

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF TERRE HAUTE

VIGO COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED
08/31/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Leslie A. Ellis	01-01-16 to 12-31-18
Mayor	Duke A. Bennett	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Jonathon Stinson	01-01-16 to 12-31-18
President of the Common Council	Todd Nation Karrum J. Nasser Curtis DeBaun, IV	01-01-16 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18
Wastewater Utility Director	Christopher M. Thompson (Vacant) Debra Padgett	01-01-16 to 08-03-17 08-04-17 to 08-14-17 08-15-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE CITY OF TERRE HAUTE, VIGO COUNTY, INDIANA

This report is supplemental to our audit report of the City of Terre Haute (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

August 9, 2018

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CONTROLLER
CITY OF TERRE HAUTE

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CITY OF TERRE HAUTE
FEDERAL FINDING

FINDING 2016-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-001.

Condition

There were deficiencies in the internal control system of the City related to financial transactions and reporting. The City prepared and submitted its financial information online through the Indiana Gateway for Government Units (Gateway) financial reporting system. The financial statement was compiled from the Annual Financial Report information provided on the Gateway system. The City did not have adequate controls in place to ensure the financial information reported was accurate.

Context

The lack of controls was a systemic problem.

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:

CONTROLLER
CITY OF TERRE HAUTE
FEDERAL FINDING
(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. . . ."

Cause

Management of the City had not established a proper system of internal control over financial transactions and reporting.

Effect

The failure to establish controls could have enabled misstatements or irregularities in the financial statement to remain undetected.

Recommendation

We recommended that the City establish a system of internal controls related to financial transactions and reporting.

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: Leslie Ellis Controller
Contact Phone Number: 812-244-2359

**CITY OF
TERRE HAUTE
OFFICE OF THE
CITY CONTROLLER**

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17 Harding Avenue
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The Controller's office reconciles year end information and prepares many State, Federal, and internal reports. All financial information is balanced and then entered into the State's Gateway website. There have been keying errors and other information that was discovered after the Annual Financial Report (AFR) was submitted. This has caused erroneous data entry into Gateway. We reopened the system and corrected all information. We concur with the finding regarding internal controls for the AFR reporting process.

LESLIE ELLIS
City Controller

Description of Corrective Action Plan:

The Controller's office is understaffed at this time therefore many year end duties, including the AFR, are rushed to be completed by the due dates. We would like to hire two new employees in the Controller's office to help with the work flow. This will allow for better review of documents and information in reporting functions. The City Council has final approval of hiring through Salary Ordinances and budget appropriations. If the new positions are approved then we will be able to make our reporting deadlines with more accurate information.

Anticipated Completion Date: January 2019



Signature

Controller

August 3, 2018

CONTROLLER
CITY OF TERRE HAUTE
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROL OVER REPORTING OF SUPPLEMENTARY INFORMATION

The same comment also appeared in prior Reports B45624 and B48509.

Internal controls over the preparation of the Annual Financial Report (AFR) were not adequate to prevent or detect material errors on the supplementary schedules.

There were differences between the supporting documentation presented for review and the information entered into the AFR for the Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets.

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. . . .

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OVERDRAWN CASH BALANCES

The same comment also appeared in prior Reports B44483, B45624, and B48509.

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

CONTROLLER
CITY OF TERRE HAUTE
AUDIT RESULTS AND COMMENTS
(Continued)

Fund	Amount Overdrawn
General	\$ 8,069,754
Parks & Recreation	224,386
Police Pension	259,498
Hulman Links Non-Reverting	3,841,878
Rea Park Non-Reverting	1,084,716
Group Health - Non Reverting	701,851
WWU-Capital Improvement	1,339,612

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)

CAPITAL ASSETS

The same comment also appeared in prior Reports B45624 and B48509.

A complete detail listing of all capital assets owned by the City and Wastewater Utility was not presented for audit. There was no evidence of a physical inventory within the last two years.

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

UNTIMELY PAYMENT OF CLAIMS AND NON-SUFFICIENT FUNDS BANK FEES

A test of vendor claims paid revealed that 46 percent were not paid timely. Claims tested which were not paid timely totaled \$45,943 and were up to 145 days past the due date.

Bank fees totaling \$4,864 were paid during the year for non-sufficient fund charges on checks issued by the City.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

August 19, 2018

Mr. Paul D. Joyce, CPA
State Examiner
Indiana State Board of Accounts
302 West Washington St.
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**CITY OF
TERRE HAUTE
OFFICE OF THE
CITY CONTROLLER**

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LESLIE ELLIS
City Controller

RE: Official Response to the Audit Results and Comments December 31, 2016

OVERDRAWN CASH BALANCES:

There are several factors contributing to the negative cash position in these funds. The majority of the revenue received in the General Fund is via property tax. In 2008, the State Legislature approved a bill which enacted property tax caps. These caps limit the property owner to 1%, 2%, or 3% of the property's assessed value. The percentage used is based upon the category of their property. These limits are known as circuit breaker tax credits and are not funded by any other revenue source.

The City's administration has made significant cuts to live within the property tax reductions based on property tax cap credits. Since tax cap implementation, the City of Terre Haute has received considerably less revenue from property tax dollars. In 2009, the City received \$24,250,000 compared to property tax revenue received in 2016 of \$21,644,000. The General Fund receives the largest portion of property tax revenue after distribution among the City's other controlled funds.

The cash balance of the General Fund for the year ended December 31, 2017 was a positive \$1,219,127. The fund is now balanced and will remain that way.

The Parks & Recreation Fund also receives the majority of its revenue from property tax. The Parks & Recreation Fund had a negative balance of \$224,386 at December 31, 2016 but has improved to a positive \$109,102 at December 31, 2017. This fund is now balanced and will remain that way.

The Police Pension Fund receives a reimbursement from the State of Indiana for most of the pension expenditures, but not all. This caused a negative balance of \$259,498 for the year ended December 31, 2016 but the City allocated property tax dollars into that fund in 2017 and the fund improved to a positive \$20,356 at December 31, 2017. We will continue to put property tax into this fund as needed to ensure we maintain a year end positive balance annually.

The Hulman Links Non-Reverting Fund and the Rea Park Non-Reverting Fund are both golf course funds. The courses have been running deficits for several years. The City has increased service fees on the courses as well as decreased expenditures to help address this problem. The City is also formally analyzing proposals to consider leasing the golf course operations to outside entities but has not yet found a more cost-effective option. The golf courses will continue to be monitored and strategic initiatives implemented until the deficits

are removed. It will take some time to eliminate the deficits as it took many years for the balances to accumulate.

The City's Group Health Fund is a health fiduciary fund for the benefit of the City's employees. The cash flow of this fund varies based upon the timing of health claims paid and the deposit of health premiums received. The city has a fiscal year for the Group Health Fund from July 1 – December 31 annually. Premiums are increased to cover projected claims. The cash balance in the Group Health Fund as of December 31, 2016 was a negative \$1,339,612 but improved to a negative \$136,009 for the year ended December 31, 2017. We closely monitor this fund and increase premiums as needed.

The Waste Water Utility Capital Improvement Fund (WWCI) is part of the enterprise set of utility funds that include a significant amount of cash. In previous years that cash was reported in aggregate. The total amount of WWCI cash at December 31, 2016 was a negative \$1,339,612 but increased to a positive \$3,938 for the year ended December 31, 2017. This fund is no longer in use.

The City has made significant progress in all funds and will continue to have annual balanced budgets that will aid in building up cash reserves in future years.

CAPITAL ASSETS:

The capital asset list has been maintained in a separate computer software application for many years. It was not included in the main financial software that was set up in 2005. The separate asset software has not been updated for the several reasons.

The person responsible for updating the asset software has left employment of the City and a replacement was not hired due to budget constraints. Capital assets have been recorded in the main software used so asset values were available for financial purposes. However, the prescribed State Board of Accounts form has not been completed in the detail required and an annual physical inventory not conducted in the last two years.

The Controller's office plans to hire two new employees upon City Council approval. The new staff members will allow us to update the necessary asset schedules and conduct an annual physical inventory.

UNTIMELY PAYMENT OF CLAIMS AND NON-SUFFICIENT FUNDS BANK FEES:

There were 32 claims that were found in the auditor's sample not to be paid timely. The City of Terre Haute processes thousands of claims a year. We strive to pay everything as timely as possible but we first require that the payment be accurate.

There are several reasons why claims are not paid in a timely fashion. The claim paying process contains a considerable amount of steps before a check is written and mailed. The invoices usually arrive in the mail and then they are placed in the department's specific internal mailbox. Once the department picks up the mail, the invoice is given to the Accounts Payable Clerk in that department who reviews the claim for accuracy and verifies that it meets all set requirements to be paid. The invoices are then entered into our financial software system, the claim is printed and all corresponding receipts are attached. It is then given to the Department Head for review.

Once the claim is approved and signed by the Department Head, the claims are brought to the Controller's office where another round of review takes place. If there are additional questions, then answers are sought from the department before the claim continues to be processed. Once all questions have been answered then the trace reports are provided to each respective Board for approval. The Board of Public Works & Safety and the Sanitary Board meet twice a month to approve claims; the Redevelopment Commission and the Parks & Recreation Board meet once a month.

When the claims have been approved by the appropriate Board then the claims are put in queue for check processing. Checks are cut at least two times a month. The process to ensure accurate payment of claims periodically requires more than 30 days. Some vendors list a net 14 or 15 days on their invoices and it is simply not possible to pay these claims by their due date as the internal controls in place take much longer than 15 days. Depending upon when the invoices are received and when the respective Boards meet, claims may not be approved for payment until after 30-45 days.

Our goal continues to be a 30-45 payment schedule. Some claims however take longer if questions arise and the claim needs to be researched before it can continue through processing. This will cause a delay in payment. This happened several times in 2016 as it does every year.

Vendors sometimes lose checks or do not receive the check in the mail so we void the original check and issue a new one. The time needed for this process will most definitely assure a "late payment" according to the original invoice due date. This occurs every year as well.

Another frequent reason for late payment is that a department knows that the vendor is sending multiple invoices and holds the current invoice until the other(s) come so all invoices can be entered as one claim. This may make the original claim late by that due date.

All of the above reasons produce a few claims annually that may not be paid by the due date on the invoice. We strive to continue to refine and improve our processing of claims while administering proper internal control.

The City's Group Health Fund pays health and dental claims weekly. The amounts vary from week to week. Transfers are made as needed. The Group Health Fund has a separate bank account and bank fees were charged due to the weekly claims invoice being larger than anticipated. The City then linked the Group Health bank account to the City's main operating bank so that fees are no longer charged.

Sincerely,



Leslie A Ellis
City Controller
City of Terre Haute

CONTROLLER
CITY OF TERRE HAUTE
EXIT CONFERENCE

The contents of this report were discussed on August 9, 2018, with Duke A. Bennett, Mayor; Leslie A. Ellis, Controller; Jacqueline L. Loeb, Assistant Controller; Martha Crossen, Common Council member; O. Earl Elliott, CPA, Common Council member; and Neil Garrison, Common Council member.

DEPARTMENT OF REDEVELOPMENT
CITY OF TERRE HAUTE

DEPARTMENT OF REDEVELOPMENT
CITY OF TERRE HAUTE
AUDIT RESULT AND COMMENT

BUDGET APPROVAL

The same comment also appeared in prior Reports B44689, B45624, and B48509.

The Department of Redevelopment had funds with expenses, other than debt, that were not included in a budget approved by the Redevelopment Commission and/or the Common Council for 2016.

Indiana Code 36-7-14-3(b) states in part: "A redevelopment commission and a department of redevelopment are subject to oversight by the legislative body of the unit, including a review by the legislative body of the commission's and department's annual budget. . . ."

The law requires the adoption of a balanced budget which shall include all anticipated revenues and expenses of every organizational unit with the exception of utilities. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 2)

DEPARTMENT OF REDEVELOPMENT
CITY OF TERRE HAUTE
EXIT CONFERENCE

The contents of this report were discussed on August 9, 2018, with Duke A. Bennett, Mayor; Leslie A. Ellis, Controller; Jacqueline L. Loeb, Assistant Controller; Steve Witt, Department of Redevelopment Executive Director; Martha Crossen, Common Council member; O. Earl Elliott, CPA, Common Council member; and Neil Garrison, Common Council member.

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BOARD OF SANITARY COMMISSIONERS
CITY OF TERRE HAUTE

BOARD OF SANITARY COMMISSIONERS
CITY OF TERRE HAUTE
AUDIT RESULT AND COMMENT

CONTRACTS - TOWN OF RILEY

A similar comment also appeared in prior Reports B45624 and B48509, entitled *CONTRACTS - COLLECTION OF AMOUNTS DUE* and *CONTRACTS - RILEY*, respectively.

The City has a contract dated April 15, 2010, with the Town of Riley to manage the Riley Wastewater Treatment Plant. The contract stated the following dates and rates to be charged:

- \$50,000 for the period April 15, 2010 to April 14, 2011
- \$55,000 for the period April 15, 2011 to April 14, 2012
- \$60,000 for the period April 15, 2012 to April 14, 2013

The contract states: "The Agreement shall be effective for a period of three (3) years and shall commence on the date this Agreement is entered into by both Parties (the 'Commencement Date')."

A separate agreement was not negotiated or executed, but the City continued to provide contractual services to the Town of Riley at the rate of \$4,583.33 per month for an annual total of \$55,000 in years 2014, 2015, and 2016.

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 pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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



August 30, 2018

Re: Town of Riley Wastewater Service Management

**CITY OF TERRE HAUTE
LEGAL DEPARTMENT**

City Hall
17 Harding Avenue
Second Floor
Terre Haute, IN 47807
Phone: 812.244.2373
Fax: 812.244.2375
www.terrehaute.IN.gov

To Whom It May Concern:

The City of Terre Haute initially entered into a contract for services with the Town of Riley in 2010 for wastewater service management. The original contract period was for three (3) years. The terms of the contract have remained in effect, without update, through the date of this filing.

The repeat finding cites the Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1 for each of the following:

1. A separate agreement was not negotiated or executed but the City of Terre Haute continued to provide contractual services to the Town of Riley for compensation at the original contracted rate.
2. Payments made or received for contractual services must be supported by a written contract.

Concern #1 is either false or misleading. One must assume that the reference to a "separate" agreement is intended to refer to a "new" or "updated" agreement. If the intended reference was to the City's failure to execute a "new" or "updated" contract, I would agree with that statement. However, no statutory provisions are listed indicating that there has been any violation on behalf of the City. Additionally, any civil litigation involving this matter would clearly find that a contractual obligation exists between both the City and the Town of Riley and the bounds of those obligations are in writing.

It is well settled that, upon the expiration of a contract, if both parties continue to perform his/her/its respective obligations to the original contract, it is implied that both parties will continue to be bound by the original contract terms. In this case, the City continued to provide wastewater management services (within the same scope of the original contract) and the Town of Riley continued to pay for those services (within the bounds of the originally contracted rate) after the expiration of the original contract; thus, it is implied that the parties have continued to be bound by the terms of the original agreement and a contract does, in fact, exist.

Furthermore, because a contract does exist between the City and the Town of Riley, Concern #2 is also incorrect. The City has received payment for contractual services since 2010 and those payments are supported by a contract (i.e. the original contract executed in 2010).

The City has been in some form of negotiation with the Town of Riley since late 2017 regarding the scope of services in the 2010 contract. The City anticipates that either its contractual obligations will cease or a new agreement will be in place no later than December 31, 2018. If a new agreement is planned to be executed, it will go before the Board of Sanitary Commissioners on or before its first regular meeting in December 2018.

Sincerely,



Darrell E. Felling II
City Attorney

DEF/mjm

BOARD OF SANITARY COMMISSIONERS
CITY OF TERRE HAUTE
EXIT CONFERENCE

The contents of this report were discussed on August 9, 2018, with Duke A. Bennett, Mayor; Leslie A. Ellis, Controller; Jacqueline L. Loeb, Assistant Controller; Martha Crossen, Common Council member; O. Earl Elliott, CPA, Common Council member; and Neil Garrison, Common Council member.