

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, 2012 to December 31, 2016



FILED
11/02/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Randolph J. Turner Benjamin Turner	01-01-12 to 12-31-15 01-01-16 to 12-31-19
Mayor	Donnie Hastings, Jr.	01-01-12 to 12-31-19
President of the Board of Public Works	Donnie Hastings, Jr.	01-01-12 to 12-31-17
President Pro Tempore of the Common Council	Donnie Hastings, Jr.	01-01-12 to 12-31-17
President of the Utilities Service Board	John Borgman	01-01-12 to 12-31-17
Superintendent of Utilities	Randolph J. Turner	01-01-12 to 12-31-17



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 our examination report of the City of Aurora (City), for the period from January 1, 2012 to December 31, 2016. 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 Statements Examination Report of the City, which provides our opinion on the City's financial statements. 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

September 18, 2017

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CLERK-TREASURER
CITY OF AURORA

CLERK-TREASURER
CITY OF AURORA
EXAMINATION RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

The Annual Financial Reports (AFR) for 2012, 2013, 2014, 2015, and 2016 contained a number of errors and did not match the records of the City or Utilities. The differences between the AFR and the City/Utility ledgers were as follows:

1. The GENERAL FUND's cash and investment balance as of January 1, 2012, December 31, 2012, January 1, 2013, and December 31, 2013, on the AFR was \$1,300 more than the ledger balance.
2. In 2015, the PAYROLL-CITY fund receipts were overstated by \$784,463 and the disbursements were understated by \$78,310 on the AFR which resulted in the December 31, 2015 balance being overstated by \$862,773.
3. In 2015, the activity of several payroll withholding funds were reported on the AFR that were already included in the PAYROLL-CITY fund. This resulted in overstated receipts and disbursements and an overstated balance on the AFR of \$18,391 at December 31, 2015.
4. In 2016, the Gas Operating fund had \$105,801 less in disbursements reported on the AFR than in the ledger. This resulted in the ending cash and investment balance as of December 31, 2016, to be overstated by \$105,801 on the AFR.

Adjustments to the financial statements were proposed, approved by the Clerk-Treasurer, and made to the financial statements.

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)

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 cash balance of the SIEOC (2) fund was overdrawn by \$16,467, \$16,455, and \$13,354 as of December 31, 2012, December 31, 2013, and December 31, 2014, respectively.

Similar comments also appeared in prior Reports B38365, B39935, and B42052, entitled *OVERDRAWN FUND BALANCES* and *OVERDRAWN CASH BALANCES*.

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

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 unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

OVERDRAWN APPROPRIATIONS

Cash disbursements exceeded approved appropriations for the following funds:

Fund	Years	Excess Amount Expended
Gaming	2012	\$ 146,364
Cum. Cap. Development	2014	32,947
Sanitation	2014	29,002

The same comment also appeared in prior Reports B38365, B39935, and B42052, entitled *APPROPRIATIONS* and *OVERDRAWN APPROPRIATIONS*.

Indiana Code 36-4-8-2 states in part:

" . . . Unless a statute provides otherwise, the fiscal officer may draw a warrant against a fund of the city only if:

- (1) an appropriation has been made for that purpose and the appropriation is not exhausted; . . ."

ACCOUNTS PAYABLE

The Allowance of Accounts Payable Vouchers registers, which were used to document the Clerk-Treasurer's audit of the accounts payable vouchers and the Common Council's approval of the vouchers, as noted on the register by their signatures, were not presented for examination for 2012 or 2013. The Common Council meeting minutes examined for 2012 and 2013 had notations each month indicating that the Common Council had approved the claims.

Eighty-two percent of the claims tested did not have evidence to support receipt of goods or services. This error resulted in \$236,700 of disbursements which did not have evidence to support receipt of goods or services.

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

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

Indiana Code 5-11-10-1.6(c) states:

"The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

PARK FACILITY RENTALS

The park facilities rental agreement required renters whose functions would include alcoholic beverages on the rental premises to secure all applicable permits and employ the appropriate number of security personnel to be present for the function. All security personnel were to be chosen and approved through the Chief of Police. From a list of volunteers, an off-duty City police officer was assigned security duties for the event by the Chief of Police. The rental agreement did not specifically state the compensation to be paid, but it was the practice of the City Police Department for the police officer to receive \$35/hour for an event, which was paid directly to the police officer who was assigned to the event for his services by the renter.

Fees

There was no documentation to show the fee paid by the renter for security services was approved by the governing body.

Fees can only be collected as specifically authorized by law or properly authorized ordinance/resolution. When a fee is NOT specified by law, but instead through the use of an ordinance/resolution, sufficient authoritative reference should be maintained. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Receipts/Recording Transactions

Receipts were not issued to renters and fees were not remitted to the Clerk-Treasurer for fees collections for the security service performed by the City's Police Department.

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

Compensation Processing

Since the renter was paying the police officer directly, the time worked was not processed or reported in the City's payroll system through the Clerk-Treasurer's office. The compensation for the security service was not included in the salary ordinance. Payroll taxes were neither reported nor remitted on the security service compensation.

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 law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (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 18, 2017, with Benjamin Turner, Clerk-Treasurer; Randolph J. Turner, former Clerk-Treasurer and Superintendent of Utilities; Oren Turner, Deputy Clerk-Treasurer; and Donnie Hastings, Jr., Mayor.

COMMON COUNCIL
CITY OF AURORA

COMMON COUNCIL
CITY OF AURORA
EXAMINATION RESULTS AND COMMENTS

PAYMENTS TO NOT-FOR-PROFIT COMMUNITY ORGANIZATIONS

Payments were made to various not-for-profit community organizations in 2012, 2013, 2014, 2015, and 2016. No contracts or agreements were presented for examination describing the services or promotional activities these organizations were providing. The following shows the total payments each year.

<u>Years</u>	<u>Amount</u>
2012	\$ 111,005
2013	131,451
2014	49,250
2015	108,250
2016	113,375

A similar comment also appeared in prior Report B42052, entitled *MAYOR PROMOTIONAL ACTIVITIES*.

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Public funds cannot be donated or given to other organizations or individuals unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

PARK FACILITY RENTALS

The park facilities rental agreement required renters whose functions would include alcoholic beverages on the rental premises to secure all applicable permits and employ the appropriate number of security personnel to be present for the function. All security personnel were to be chosen and approved

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

through the Chief of Police. From a list of volunteers, an off-duty City police officer was assigned security duties for the event by the Chief of Police. The rental agreement did not specifically state the compensation to be paid, but it was the practice of the City Police Department for the police officer to receive \$35/hour for an event, which was paid directly to the police officer who was assigned to the event for his services by the renter.

There was no documentation to show the fee paid by the renter for security services was approved by the Common Council.

Fees can only be collected as specifically authorized by law or properly authorized ordinance/resolution. When a fee is NOT specified by law, but instead through the use of an ordinance/resolution, sufficient authoritative reference should be maintained. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

EMS DONATION FEES

In January 2014, the City Utilities started billing and collecting a \$3 per month Emergency Medical Service (EMS) donation fee from its utility customers. This fee was a voluntary charge on a customer's monthly utility billing if the customer decided to opt-in to the program and make the donation. The EMS Donation fees collected were remitted to Aurora EMS, Inc., on a monthly basis. An ordinance or resolution creating the fee and its usage was not presented for examination.

Fees can only be collected as specifically authorized by law or properly authorized ordinance/resolution. When a fee is NOT specified by law, but instead through the use of an ordinance/resolution, sufficient authoritative reference should be maintained. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

COMMON COUNCIL
CITY OF AURORA
EXIT CONFERENCE

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SUPERINTENDENT OF UTILITIES
CITY OF AURORA

SUPERINTENDENT OF UTILITIES
CITY OF AURORA
EXAMINATION RESULTS AND COMMENTS

CUSTOMER DEPOSITS

Customer deposit detail totals were not reconciled to Customer Deposit cash fund totals. Customer detail balance reports at December 31, 2016, were not retained for examination. In a comparison of the detail reports of customer deposit receipts and disbursements for 2016 to the postings in the Customer Deposit cash accounts showed that the detail totals did not agree with totals reported in the Fund Report.

A similar comment also appeared in prior Reports B38365, B39935, and B42052, entitled *CUSTOMER DEPOSIT REGISTER, CONDITION OF RECORDS - UTILITY FUNDS, and ACCOUNTING FOR CUSTOMER DEPOSITS*.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

INTERNAL CONTROLS OVER ACCOUNTS RECEIVABLE

The internal controls over utility accounts receivable were not sufficient. Documentation was not presented that monthly reconcilements of detail listings of customer accounts receivable totals to control account balances were performed. These reconcilements should be performed monthly to help identify errors and/or irregularities in a timely manner.

The same comment also appeared in prior Reports B39935 and B42052, entitled *ACCOUNTS RECEIVABLE RECONCILEMENTS and INTERNAL CONTROLS OVER ACCOUNTS RECEIVABLE*.

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. . . ."

SUPERINTENDENT OF UTILITIES
CITY OF AURORA
EXIT CONFERENCE

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UTILITY SERVICE BOARD
CITY OF AURORA

UTILITY SERVICE BOARD
CITY OF AURORA
EXAMINATION RESULT AND COMMENT

DONATIONS FROM UTILITY FUNDS

During the examination period, donations were made to various not-for-profit organizations totaling \$8,750 from the Gas Operating fund, \$3,710 from Water Operating fund, and \$2,314 from the Wastewater Operating fund.

Public funds cannot be donated or given to other organizations or individuals unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

UTILITY SERVICE BOARD
CITY OF AURORA
EXIT CONFERENCE

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