

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF HARTFORD CITY

BLACKFORD COUNTY, INDIANA

January 1, 2014 to December 31, 2017



FILED
02/20/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Janet Gilland Pam Smart	01-01-12 to 12-31-15 01-01-16 to 12-31-19
Mayor	Benjamin E. Hodgin	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Benjamin E. Hodgin	01-01-12 to 12-31-19
President Pro Tempore of the Common Council	William Hess	01-01-14 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF HARTFORD CITY, BLACKFORD COUNTY, INDIANA

This report is supplemental to our audit report of the City of Hartford City (City), for the period from January 1, 2014 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/.

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

December 20, 2018

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CLERK-TREASURER
CITY OF HARTFORD CITY

CLERK-TREASURER
CITY OF HARTFORD CITY
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

A similar comment appeared in prior Report B44478, entitled *BANK ACCOUNT RECONCILIATIONS*.

Depository reconcilements of the fund balances to the bank account balances were conducted; however, the reconciliations contained variances each month that were not identified. At the end of the former Clerk-Treasurer's term of office on December 31, 2015, there was an unidentified variance of \$815 (cash long). The current Clerk-Treasurer took office on January 1, 2016, and received assistance from two different consultants to perform monthly reconcilements. In 2016, reconcilements were incomplete. At December 31, 2017, there was an unidentified variance of \$1,527 (cash long).

Depository reconcilements performed subsequent to the audit period contained variances each month that were not identified. Additionally, the October and November 2018 depository balances were not completed timely.

Depository reconcilements were prepared using a computerized spreadsheet and not on the prescribed City and Town Form No. 206, Clerk-Treasurer's, City Controller's, and City Treasurer's Monthly Financial, Depository Statement and Cash Reconciliation. The form used did not contain the same information as the prescribed form and had not been approved.

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)

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

OVERDRAWN CASH BALANCE

The financial statements presented for audit included the following fund with an overdrawn cash balance at December 31, 2014:

December 31, 2014	
Fund	Amount Overdrawn
General Fund	\$ 109,057

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)

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

DELINQUENT WASTEWATER ACCOUNTS

The same comment also appeared in prior Report B44478.

Delinquent wastewater fees and penalties had not been recorded with the County Recorder, nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

". . . (c) Except as provided in subsection (m), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
 - (B) A description of the premises, as shown by the records of the county auditor.
 - (C) The amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

(d) The officer shall record a copy of each list or each individual instrument with the county recorder . . .

(f) . . . Using the lists and instruments prepared under subsection (c) and recorded under subsection (d), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (d), certify to the county auditor a list of the unpaid liens for collection with the next may installment of property taxes. . . ."

ANNUAL FINANCIAL REPORT

The Annual Financial Reports (AFR) submitted during the audit period had the following errors:

1. The City did not report all of the federal grants received and expended during the audit period in their Schedule of Expenditures of Federal Awards (SEFA). The SEFAs submitted for 2014 through 2017 contained errors. These errors consisted of federal grants that were omitted; grants reported that were not federal grants; and grant amounts that were reported incorrectly.
2. The supplementary information for the Schedule of Leases and Debt was omitted from the AFR for 2017. The Schedule of Leases and Debt should include all of the various long-term debt issues of the City.

CLERK-TREASURER
CITY OF HARTFORD 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](#)."

LOSS OF CITY FUNDS DUE TO CYBER FRAUD

The Clerk-Treasurer wired \$16,674 on July 6, 2017, to a financial institution in Virginia without a claim, a fully itemized invoice, or approval of the Board of Public Works and Safety. The funds were wired based on an email received by the Clerk-Treasurer, which appeared to be from the Mayor and the Mayor's email address. However, the email was instead from a resident of West Virginia. Upon learning the email was not from the Mayor, the Clerk-Treasurer contacted the Federal Bureau of Investigation, Indiana State Police, Hartford City Police Department, and the Indiana State Board of Accounts. Law enforcement agencies in West Virginia were able to find the recipient of the wired funds and the author of the email paid \$10,760 back to the City. The City's insurance carrier denied the City's claim for the remaining loss of \$5,914.

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination 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 1)

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

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

The City adopted an internal control policy. However, documentation was not available in order to determine if controls for the bank reconciliations and the financial close and reporting were being performed and working as intended. The failure to document the adopted controls were being followed could enable material financial statement misstatements to occur and remain undetected.

Bank Reconciliation

The Clerk-Treasurer prepared all of the bank account reconciliations. There were no verifiable controls in place, such as an oversight, review, or approval process to ensure their accuracy.

Financial Close and Reporting

The City did not have an effective internal control system over financial reporting. The Clerk-Treasurer was primarily responsible for inputting and submitting the AFR into the Indiana Gateway for Government Units financial reporting system, which was the source of the City's financial statements. There were no verifiable controls in place, such as an oversight, review, or approval process, to ensure the accuracy of the financial information prior to 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. . . ."

CLERK-TREASURER
CITY OF HARTFORD CITY
EXIT CONFERENCE

The contents of this report were discussed on December 20, 2018, with Pam Smart, Clerk-Treasurer; Teresa Glancy, Deputy Clerk-Treasurer; Benjamin E. Hodgins, Mayor; and William Hess, President Pro Tempore of the Common Council.