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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MARTINSVILLE

MORGAN COUNTY, INDIANA

January 1, 2015 to December 31, 2018


FILED
12/03/2019

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SCHEDULE OF OFFICIALS

| Office | Official | Term |
| --- | --- | --- |
| Clerk-Treasurer | Valerie Hugart | 01-01-15 to 05-01-17 |
| | Rebecca J. Tumey | 05-02-17 to 12-31-19 |
| Mayor | Phil R. Deckard, Sr. | 01-01-15 to 12-31-15 |
| | Shannon E. Kohl | 01-01-16 to 12-31-19 |
| President of the Board of Public Works | Phil R. Deckard, Sr. | 01-01-15 to 12-31-15 |
| | Shannon E. Kohl | 01-01-16 to 12-31-19 |
| President Pro Tempore of the Common Council | Eric Bowlen | 01-01-15 to 12-31-19 |
| Utility Office Manager | Mae Cooper | 01-01-15 to 06-30-16 |
| | Tracy Hastings | 07-01-16 to 12-31-19 |

**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

TO: THE OFFICIALS OF THE CITY OF MARTINSVILLE, MORGAN COUNTY, INDIANA

This report is supplemental to our audit report of the City of Martinsville (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

August 1, 2019

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CLERK-TREASURER
CITY OF MARTINSVILLE

CLERK-TREASURER
CITY OF MARTINSVILLE
AUDIT RESULT AND COMMENT

***COMPENSATION AND BENEFITS***

Attendance records were not kept for salaried or hourly employees for 52 of the 136 transactions tested. Per inquiry of the Clerk-Treasurer, time cards or attendance sheets were not maintained for all employees during the audit period.

Additionally, payroll vouchers were not approved by the appropriate official or department head for 26 of the 136 transactions tested.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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)

# City of Martinsville

Rebecca J Tumey, Clerk-Treasurer
Brenda Davis, Payroll
Terri Polson, Accounts Payable
Stacey Williams, Bank Reconciliation

August 9, 2019

**Response to Noted Matters Regarding Payment Vouchers**

We agree with the findings on the payment vouchers. We are in the process of implementing a time keeping software that creates time sheets for each department of the city and time stamps the reports. The time sheets will be signed off on by the proper department head and submitted to the payroll clerk along with a signed form 99 before payroll checks are to be issued. This software will also store the information for future reference and for safe keeping of the records in a secure environment. These measures will prevent future issues with our payment vouchers and ensure that all internal controls are in place.

Respectfully,

Rebecca J Tumey

110 West Morgan Street. Martinsville, IN 46151. Office: 765-342-6012. Fax: 765-349-4912

CLERK-TREASURER
CITY OF MARTINSVILLE
EXIT CONFERENCE

The contents of this report were discussed on August 1, 2019, with Rebecca J. Tumey, Clerk-Treasurer; Shannon E. Kohl, Mayor and President of the Board of Public Works; Mike Lanam, Common Council member; Phil R. Deckard, Sr., former Mayor and former President of the Board of Public Works; Phil R. Deckard II, Common Council member; Ben Merida; 1st Deputy Clerk-Treasurer; and Anne Cowgur, City Attorney.

BOARD OF PUBLIC WORKS
CITY OF MARTINSVILLE

***PUBLIC WORKS PROJECTS***

*Projects over $50,000*

The City disbursed $74,000 for a single public works project for the installation of a chamber system without an invitation for quotes from at least three persons known to deal in the class of work proposed.

Indiana Code 36-1-12-4.7 states:

"(a) This section applies whenever a public work project is estimated to cost at least fifty thousand dollars ($50,000) and less than one hundred fifty thousand dollars ($150,000).

(b) The board must proceed under the following provisions:

(1) The board shall invite quotes from at least three (3) persons known to deal in the class of work proposed to be done by mailing them a notice stating that plans and specifications are on file in a specified office. The notice must be mailed not less than seven (7) days before the time fixed for receiving quotes.

(2) The board may not require a person to submit a quote before the meeting at which quotes are to be received. The meeting for receiving quotes must be open to the public. All quotes received shall be opened publicly and read aloud at the time and place designated and not before.

(3) The board shall award the contract for the public work to the lowest responsive quoter.

(4) The board may reject all quotes submitted."

*Projects under $50,000*

The City disbursed $490,130 to a single contractor for multiple public works projects under $50,000 without an invitation for quotes or determined that an alternative method would be used.

Indiana Code 36-1-12-4.9 states:

"(a) This section applies to a public work for the routine operation, routine repair, or routine maintenance of existing structures, buildings, or real property if the cost of the public work is estimated to be less than one hundred fifty thousand dollars ($150,000).

(b) The board may award a contract for public work described in subsection (a) in the manner provided in IC 5-22."

Indiana Code 36-1-12-5 states in part:

"(a) This section applies whenever a public work project is estimated to cost less than fifty thousand dollars ($50,000). . . .

(b) The board must proceed under the following provisions:

(1) The board shall invite quotes from at least three (3) persons known to deal in the class of work proposed to be done by either of the following:

(A) Mailing them a notice stating that plans and specifications are on file in a specified office. The notice must be mailed not less than seven (7) days before the time fixed for receiving quotes. The board may not require a person to submit a quote before the meeting at which quotes are to be received. The meeting for receiving quotes must be open to the public. All quotes received shall be opened publicly and read aloud at the time and place designated and not before.

(B) Soliciting at least three (3) quotes by telephone, facsimile transmission, or electronic mail. The seven (7) day waiting period required by clause (A) does not apply to quotes solicited under this clause. A quote received under this clause shall be reported to the board during the public meeting at which the contract is considered. The name of each person submitting a quote, and the amount of each quote, shall be read aloud at the public meeting.

(2) The board shall award the contract for the public work to the lowest responsible and responsive quoter.

(3) The board may reject all quotes submitted.

(4) If the board rejects all quotes under subdivision (3), the board may negotiate and enter into agreements for the work in the open market without inviting or receiving quotes if the board establishes in writing the reasons for rejecting the quotes.

(c) The board may not proceed under subsection (b) for the resurfacing (as defined in IC 8-14-2-1) of a road, street, or bridge, unless:

(1) the weight or volume of the materials in the project is capable of accurate measurement and verification; and

(2) the specifications define the geographic points at which the project begins and ends.

(d) For the purposes of this section, if contiguous sections of a road, street, or bridge are to be resurfaced in a calendar year, all of the work shall be considered to comprise a single public work project.

(e) The board may purchase or lease supplies in the manner provided in IC 5-22 and perform the public work by means of its own workforce without awarding a public work contract.

(f) Before the board may perform any work under this section by means of its own workforce, the political subdivision or agency must have a group of employees on its staff who are capable of performing the construction, maintenance, and repair applicable to that work. . . ."

*Internal Controls*

The City did not have sufficient controls and policies in place to ensure compliance with public works statutes.

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."
>
> "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. . . ."

***PENALTIES, INTEREST, AND OTHER CHARGES***

The Water Utility incurred penalties and interest to the Indiana Department of Revenue for sales tax and utility receipts tax in the amount of $5,031 as a result of the Water Utility not remitting payments on a timely basis. The Utility Office Manager has provided documentation to receive credit for $1,020 due to a payment not being displayed as accepted. The reporting of the taxes are the responsibility of the Utility Office Manager who reports to the Board of Public Works.

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)

City of Martinsville

**OFFICE OF THE MAYOR**
Honorable Shannon E. Kohl, Mayor

The State Board of Accounts ("SBOA") indicated, "[t]he City disbursed $74,000 for a single public works project for the installation of a chamber system without an invitation for quotes from at least three persons known to deal in the class of work proposed." This repair was retroactively approved by the Martinsville Board of Public Works as an emergency repair due to the circumstances necessitating immediate repair. The minutes of the February 26, 2018 meeting reflect: Morton Avenue Storm Repair – Troy Swan of HWC appeared to request the Board of Public Works declare the repairs made to the parking area of Gold N Pawn in the fall of 2017, be declared an emergency repair. During heavy rains, the drainage was going into a resident's basement. A motion to allow the declaration of an emergency for the repair was made by Board member Eric Bowlen. Board member Terry Buster seconded the motion. The Motion passes 3-0.

Further, the SBOA's report notes that the City issued payments to a "contractor for multiple public works projects under $50,000 without an invitation for quotes or determined that an alternative method would be used." The City of Martinsville, in response, hereby notifies the SBOA that on August 9, 2019, the Common Council of the City of Martinsville, pursuant to Indiana Code section 5-22-8-2, has enacted small purchasing policies for eligible purchases. In addition, the City has taken other steps to implement internal controls to comply with purchasing and public works statutes.

P.O. Box 1415 • Martinsville, Indiana 46151 • Phone: 765-342-2861 • Fax: 765-349-4904
mayor@martinsville.in.gov • www.martinsville.in.gov

BOARD OF PUBLIC WORKS
CITY OF MARTINSVILLE
EXIT CONFERENCE

The contents of this report were discussed on August 1, 2019, with Rebecca J. Tumey, Clerk-Treasurer; Shannon E. Kohl, Mayor and President of the Board of Public Works; Mae Cooper, former Utility Office Manager; Tracy Hastings, Utility Office Manager; Mike Lanam, Common Council member; Phil R. Deckard, Sr., former Mayor and former President of the Board of Public Works; Phil R. Deckard II, Common Council member; Ben Merida, 1st Deputy Clerk-Treasurer; and Anne Cowgur, City Attorney.