

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF LOGANSPORT

CASS COUNTY, INDIANA

January 1, 2015 to December 31, 2017



**FILED**  
09/27/2018



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## SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Carol Sue Hayworth Stacy L. Cox	01-01-12 to 12-31-15 01-01-16 to 12-31-19
Mayor	Ted Franklin Dave Kitchell	01-01-12 to 12-31-15 01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Ted Franklin Dave Kitchell	01-01-12 to 12-31-15 01-01-16 to 12-31-18
President Pro Tempore of the Common Council	Joseph Buck Teresa Popejoy	01-01-15 to 12-31-15 01-01-16 to 12-31-18
Chairman of the Utility Service Board	Martin Monahan Daniel H. Slusser Jay King	08-01-15 to 07-31-15 08-01-15 to 07-31-17 08-01-17 to 07-31-18
Superintendent of Utilities	Paul A. Hartman	01-01-15 to 12-31-18
Utility Office Controller	LuAnn Davis	01-01-15 to 12-31-18



**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](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE CITY OF LOGANSPOUR, CASS COUNTY, INDIANA

This report is supplemental to our audit report of the City of Logansport (City), for the period from January 1, 2015 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 Statements Audit Report of the City, which provides our opinion on the City's financial statements. This report may be found at [www.in.gov/sboa/](http://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

September 24, 2018

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CLERK-TREASURER  
CITY OF LOGANSPORT

CLERK-TREASURER  
CITY OF LOGANSPORT  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

A similar comment also appeared in the prior Report B46436, entitled *FINDING 2014-001 FINANCIAL TRANSACTIONS AND REPORTING*.

The City did not have a proper system of internal controls in place related to financial transactions and reporting. There was not adequate segregation of duties as the City had not separated incompatible activities related to cash and investments, receipts, and financial reporting.

*Cash and Investments*

The City did not have proper controls in place to ensure that bank account reconciliations were performed and were accurate. There was no evidence that a secondary review of the bank account reconciliations was performed.

*Receipts*

The same employee issued receipts, prepared deposit slips, took the deposits to the bank, and posted receipts to the ledger. There was no evidence of oversight, review, or approval process.

*Financial Reporting*

The Clerk-Treasurer entered the financial and federal program information in the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source for the Annual Financial Reports (AFR) and financial statements. There was no evidence of an adequate review of the AFR to ensure the accuracy before submission.

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. . . ."

**CONDITION OF RECORDS**

The financial reports presented for audit were incomplete and not reflective of the activity of the funds as follows:

CLERK-TREASURER  
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AUDIT RESULTS AND COMMENTS  
(Continued)

1. Amounts reported for funds listed below did not agree with the Cash Collection History Transaction Report (Receipt Detail Report) and/or the GL History Detail Listing (Disbursement Detail Report).

Electric Operating Hi-Fi, Electric D&R, Sewage Operating Hi-Fi, Sewage Sinking, Water Operating Hi-Fi, Water Bond Sinking

2. Amounts for funds listed below had to be compiled from multiple reports (including Trial Balance Reports) to verify the amounts reported within the AFR and financial statements:

Tif - Industrial Park, Tif - Downtown Redevelopment, Tif - East End, Tif - Gateway Commerce, Logansport Department of Economic Development

3. Accrual basis amounts were included in the AFRs and financial statements, which made it difficult or impossible to verify to bank reconciliations.

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)

### ***BANK ACCOUNT RECONCILIATIONS***

There were unexplained differences in the reconcilements completed by the City. As of December 31, 2015, the reconciled bank balance was \$270,608 in excess of the financial statement balance. As of December 31, 2016, the reconciled bank balance was \$556,601 in excess of the financial statement balance. As of December 31, 2017, the reconciled bank balance was \$38,405 in excess of the financial statement balance.

Also during 2017, reconcilements were not completed due to staffing issues; no one was able to continue from the last reconciliation completed. There were also no lists of outstanding checks presented for audit.

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."

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)

### ***UNTIMELY DEBT PAYMENTS***

Debt payments were not paid in a timely manner. Five debt claims were paid late: one payment was made one month late, one payment was two months late, two payments were six months late, and one payment was one year late. Late fees were assessed, but waived for all late payments.

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AUDIT RESULTS AND COMMENTS  
(Continued)

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)

***PUBLIC RECORDS RETENTION AND PUBLIC NOTICE TO BIDDERS***

The City did not retain bids received for the Logansport Tower Park Pool Renovation. Therefore, we could not determine whether bid Form 96 was used, whether the contract was awarded pursuant to Indiana Code 36-1-12, or whether a non-collusion affidavit was completed by the contractor who was awarded the contract.

Additionally, the public notice to bidders was published in the local newspaper on February 20, 2015, and February 22, 2015. Public notice to bidders should be published at least one week apart.

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."

Indiana Code 5-3-1-2(e) states: "If the event is the receiving of bids, notice shall be published two (2) times, at least one (1) week apart, with the second publication made at least seven (7) days before the date the bids will be received."



Indiana State Board of Accounts  
302 W. Washington Street, Room E418  
Indianapolis, IN 46204-2769

**STACY COX**  
CLERK-TREASURER

Via email only: [ldavid@sboa.IN.gov](mailto:ldavid@sboa.IN.gov)

RE: OFFICIAL RESPONSE by City regarding Audit Results and Comments

Dear Ms. David-

Thank you for the opportunity to submit an official response to the findings during the audit period of January 1, 2015 through December 31, 2017. In response to your audit results and comments, the City would offer the following official response for inclusion in your final report:

First, here are some general comments for consideration. This audit period was for 3 years and 2 different administrations. The audit results and comments did not identify what years the deficiencies occurred. Many of the issues cited have been improved greatly or have been resolved completely. The audit of 2014 took place in February of 2016 and many process changes happened at that time. Unfortunately, it was not in time to correct the same issues for 2015 and part of 2016. It is natural to see repeat comments when there was no time to implement the needed changes before the subsequent years transpired.

#### INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Cash and Investments – This is a known issue that we have been working to resolve for more than a year. There were several cash processes changed that impacted the cash accounts including a change to a new bank for all checking accounts and a change in where the city and utility investments were held. This, along with a staff member's retirement, contributed to this reconciliation challenge. The Chief Deputy Clerk-Treasurer has taken over this responsibility once performed by the Accounts Receivable Clerk. The duties of the Chief Deputy were re-aligned to provide her ample time to focus on bank reconciliations as one of her primary job functions. This will allow the timely preparation of monthly bank reconciliations by the end of the following month. The Clerk-Treasurer reviews all the bank reconciliations and signs off on them once they are approved. We have made tremendous progress in recent months and do not expect any future audit concerns.

Receipts – The process for receipts was improved following the 2014 audit that took place in 2016. This audit period includes time prior to this process change resulting in a repeat comment. Since February of 2016, the appropriate segregation of duties has been upheld. The deputy who prepares the deposit never takes it to the bank. In fact, we have 4 staff members in the office that have done it so there will never be a time where this control would not be in place. Occasionally an employee may forget to initial the receipt confirming this separation, but it always is taken to the bank by an employee other than the preparer. This has been re-iterated to all office staff and it will not be overlooked going forward.

Financial Reporting – The accounting software used performs an export report that is imported into Gateway. There have been several issues identified in the export process, including missing accounts, that we are working to correct. The Clerk-Treasurer, along with her deputies, review the annual financial report in detail before submission to ensure that these system omissions do not recur. Several of the reporting issues have been corrected and that can be reflected in the 2017 financial reports where no accounts were omitted.

#### CONDITION OF RECORDS

1. The Clerk-Treasurer's office and the Utilities office are currently working together to improve the communication and transmitting of pertinent data between our offices. This project has been in progress for several months now and the results will be evident in the 2018 audit. We began working with a financial consulting firm in recent months to help with the translation of transactions moving from the Utility's accounting system to the City's.
2. The missing funds from the original report was the result of an error of omission in the City's accounting system and is being corrected now that it has been brought to our attention.
3. The small amount of system generated accruals was not apparent until the start of this audit. We began working on it immediately and have identified ways to eliminate this need for manual conversion to full cash basis in the future.

#### BANK ACCOUNT RECONCILIATIONS

The complexity of our cash accounts, mentioned earlier poses numerous challenges to this process and we have been working to resolve unreconciled amounts that originated even before my term began. The office also experienced some staff turnover in 2017 which increased the challenges relating to catching up on the back-logged reconciliations. This is a long process, especially when it goes back to months before the current administration took over. We have made enormous strides in this area and are very close to being completely finished with all the historical corrections that were identified. We took our time to determine where the variances originated from and to make the

corrections properly. We have also established new processes along the way to prevent future errors and to make the balancing process easier on our more than 30 bank accounts. There has also been preliminary discussion related to eliminating some of the accounts that can be combined to lessen the burden of balancing so many accounts each month.

#### UNTIMELY DEBT PAYMENTS

In 2015, there were debt payments missed for improvements at the carousel. I believe these resulted from medical leave of a key employee in the Parks Department. The Chief Deputy brought this to my attention in 2016, and we were able to get these caught up. The other minor issues were caused by an incomplete address on the billing statements causing the invoices to not be received timely. This was confirmed and the late fees were removed. The address was updated to prevent any future issues, as well as calendar reminders added so the payments will be timely going forward.

#### PUBLIC RECORDS RETENTION AND PUBLIC NOTICE TO BIDDERS

This comment was regarding the renovation of the city pool in 2015. I am not aware of many details regarding the handling of this project as it took place before my term commenced. The project was handled by a third party who claims to have left the original bid documents with the Mayor's office, but we were not able to locate them. There are board minutes documenting that the bids were received and evaluated by the contracted firm. The City was provided with recommendations as to which vendor to award the project to. The board took the recommendation and a contract was secured. The contract documents are on file in the Clerk-Treasurer's office. The bids should have always been kept in the Clerk-Treasurer's office and that is the current policy so that the safekeeping of all records shall be maintained in all future projects requiring bids.

Overall, I am pleased with the audit team and we are thankful for all we have learned through the process. The progress we have made through the end of 2017 was evident in all of the testing performed. We still have some minor process improvements to master, but I am proud of my team.

Respectfully,



Stacy L. Cox,

Clerk-Treasurer

CLERK-TREASURER  
CITY OF LOGANSPOUR  
EXIT CONFERENCE

The contents of this report were discussed on September 24, 2018, with Stacy L. Cox, Clerk-Treasurer; Dave Kitchell, Mayor; Teresa Popejoy, President Pro Tempore of the Common Council; David B. Morris, Common Council member; Scott Peattie, Common Council member; Terry Doran, Common Council member; Mercedes Brugh, Deputy Mayor; Carl McPherson, Board of Public Works and Safety member; Mark A. Bender, Utility Service Board member; Michael E. Laird, Utility Service Board member; Paul A. Hartman, Superintendent of Utilities; Tammy Baumgardner, Utility Bookkeeper; and Jim Brugh, Utility Attorney.