

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MITCHELL

LAWRENCE COUNTY, INDIANA

January 1, 2015 to December 31, 2018



FILED

09/19/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	George James	01-01-15 to 12-31-15
	Mark A. Bryant	01-01-16 to 12-31-19
Mayor	Gary L. Pruett	01-01-15 to 12-31-15
	John D. England	01-01-16 to 12-31-19
President of the Board of Public Works	Gary L. Pruett	01-01-15 to 12-31-15
	John D. England	01-01-16 to 12-31-19
President Pro Tempore of the Common Council	Vickie Schlegel	01-01-15 to 12-31-15
	William Arnold	01-01-16 to 12-31-16
	Larry P. Caudell	01-01-17 to 12-31-19
Superintendent of Utilities	Tyler Duncan	01-01-15 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE CITY OF MITCHELL, LAWRENCE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Mitchell (City), for the period from January 1, 2015 to December 31, 2018. 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

September 16, 2019

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CLERK-TREASURER
CITY OF MITCHELL

CLERK-TREASURER
CITY OF MITCHELL
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

Condition and Context

The Annual Financial Reports (AFRs) for 2015, 2016, 2017, and 2018 contained a number of errors and did not properly reflect the financial activity of the City.

The following funds were not recorded in the City's records during the entire audit period and, therefore, were not included in the AFRs:

- Fireworks Fund
- Mitchell Mayors Roundtable
- BNY SRF B&I 143403
- BNY07 Sinking Fund 436160
- BNY07 Operation&Reserve Fund 436161
- BNY2015 SRFWW B&I 579619
- BNY2015 SRFWW DSR 579620
- BNY2015 SRFWW REVBOND 579621
- BNY2015 SRFWW Constr 579622
- BNY RedAuth16 Costoflssue 824758
- BNY RDA2016 ESC07 BDS 824815
- City of Mitchell INDOT
- City of Mitchell Ordinance Account

In addition to the omitted funds noted above, the AFRs included many other reporting errors. In total, the receipts, disbursements, and cash and investment balances reported were misstated as follows:

Years	Cash and Investments Beginning (Under)/Overstated	Receipts (Under)/Overstated	Disbursements (Under)/Overstated	Cash and Investments Ending (Under)/Overstated
2015	\$ 140,719	\$ 8,265,682	\$ 7,761,341	\$ 645,060
2016	645,060	1,798,013	2,420,065	23,008
2017	241,544	757,599	1,457,693	(458,550)
2018	(458,550)	1,060,972	764,116	(161,694)

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

Audit adjustments were proposed, accepted by management, and made to the financial statements of the City.

Criteria

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](#)."

APPROPRIATIONS

The same comment also appeared in the immediately prior Report B46355.

Condition and Context

The records presented for the audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Years	Excess Amount Expended
General Fund	2015	\$ 506,401
Motor Vehicle Highway	2015	16,703
General Fund	2016	709,881
Motor Vehicle Highway	2016	70,870
Cum Cap Imp - Cig Tax	2016	3
General Fund	2017	648,210
Motor Vehicle Highway	2017	33,126
General Fund	2018	558,574
Motor Vehicle Highway	2018	278,834
Transportation Operating	2018	25,546

Criteria

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

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

BANK ACCOUNT RECONCILIATIONS

Condition and Context

Accurate bank reconciliations were not performed during 2016, 2017, and 2018.

A large number of transactions were not posted in the ledger or detected by management when performing bank reconciliations during 2016, 2017, and 2018.

Criteria

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)

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Clerk-Treasurer incorrectly certified in the 2016, 2017, and 2018 AFRs that the required internal control standards had been adopted and training had been provided to personnel; however, the City had not adopted the internal control standards as required by Indiana Code 5-11-1-27(g), nor had personnel been trained.

Criteria

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](#)."

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

MOVING TRAFFIC VIOLATIONS

Condition and Context

The City collected fines for moving traffic violations without being properly established as a Traffic Violations Bureau in accordance with Indiana Code 34-28-5. None of these moving traffic violations were processed through a court system and court costs were not charged. The fines collected during the audit period were as follows:

<u>Years</u>	<u>Amount</u>
2017	\$ 150
2018	23,995

On November 26, 2018, the City agreed to discontinue the collection of moving traffic violations and maintain the balance until a determination has been made for the disposition of these funds by the Auditor of State.

Criteria

Indiana Code 36-1-6-3(c) states: "An ordinance defining a moving traffic violation may not be enforced under [IC 33-36](#) and must be enforced in accordance with [IC 34-28-5](#)."

The accounts of each public official and public office should reflect the proper treatment of fines collected for moving traffic violations as required by Indiana Code § 36-1-6-3(c), Indiana Code Ch. 34-28-5, and this Directive. Failure to do so will result in a civil action against those public officials who are responsible for the improper enforcement and collection of fines for moving traffic violations as allowable by law. (State Examiner Directive 2015-1)

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

The City had not established an adequate system of internal control related to financial transactions and reporting. A proper internal control system would include adequate control activities, control environment, performance of risk assessment procedures, and monitoring of internal controls. The City had not separated incompatible activities related to cash and investments, receipts, disbursements, and financial close and reporting.

Cash

There were no controls in place to ensure that monthly bank reconciliements were being prepared accurately. There was no segregation of duties, such as an oversight, review, or approval process.

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

Receipts

The Deputy Clerk-Treasurer was solely responsible for all aspects of receipting and depositing the monies of the City, excluding the utilities. There were no controls in place, such as an oversight, review, or approval process.

Disbursements

One employee was solely responsible for preparing the claims, issuing and distributing the checks, and posting the disbursements to the ledger. There was no segregation of duties, such as an oversight, review, or approval process.

Financial Close and Reporting

The Clerk-Treasurer entered and submitted the financial information for the City into the Indiana Gateway for Government Units financial reporting system, which was the source for the AFR and financial statements. There was no evidence of a control, such as an oversight, review, or approval process to ensure the accuracy of the information entered and submitted.

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:

"The control environment is the basic commonality for all and comprises the integrity and ethical values of the political subdivision established by the oversight body and management. The standards, processes, and structures which form the control environment pervasively impact the overall system of internal control. The oversight body and management convey leadership expectations, and overall tone which are reinforced by all officials and management throughout the various offices and departments. The control environment also contains the overall accountability structure for all employees through performance and reward measures. Within this structure, leadership demonstrates commitment to the political subdivision by having a process for attracting, developing, and retaining competent individuals. This component is static in that its underpinnings do not generally change with a given objective."

"Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. Each identified risk is evaluated in terms of its impact and likelihood of occurrence. Overall, risk assessment is the basis for determining how risk will be managed. . . .

Management identifies risks to the achievement of the political subdivision's objectives across the unit as a whole and within each office or department. Analysis of risk through determination of objective measures and variance tolerance is the basis for determining how the risks should be managed. The response to risk is selected: acceptance, avoidance, reduction, or sharing.

. . .

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

Internal control is a process, and part of that process is the responsibility for management to be continually aware of changes, both external and internal, that could affect the achievement of the political subdivision's objectives. Those changes should be analyzed for both their immediate effect and for any future impact. Management would then determine any modifications needed in the internal control process to adapt to these changes."

"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. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

TIMELY RECORDKEEPING

Condition and Context

The 2019 Revenue Transaction and Budget History reports were requested to review the subsequent period's transactions. The Clerk-Treasurer could not provide these reports for May, June, July, and August because they had not closed the months due to incomplete transaction postings. In addition, bank reconciliations for these months were unable to be completed.

Criteria

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
CITY OF MITCHELL
EXIT CONFERENCE

The contents of this report were discussed on September 16, 2019, with Mark A. Bryant, Clerk-Treasurer; George James, former Clerk-Treasurer; Larry P. Caudell, President Pro Tempore of the Common Council; John D. England, Mayor and President of the Board of Public Works; Nathan Jenkins, Common Council member; and Joey Stone, Common Council member.

COMMON COUNCIL
CITY OF MITCHELL

COMMON COUNCIL
CITY OF MITCHELL
AUDIT RESULTS AND COMMENTS

ADOPTION AND TRAINING OF INTERNAL CONTROL STANDARDS

Condition and Context

The Common Council did not adopt the minimum level of internal controls as required by statute. Additionally, the Common Council did not provide training to personnel concerning internal control standards and procedures during the audit period.

The Common Council adopted the minimum level of internal controls as required by statute on April 1, 2019.

Criteria

Indiana Code 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

APPROPRIATIONS

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COMMON COUNCIL
CITY OF MITCHELL
AUDIT RESULTS AND COMMENTS
(Continued)

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CITY OF MITCHELL
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