

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF GAS CITY

GRANT COUNTY, INDIANA

January 1, 2015 to December 31, 2016



FILED
07/24/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Condition of Records.....	6
Bank Account Reconciliations.....	6-7
Funds Not Presented	7
Public Records Retention	7-8
Overdrawn Cash Balances	8
Collection of Loans Receivable.....	8-9
Reconciliation of Utility General Ledgers to City Funds Ledger	9
Internal Controls.....	9-10
Annual Financial Report.....	10
Official Response.....	11
Exit Conference	12
City Court:	
Audit Results and Comments:	
Condition of Records.....	14-15
Bank Account Reconciliations.....	15
Exit Conference	16

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Julie L. Flores Teri Miller	01-01-12 to 01-31-16 02-01-16 to 12-31-19
Mayor	H. Larry Leach	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	H. Larry Leach	01-01-12 to 12-31-19
President Pro Tempore of the Common Council	Larry Terwillegar	01-01-15 to 12-31-18
Utility Office Manager	Lisa K. Oliver	01-01-15 to 12-31-18
City Court Judge	Steven J. Barker	01-01-12 to 12-31-19



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 GAS CITY, GRANT COUNTY, INDIANA

This report is supplemental to our audit report of the City of Gas City (City), for the period from January 1, 2015 to December 31, 2016. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement Audit 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 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 Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

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

June 6, 2018

(This page intentionally left blank.)

CLERK-TREASURER
CITY OF GAS CITY

CLERK-TREASURER
CITY OF GAS CITY
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS

A similar comment also appeared in prior Report B46152, entitled *CONDITION OF RECORDS*.

Financial records presented for audit were incomplete and not reflective of the activity for all funds. Internal controls were not adequately designed to detect material financial statement misstatements in a timely manner. The records presented did not provide sufficient information to audit or establish beginning balances, receipts, disbursements, ending balances or correctness of the transactions.

Some of the deficiencies include:

1. Ledgers detailing the receipts, disbursements, and balances for each fund were not presented for audit for the period of January 1, 2015 through March 31, 2016.
2. Receipt and disbursement compliance testing could not be completed in their entirety due to the absence of detailed ledgers.
3. In October 2015, an unidentified adjustment totaling \$8,281 was made to the General, Electric Operating, Water Operating, and Wastewater Operating funds.
4. Detailed meter deposit registers did not reconcile with the meter deposit fund balances reported on the financial statement presented for audit. Electric Meter Deposit fund balances were \$21,905 long and Water Cash Meter Deposit fund balances were \$4,875 long of the detailed registers at December 31, 2016, respectively.

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)

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. . . ."

BANK ACCOUNT RECONCILIATIONS

A similar comment also appeared in prior Report B46152, entitled *BANK ACCOUNT RECONCILIATIONS*.

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

Depository reconciliations of the fund balances to the bank account balances were performed by the City. However, the December 31, 2015 and the December 31, 2016 reconciliations contained numerous unidentified errors and did not reconcile. At December 31, 2015, the fund balance exceeded the bank balance by \$11,455. At December 31, 2016, the bank balance exceeded the fund balance by \$1,396.

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."

FUNDS NOT PRESENTED

A similar comment also appeared in prior Report B46152, entitled *FUNDS NOT PRESENTED*.

The financial records presented for audit were incomplete and not reflective of the activity of the 2010 Economic Development Revenue Bond fund. The fund balance at December 31, 2015, and December 31, 2016, as reported on the Annual Financial Report (AFR) was \$240,013.

The AFR did not present the City Court fund for 2015 and 2016.

Adjustments were proposed, accepted by the City, and made to the financial statement.

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."

PUBLIC RECORDS RETENTION

A similar comment also appeared in prior Report B46152, entitled *PUBLIC RECORDS RETENTION*.

Employee Earnings Records from January 2015 through March 2016, and Year to date Payroll Registers for the years 2015 and 2016 were not presented for audit.

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 GAS CITY
AUDIT RESULTS AND COMMENTS
(Continued)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OVERDRAWN CASH BALANCES

A similar comment also appeared in prior Reports B43048 and B46152, entitled *OVERDRAWN CASH BALANCES*.

The financial statement presented for audit included the following funds with overdrawn cash balances at December 31, 2015 and 2016:

Fund	Amount Overdrawn December 31, 2015	Amount Overdrawn December 31, 2016
USER FEE- HOME MONITORING	\$ -	\$ 16,829
FEMA GRANT - FIRE DEPARTMENT	2,680	2,680
ELECTRIC DEPRECIATION	22,543	-

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)

COLLECTION OF LOANS RECEIVABLE

A similar comment appeared in prior Reports B43048 and B46152, entitled *COLLECTION OF LOAN RECEIVABLE*.

In 2009, the City loaned an Indiana corporation \$300,000 to make structural improvements to the former Amcast building. Monthly payments of \$5,000 plus interest were to commence in July 2011. There had been no payments made on this loan until the property sold in September of 2016 and the City applied sale proceeds of \$300,000 to the loan receivable.

In 2012, the City loaned an Indiana corporation \$100,000 to improve Findlay's Tall Timbers Distribution Center, Inc. Quarterly payments of \$8,333 plus interest were to commence in May 2015. There have been \$75,000 in payments made on this loan from 2012 through 2014. There have been no payments since 2014 made on this loan through December 31, 2017, leaving an outstanding principal balance due of \$25,000.

No documentation was presented for audit that indicated that loan payments or conditions may have been amended for the 2012 loans.

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

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)

RECONCILIATION OF UTILITY GENERAL LEDGERS TO CITY FUNDS LEDGER

The same comment also appeared in prior Reports B43048 and B46152.

Monthly cash balances on the Utility general ledgers were not reconciled to the cash balances on the City funds ledger.

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

A similar comment also appeared in prior Report B46152, entitled *INTERNAL CONTROLS*.

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

- The City had not separated incompatible activities related to all areas of the financial statements.
- The City's bank reconciliations were prepared by the Clerk-Treasurer. There were no controls in place such as an oversight, review, or approval process of the bank reconciliations.
- There was no segregation of duties for receipting of City and Utility collections. The same person may collect, post, and deposit receipts.
- Payroll claims/disbursements after March 2016 were not approved by the Common Council or Board of Public Works and Safety.
- There was no oversight or approval of meter deposit claims/refunds.
- Adjustments to Accounts Receivable balances of Electric, Water, Wastewater, and Sanitation billings were not presented to the Common Council for approval.
- The Clerk-Treasurer prepared and submitted the financial information into the Indiana Gateway for Government Units (Gateway). The Gateway is the collection platform for local units of government to submit required data to the State of Indiana. All cities are required to submit their Annual Financial Report via the Gateway. The City, however, did not have effective controls to verify the accuracy of the financial information prior to submission.

The failure to establish these controls could enable material misstatements to go undetected.

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

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. . . ."

ANNUAL FINANCIAL REPORT

A similar comment also appeared in prior Report B46152, entitled *ANNUAL FINANCIAL REPORT*.

The Annual Financial Report (AFR) for 2015 and 2016 contained a number of errors and did not match the records of the City.

In 2015, the Build Indiana Grant Downtown was split and presented as Hontz Hall and Hontz Hall Sustainability. Also, the 2003 Redevelopment District Capital was split and presented as 2005 Redevelopment District - Wal-Mart and 2005 Redev Debt Service Reserve - Wal-Mart.

City Court transactions and balances were not reported in both years.

Various Electric, Water, and Wastewater Utility funds were presented as one fund entitled Electric Operating, Water Operating, and Wastewater Operating, respectively.

Adjustments were proposed, accepted by the City, and made to the financial statement.

The amounts presented on the AFR for the City's Supplemental Schedule of Capital Assets and Schedule of Payables and Receivables did not agree with the supporting documentation maintained by the Clerk-Treasurer. The Schedule of Capital Assets and Accounts Receivable was not presented in the audit report.

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."

Official Response to the Audit Results and Comments

For Period January 1, 2015 to December 31, 2016

By Teri Miller, Clerk-Treasurer

I took office February 1, 2016, and I am only able to address events from that date forward. In my first month in office I was informed that the recently completed audit had a "disclaimed" opinion; however, I didn't fully understand what that meant. The software in place on February 1, 2016 was not only substandard but had inconsistencies and was unreliable. The City Council was gracious enough to allow me to purchase new software which was installed April 1, 2016. While the new software company attempted to convert the records from the old system to the new, the incomplete and incorrect records were unreconcilable. Additionally, we had a complete and total hard-drive failure in June of 2016, which further complicated the already existing issues. During this time period, I was attempting to find training that could convert my considerable private sector experience to government fund accounting skills. I was also attempting to obtain education on the comprehensive duties and responsibilities of a Class III City's Clerk-Treasurer. Our efforts during 2016 did not resolve the issues for that year; however, we hoped these efforts would allow for improvements in the future.

CLERK-TREASURER
CITY OF GAS CITY
EXIT CONFERENCE

The contents of this report were discussed on June 6, 2018, with Julie L. Flores, former Clerk-Treasurer; H. Larry Leach, Mayor; Teri Miller, Clerk-Treasurer; Lisa K. Oliver, Utility Office Manager; and Larry Terwillegar, President Pro Tempore of the Common Council.

CITY COURT
CITY OF GAS CITY

CITY COURT
CITY OF GAS CITY
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS

A similar comment also appeared in prior Report B46152, entitled *CONDITION OF RECORDS*.

The following deficiencies with the condition of the City Court records were identified. Internal controls were not adequately designed to detect material misstatements in a timely manner.

- In 2010, a new accounting software system was implemented. In February 2014, the older system (CSI) was no longer used. However, the CSI City Court Cash Book account and a related checking account continued to have balances. The December 31, 2016 balance reported in the CSI City Court Cash Book was \$8,580. The checking account balance as of December 31, 2016, was \$10,864.
- Due to age of the records and a change in City Court staff, the detail of the Cash Book balance was not available or presented for audit.
- Much of the variance between the bank balance and the Cash Book balance were outstanding checks. However, this list can no longer be identified.

The City Court closed the bank account on April 25, 2018, and funds were remitted to the Gas City Clerk-Treasurer.

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)

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:

CITY COURT
CITY OF GAS CITY
AUDIT RESULTS AND COMMENTS
(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. . . ."

BANK ACCOUNT RECONCILIATIONS

A similar comment also appeared in prior Report B46152, entitled *CITY COURT BANK ACCOUNT RECONCILIATIONS*.

Monthly depository reconciliations of the City Court fund balances maintained on the CSI accounting system were not presented for audit by Court officials for 2015 and 2016. As part of our audit procedures, we performed a reconciliation of the CSI fund balances to the bank account balance at December 31, 2015 and 2016, and identified the fund balance exceeded the bank account balance by \$1,120 and \$75, respectively.

Monthly depository reconciliations of the City Court fund balances maintained on the Odyssey accounting system were not presented for audit by Court officials for 2015 and 2016. As part of our audit procedures, we performed a reconciliation of the Odyssey fund balances to the bank account balance at December 31, 2015 and 2016, and identified the fund balance exceeded the bank account balance by \$3,413 and \$2,268, respectively.

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."

CITY COURT
CITY OF GAS CITY
EXIT CONFERENCE

The contents of this report were discussed on June 6, 2018, with Steven J. Barker, City Court Judge, and Jody Austin, City Court Clerk.