

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF LEBANON

BOONE COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED
04/25/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Tonya Thayer	01-01-16 to 12-31-19
Mayor	Matthew Gentry	01-01-16 to 12-31-18
President of the Board of Public Works and Safety	Matthew Gentry	01-01-16 to 12-31-18
President Pro Tempore of the Common Council	Steve Large John Copeland Keith Campbell	01-01-16 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18
Utility Office Manager	Sandra Morgan	01-01-16 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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TO: THE OFFICIALS OF THE CITY OF LEBANON, BOONE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Lebanon (City), for the period from January 1, 2016 to December 31, 2016. 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

March 29, 2018

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CLERK-TREASURER
CITY OF LEBANON

CLERK-TREASURER
CITY OF LEBANON
FEDERAL FINDINGS

FINDING 2016-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

Condition

The City did not have a proper system of internal controls in place to prevent, or detect and correct, errors to its financial statement and the Schedule of Expenditures of Federal Awards (SEFA).

Context

There were several deficiencies in the internal control system of the City as listed below:

1. Monitoring of Controls: The City had no process to identify or communicate corrective actions to improve controls. Effective internal controls would require the City to monitor and assess the quality of the system of internal control.
2. The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the SEFA.

The City did not properly review the federal grant information prepared and submitted in the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the financial reporting system used to compile the City's SEFA. One employee prepared the federal award information entered into the Gateway without a control process in place to ensure its accuracy before submission.

The SEFA contained the following error:

- The Highway Planning and Construction Cluster was understated by \$24,716.

Audit adjustments were proposed, accepted by the City, and made to the SEFA.

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. . . ."

CLERK-TREASURER
CITY OF LEBANON
FEDERAL FINDINGS
(Continued)

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with § 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within a cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

CLERK-TREASURER
CITY OF LEBANON
FEDERAL FINDINGS
(Continued)

Cause

Management of the City had not established a proper system of internal control that would have ensured proper reporting of the SEFA.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Context*.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2016-002

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

There were the following deficiencies in the internal control system of the City related to financial transactions and reporting:

- *Lack of Segregation of Duties:* The City had not separated incompatible activities related to receipts. There were no controls designed and implemented by the City for processing, recording, and reporting receipts. The City did not provide evidence of a review or approval process to ensure that material misstatements would be prevented, or detected and corrected, in a timely manner.
- *Monitoring of Controls:* The City had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting would require the City to monitor and assess the quality of the system of internal control.

Context

The lack of controls was a systemic issue, which occurred throughout the audit period.

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:

CLERK-TREASURER
CITY OF LEBANON
FEDERAL FINDINGS
(Continued)

"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. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

Cause

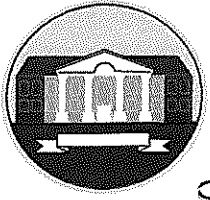
Management of the City had not established a proper system of internal control over receipts.

Effect

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the City at risk that controls may not be designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Tonya Thayer, Clerk-Treasurer
Contact Phone Number: 765-482-1218

Views of Responsible Official: We concur with the findings.

Description of Corrective Action Plan: When completing the Annual Financial Report, I was not aware that the entries I (the Clerk-Treasurer) made in the Grant portion needed to be double checked by another member of our office. So, from here on out I will have the Deputy Clerk-Treasurer verify the totals on the grant before I submit them.

On the Schedule of Expenditures of Federal Awards there were 2 errors:

The first error with the Department of Transportation Des. 0900116 Indianapolis Avenue Phase 1 – when we entered a payment of \$12,080 as a Federal Award and it was a payment from our own Lebanon Utilities and should not have been entered as a Federal Award.

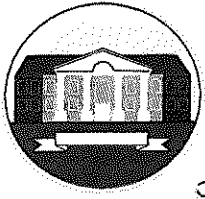
The second error with the Department of Transportation Des. 1400790 Indianapolis Avenue Phase II – we receipted in a payment of \$2976 +\$33,820 = \$36,796 into Revenue line 402990 and should have been adjusted into line 402001421, but that was never done therefore resulting in a shortfall of \$36,796.

Anticipated Completion Date: Immediately

Tonya Thayer
(Signature)

Clerk-Treasurer
(Title)

4/13/18
(Date)



Lebanon INDIANA

CORRECTIVE ACTION PLAN

FINDING 2016-002

Contact Person Responsible for Corrective Action: Tonya Thayer, Clerk-Treasurer
Contact Phone Number: 765-482-1218

Views of Responsible Official: We concur with the findings.

Description of Corrective Action Plan: We now have our Administrative Assistant receipting in all the money and checks and completing the deposit ticket, then she gives the deposit to the Deputy Clear Treasurer to double check the math and sign off on the deposit ticket that she has verified the deposit.

Anticipated Completion Date: Immediately

Tonya Thayer
(Signature)

Clerk-Treasurer
(Title)

4/13/18
(Date)

CLERK-TREASURER
CITY OF LEBANON
AUDIT RESULTS AND COMMENTS

SUPPLEMENTAL SCHEDULES

The same comment also appeared in prior Report B49622.

The City presented a Schedule of Capital Assets in their Annual Financial Report (AFR). However, the City did not maintain capital asset records; therefore, the Schedule of Capital Assets presented in the AFR could not be verified.

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."

CREDIT CARDS

The same comment also appeared in prior Report B49622.

The City had an approved credit card policy; however, the approved policy was not adhered to in the following ways:

1. After approved usage by the employee, the Department Head did not retain custody of the credit cards.
2. A log was not maintained.
3. Payments were made from the credit card statement without appropriate supporting documentation.
4. The credit card claims were not included on the claims docket each month; therefore, they were not approved by the Common Council.

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

1. The governing board must authorize credit card use through an ordinance/resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the governing body.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance/resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card must be returned to the custody of the responsible person.

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

5. The designated responsible official or employee must 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.
6. Credit cards must 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 body and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment cannot be made on the basis of a statement or a credit card slip only. Procedures for payments must 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 may be the personal obligation of that officer or employee.
8. If authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Town, Chapter 1)

ERRORS ON CLAIMS

The same comment also appeared in prior Report B49622.

Of the claims tested, 60 percent did not have Common Council approval.

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) 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. . . ."

CLERK-TREASURER
CITY OF LEBANON
EXIT CONFERENCE

The contents of this report were discussed on March 29, 2018, with Tonya Thayer, Clerk-Treasurer; Matthew Gentry, Mayor; and Keith Campbell, President Pro Tempore of the Common Council.

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COMMON COUNCIL
CITY OF LEBANON

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AUDIT RESULTS AND COMMENTS

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COMMON COUNCIL
CITY OF LEBANON
AUDIT RESULTS AND COMMENTS
(Continued)

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COMMON COUNCIL
CITY OF LEBANON
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