

**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, 2017 to December 31, 2017



**FILED**  
08/31/2018



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### SCHEDULE OF OFFICIALS

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



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2017 to December 31, 2017. 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/](http://www.in.gov/sboa/).

The Federal Finding, identified in the above referenced audit report, is 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 Finding 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

CONTROLLER  
CITY OF TERRE HAUTE  
FEDERAL FINDING

***FINDING 2017-001***

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 2016-001.

*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 issue.

*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 2017-001**

Contact Person Responsible for Corrective Action: Leslie Ellis Controller

Contact Phone Number: 812-244-2359

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

City Hall  
17 Harding Avenue  
Terre Haute, IN 47807  
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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, B48509, and B50772.

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 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. . . .

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. . . ."

**OVERDRAWN CASH BALANCES**

The same comment also appeared in prior Reports B44483, B45624, B48509, and B50772.

The financial statements presented for audit included the following funds with overdrawn cash balances at December 31, 2017:

| Fund                         | Amount<br>Overdrawn |
|------------------------------|---------------------|
| Hulman Links Non-Reverting   | \$ 4,132,640        |
| Rea Park Non-Reverting       | 1,247,787           |
| Group Health - Non Reverting | 136,009             |

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)

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

**CAPITAL ASSETS**

The same comment also appeared in prior Reports B45624, B48509, and B50772.

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 PENALTIES, INTEREST, AND OTHER CHARGES**

A similar comment also appeared in prior Report B50772, entitled *UNTIMELY PAYMENT OF CLAIMS AND NON-SUFFICIENT FUNDS BANK FEES*.

A test of vendor claims paid revealed that 28 percent of the claims tested were not paid timely. The total of the claims paid late was \$18,198 and were up to 119 days past the due date.

Net penalties totaling \$32,539 and interest totaling \$631 were paid to the Internal Revenue Service due to late payments for certain 2015, 2016, and 2017 tax periods.

Penalties totaling \$772 and interest totaling \$200 were paid from the Group Health - Non Reverting fund, due to late payments of 2015 Patient-Centered Outcomes Research Fees.

Penalties totaling \$655 and interest totaling \$106 were paid from the General fund, due to late payments of 2016 Patient-Centered Outcomes Research Fees.

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.  
Room E 418  
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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, 2017

**OVERDRAWN CASH BALANCES:**

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, 2017 was a negative \$136,009 but we are projecting a positive cash balance for the year ended December 31, 2018. We closely monitor this fund and increase premiums as needed.

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 BANK FEES:**

There were 9 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 2017 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 paid some interest and penalties on payroll taxes in 2017. We had several different personnel in the Payroll Manager role and miscommunication caused some late filings by just a few days. All filing dates are now made timely. This is no longer a concern.

The Affordable Care Act enacted by the Federal Government now requires a Form 720 to be filed annually. This form is used to calculate the amount of excise tax owed to the Federal Government for health care. It is based upon the number of members on the City's Group Health plan. We were unaware of the new requirement therefore the Form 720 was filed late for two years. After the City became aware of the new requirement the Form 720 was filed timely in 2018. It will continue to be filed timely annually.

The City also paid some interest and penalties on payroll taxes in 2017. We had several different personnel in the Payroll Manager role and miscommunication caused some late filings by just a few days. All filing dates are now made timely. This is no longer a concern.

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 Leslie A. Ellis, Controller; Duke A. Bennett, Mayor; 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, B48509, and B50772.

The Redevelopment Department 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 2017.

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 Steve Witt, Executive Director of the Department of Redevelopment; Leslie A. Ellis, Controller; Duke A. Bennett, Mayor; Jacqueline L. Loeb, Assistant Controller; 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**

The same comment appeared in prior Report B50772.

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 states 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. The City assessed the Town of Riley \$4,583.33 per month for nine months and \$5,000 per month for two months for an annual total of \$51,050 in 2017.

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](http://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 Leslie A. Ellis, Controller; Duke A. Bennett, Mayor; Jacqueline L. Loeb, Assistant Controller; Martha Crossen, Common Council member; O. Earl Elliott, CPA, Common Council member; and Neil Garrison, Common Council member.