implemented at the time of the rate increase to identify other customers with sprinkler systems and fire hydrants.

Current Utility officials implemented procedures to identify customers with sprinkler systems and fire hydrants. These procedures identified 68 customers with sprinkler systems and 92 fire hydrants that were not on the Utilities' billing system. Because these customers were not being billed, this resulted in financial losses to the Water Utility totaling \$455,523 for the period July 2010 through September 2015.

Charles M. Davis (Davis) was Director of Utilities at the time of the rate increases was approved.

Current officials have made the decision not to pursue any collections of these customer's unpaid prior billings charges.

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 8-1.5-3-8(b) states: "The rates and charges made by a municipality for a service rendered or to be rendered, either directly or in connection therewith, must be nondiscriminatory, reasonable, and just."

UTILITIES
CITY OF LAWRENCEBURG
RESULTS AND COMMENTS
(Continued)

Indiana Code 8-1.5-3-5(a) states:

"The superintendent of each utility shall: . . .

- (4) oversee the operation of the utility . . . and
- (5) advise the board in all matters that will bring about an efficient and economical operation . . . of the utility."

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

FINANCIAL LOSSES - INDIVIDUAL CUSTOMER ACCOUNTS

The internal review conducted by Utility officials identified the following customers that were either underbilled or not billed for utility services resulting in a financial loss totaling \$376,548:

Description	Notes	Billing Periods	Financial Loss
Customer 1	(A)	01-01-12 to 05-01-15	\$ 26,983
Customer 2	(B)	02-01-12 to 05-01-15	17,239
Customer 3	(C)	07-01-09 to 07-01-15	6,214
Customer 4	(D)	05-01-07 to 04-01-15	140,302
Customer 5	(E)	05-01-12 to 12-01-15	3,560
Customer 6	(F)	08-01-08 to 06-01-15	43,583
Customer 7	(G)	11-01-08 to 10-01-15	12,716
Customer 8	(H)	08-01-06 to 11-01-15	18,128
Customer 9	(I)	12-01-13 to 12-01-15	73,228
Three Other Customers	(J)	08-01-08 to 12-01-15	<u>34,595</u>
Total			<u><u>\$ 376,548</u></u>

Note to Schedule:

(A) This customer's account used a compound water meter with a 5/8 inch and 4 inch measuring elements. The billing for sewer service was based on water consumption measured through both the measuring elements. The billing for the customer began in December 2011, which showed the correct billing for sewer service. However, the December 2011 billing for sewer service was removed and the customer was no longer billed for sewer service. A notation on the customer's account showed that the sewer account was not to be billed "per Davis." No reason was documented to explain why sewer service was not being billed.

In July of 2014, an event occurred resulting in a billing clerk becoming aware that the customer was actually receiving sewer service. A notation on the account showed that Davis approved the customer to be billed for water flow through the 5/8 inch measuring element. However, the customer was still not billed for water flow through the 4 inch measuring element. No reason was documented as to why sewer service measured through the 4 inch element was not billed.

UTILITIES
CITY OF LAWRENCEBURG
RESULTS AND COMMENTS
(Continued)

(B) This customer was a large electric power customer whose business was closed during the winter months. A notation on the customer's account, dated June 11, 2012, showed that Davis approved the customer to be billed at a lower rate than was required by the rate ordinance. No reason was documented to explain the rate reduction. The change to another rate classification was also not approved by the Utility Service Board or the Common Council.

(C) This customer was a large electric power residential customer that was required by the rate ordinance to be billed using a multiplier. According to a notation on the customer's account, dated March 22, 2012, Davis approved removing the multiplier used to compute the electric bill. The removal of the multiplier reduced the customer's bill. No reason was documented to explain the removal of the multiplier.

(D) This was a large industrial customer with several water meters. Current Utility officials discovered that one meter for this customer was not on the billing system and as a result had not been billed for several years.

(E) This account was deleted from the billing system in a manner which also caused the account to be deleted from the software used in reading meters. As a result, the meters for the customer were not read and the customer was not billed for electric, water, and sewer service.

The official or employee responsible for deleting the account from the Utilities billing system had not been determined.

(F) The water-sewage account for this customer was made inactive during the year 2004 after the property was changed to a new owner. The customer was not billed after the account was made inactive. No reason was documented as to why the account was made inactive. Utility officials back billed this account for services starting with the year 2008.

(G) This customer's account was not on the billing system and was never billed for electric service until discovered during the internal review.

(H) During the year 2006, a new meter was installed on this customer's property to more accurately measure electric consumption. According to the notation on this account, the customer complained about the increase in the electric bill. The notation showed that Davis directed the customer's electric consumption to be measured using the previous meter.

(I) Current Utility officials identified that a large electrical user was not being properly metered. The facility was formerly owned by the City of Lawrenceburg and subsequently sold to a private business. Due to the improper metering, the City of Lawrenceburg was under billed \$20,994 through December 2013 through December 2014. The private business was underbilled \$52,234 during the year 2015.

(J) These are other customers' accounts that were either made "inactive"; not metered properly; or not billed in accordance with the rate ordinance.

On December 13, 2016, the City officials stated that the identified customers have either entered into a repayment agreement and have begun repaying the past utility charges; have made a payment to settle the unpaid charges; or had meters repaired or replaced to accurately bill the customer for the appropriate usage.

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

UTILITIES
CITY OF LAWRENCEBURG
RESULTS AND COMMENTS
(Continued)

Indiana Code 8-1.5-3-8(b) states: "The rates and charges made by a municipality for a service rendered or to be rendered, either directly or in connection therewith, must be nondiscriminatory, reasonable, and just."

Indiana Code 8-1.5-3-5(a) states in part:

"The superintendent of each utility shall . . .

- (4) oversee the operation of the utility . . . and
- (5) advise the board in all matters that will bring about an efficient and economical operation . . . of the utility."

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CITY FINANCIAL LOSS

The internal review conducted by Utility officials identified that the Utilities erroneously billed the City of Lawrenceburg a total of \$350,204 for the period September 1999 to December 2015. The billing was for electric service at pump stations owned by another governmental entity. The erroneous billing did not result in a financial loss to the Utilities; however, it did result in a financial loss to the City of Lawrenceburg.

Current officials have properly transferred the billing of electric service to the proper owner. Due to the close relationship with this other governmental entity, the Common Council or the Utility Service Board does not desire to pursue any refund of the prior years' payments by the City for electric service at these pumping stations.

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

INTERNAL CONTROL DEFICIENCIES

Various customer accounts were not billed or were underbilled. The following internal control deficiencies were identified:

1. In regards to the financial losses from sprinkler systems and fire hydrants, no procedures were implemented to identify customers utilizing these services.
2. Notations on certain customer accounts indicated management override of rate ordinance provisions.
3. The governing body did not have an internal control policy requiring a formal review of customer billings. The most recent review was done internally; however, the governing body may want to consider having these performed externally in order to provide a degree of segregation of duties.

UTILITIES
CITY OF LAWRENCEBURG
RESULTS AND COMMENTS
(Continued)

These reviews may be especially beneficial on large consumption customers where both erroneous rates and/or erroneous metering of consumption can result in significant billing variances.

4. One customer account was deleted from the system. The computerized billing system did not have a control in place that required the approval of a second person before a customer's account could be deleted.

In addition, deletions of customer accounts were not reported on a security log report and did not report the user making the deletion.

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 even. 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 is not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

UTILITIES
CITY OF LAWRENCEBURG
EXIT CONFERENCE

The contents of this report were discussed on March 8, 2017, with Kelly Mollaun, Mayor; Randy Abner, President of the Common Council; Olin Clawson, Director of Utilities; Suzanne Orndroff, Deputy Clerk-Treasurer; and Delmar Weldon, City Attorney.