

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, 2017 to December 31, 2017



FILED
07/24/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Teri Miller	02-01-16 to 12-31-19
Mayor	H. Larry Leach	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	H. Larry Leach	01-01-16 to 12-31-19
President Pro Tempore of the Common Council	Larry Terwillegar	01-01-17 to 12-31-18
Utility Office Manager	Lisa K. Oliver	01-01-17 to 12-31-18
City Court Judge	Steven J. Barker	01-01-16 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2017 to December 31, 2017. 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

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CLERK-TREASURER
CITY OF GAS CITY

CLERK-TREASURER
CITY OF GAS CITY
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

A similar comment also appeared in prior Reports B46152 and B50527, entitled *BANK ACCOUNT RECONCILIATIONS*.

Depository reconciliations of the fund balances to the bank account balances were performed by the City. However, the December 31, 2017 reconciliation contained numerous unidentified errors and did not reconcile. At December 31, 2017, the fund balance exceeded the bank balance by \$13,205.

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 Reports B46152 and B50527, entitled *FUNDS NOT PRESENTED*.

The Annual Financial Report (AFR) and the financial records presented for audit were incomplete and not reflective of the activity of the 2010 Redevelopment Bond Reserve fund. The fund balance at December 31, 2017, was \$240,013.

The AFR did not present the City Court fund for 2017.

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."

COLLECTION OF LOANS RECEIVABLE

A similar comment appeared in prior Reports B43048, B46152, and B50527, entitled *COLLECTION OF 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 the City of \$25,000.

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

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)

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

RECONCILIATION OF UTILITY GENERAL LEDGERS TO CITY FUNDS LEDGER

The same comment also appeared in prior Reports B43048, B46152, and B50527.

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 and B50527, 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 the 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 Board of Public Works and Safety for approval.
- The Clerk-Treasurer prepared and submitted the financial information into the Indiana Gateway for Government Units (Gateway). The Gateway was the collection platform for local units of government to submit required data to the State of Indiana. All Cities were required to submit their AFR 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. . . ."

CUSTOMER DEPOSIT REGISTER

A similar comment also appeared in prior Report B50527, entitled *CONDITION OF RECORDS*.

Detailed customer deposit registers did not reconcile with the customer deposit fund balances. The detailed customer deposit register total for the Electric Utility was \$47,990 less and the Water Utility was \$12,952 less than the financial statement fund balances at December 31, 2017.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balances 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)

ANNUAL FINANCIAL REPORT

A similar comment also appeared in prior Report B46152 and B50527, entitled *ANNUAL FINANCIAL REPORT*.

The AFR for 2017 contained a number of errors and did not match the records of the City. The City Court and the 2010 Economic Development Revenue Bond fund transactions and balances were not reported. Transactions recorded as negative disbursements totaling \$2,169,254 were made to the Allocation Fund (I-69 TIF Area).

Adjustments were proposed, approved by management, and made to the financial statement presented for audit.

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 Schedule of Receivables were not presented in the audit report.

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

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, 2017 to December 31, 2017

By Teri Miller, Clerk-Treasurer

I took office February 1, 2016, and 2017 was my first full year in office. Following the issues and complications of 2016, 2017 was the year of education and reorganization of the Clerk-Treasurer's office. I appreciate The State Board of Accounts Field Examiners professionalism and assistance during the examination process. Correction action plans are being submitted for the audit comments; however, following are my responses to the comments presented:

BANK ACCOUNT RECONCILIATIONS: The prior years' issues were carried forward to 2017. I hired Umbaugh to assist with the bank reconciliations and resolve the previous issues; however, they were unable to identify the errors reported. The State Board of Accounts Field Examiner was very helpful in assisting me in developing a new format to report reconciliations.

FUNDS NOT PRESENTED: I am unsure if the 2010 Redevelopment Bond Fund was dropped in the software conversion, or if it wasn't on the previous set of books; however, this issue will be corrected by placing the fund in the records and reconciling on a regular basis. The Court fund will also be added for future reports.

COLLECTION OF LOANS RECEIVABLE: The 2012 loan for the furniture manufacturing business at Munire Drive has been resolved. The City Attorney has provided documentation to the State Board of Accounts for the bankruptcy filing of said manufacturing business. The loan to Findlay's Tall Timbers Distribution Center will be investigated further, as I was not informed of this loan prior to this audit.

RECONCILIATION OF UTILITY GENERAL LEDGERS TO CITY FUNDS LEDGER: The utility department is currently in the process of converting to the same software as the clerk-treasurer's office, and I am hopeful this will assist in resolving this issue. The current utility software is substandard and unreliable.

INTERNAL CONTROLS: Due to our minimal staff, we will be asking the council president to take a more active role in our internal control procedures. The issues related to the utility department, such as oversight for utility collection receipts, meter deposit claims/refunds, adjustments to accounts receivable balances being presented to the Board for approval will need to be addressed by the utility office manager.

CUSTOMER DEPOSIT REGISTER: The utility office manager will need to address this, and I am hopeful that the new software in the plan will assist in correcting this issue.

ANNUAL FINANCIAL REPORT: The negative disbursements were transfers of funds in an attempt to reconcile the accounts. The State Board of Accounts has provided me with the proper procedures for handling these matters. The 2010 Economic Development Revenue Bond detail is being investigated.

CLERK-TREASURER
CITY OF GAS CITY
EXIT CONFERENCE

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

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CITY COURT
CITY OF GAS CITY

CITY COURT
CITY OF GAS CITY
AUDIT RESULT AND COMMENT

CONDITION OF RECORDS

A similar comment appeared in prior Report B46152 and B50527, 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 misstatement 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, 2017 balance reported in the CSI City Court Cash Book was \$8,580. The checking account balance as of December 31, 2017, was \$10,864.
- Due to age of the records and a change in the City Court staff, the detail of the Cash Book balance was not available 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 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:

"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."

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.