

**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, 2018 to December 31, 2018



**FILED**

01/03/2020



## TABLE OF CONTENTS

| <u>Description</u>  | <u>Page</u> |
|---|-------------|
| Schedule of Officials .....                                   | 2           |
| Transmittal Letter .....                                      | 3           |
| City Controller:  |             |
| Audit Results and Comments:                                   |             |
| Capital Assets .....  | 6           |
| Certification on Internal Control Standards .....             | 6           |
| Internal Controls - Financial Transactions and Reporting..... | 6-7         |
| Late Submission of Annual Financial Report.....               | 7           |
| Monthly and Annual Engagement Uploads.....                    | 8           |
| Overdrawn Cash Balances .....                                 | 9           |
| Official Response.....  | 10-12       |
| Exit Conference .....   | 13          |
| Common Council:   |             |
| Audit Result and Comment:                                     |             |
| Training on Internal Controls Standards .....                 | 16          |
| Exit Conference .....   | 17          |

### SCHEDULE OF OFFICIALS

| <u>Office</u>                             | <u>Official</u>                     | <u>Term</u>                                  |
|---|-------------------------------------|--|
| Controller                                | Leslie A. Ellis                     | 01-01-18 to 12-31-19                         |
| Mayor                                     | Duke A. Bennett                     | 01-01-18 to 12-31-19                         |
| President of the Board of<br>Public Works | Jonathon Stinson                    | 01-01-18 to 12-31-19                         |
| President of the Common Council           | Curtis DeBaun, IV<br>Martha Crossen | 01-01-18 to 12-31-18<br>01-01-19 to 12-31-19 |
| Wastewater Utility Director               | Debra Padgett                       | 01-01-18 to 12-31-19                         |



**STATE OF INDIANA**  
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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, 2018 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 Statement Audit Report of the City, which provides our opinion on the City's financial statement. 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

December 17, 2019

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CITY CONTROLLER  
CITY OF TERRE HAUTE

CITY CONTROLLER  
CITY OF TERRE HAUTE  
AUDIT RESULTS AND COMMENTS

**CAPITAL ASSETS**

*Condition and Context*

The same comment also appeared in prior Reports B45624, B48509, B50772, and B50773.

A complete, detailed 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 taken within the last two years.

*Criteria*

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)

**CERTIFICATION ON INTERNAL CONTROL STANDARDS**

*Condition and Context*

The City did not provide internal control training for new employees during 2018. The City Controller had certified that they had provided the training as required by Indiana Code 5-11-1-27 on the Annual Financial Report for the 2018 audit period.

*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](#)."

**INTERNAL CONTROLS - FINANCIAL TRANSACTIONS AND REPORTING**

*Condition and Context*

Internal controls over the preparation of the financial statements were not adequate to prevent or detect errors on the Annual Financial Report (AFR).

The City has not separated incompatible activities related to financial close and reporting. There was no segregation of duties, such as a documented oversight, review, or approval process over the information uploaded to the Indiana Gateway for Government Units (Gateway) financial reporting system, which is used to compile the City's financial statements.

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

*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:

"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. . . ."

**LATE SUBMISSION OF ANNUAL FINANCIAL REPORT**

*Condition and Context*

The City submitted the 2018 AFR on April 5, 2019, online through Gateway. Financial statements were compiled from the AFR information provided in Gateway. These financial statements were presented to the City Controller in July 2019 for approval in order to start the audit. The City Controller did not approve the financial statements at that time and requested a delay in the start of the audit in an effort to review the financial information, prepare bank reconciliations, and make the necessary corrections to the financial information in Gateway. The audit began on November 14, 2019, at which time the AFR had not been corrected. On November 19, 2019, corrections were made by the City to the AFR in Gateway; however, the City did not officially submit in Gateway. The failure to file the AFR in a timely manner resulted in the federal audit being filed late.

*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](#)."

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

**MONTHLY AND ANNUAL ENGAGEMENT UPLOADS**

*Condition and Context*

As of December 2, 2019, the City had not uploaded any of the files required for the monthly and annual engagement uploads into Gateway for calendar year 2018 and 2019.

*Criteria*

"Beginning with July 2018 files, which will be due September 15, 2018, **all** cities . . . will use the Upload App to upload files containing financial and governmental unit information on Gateway to allow the State Board of Accounts (SBOA) to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients. . . .

The following files and governmental unit information are required to be uploaded monthly:

- Bank reconcilements
- Approved board minutes
- Funds ledger, summarizing total receipts, disbursements, and balances by fund

In order to improve planning for the next engagement, a unit is encouraged to upload prior months' files beginning with the January 2018 files. Thereafter, monthly files must be uploaded no later than the 15<sup>th</sup> day of the second succeeding month, i.e., August monthly files are due on October 15.

The following files and governmental unit information are required to be uploaded annually:

- Year-end bank statement
- Year-end outstanding check list
- Year-end investment statements
- Detail of receipts for the year
- Detail of disbursements for the year
- Current year salary ordinance
- Annual employee earnings record
- Annual vendor history report

Annual files are due to be uploaded on Gateway no later than March 1, 2019. Thereafter, annual files must be uploaded no later than March 1 for the prior year end unless the SBOA establishes a different date. . . ."

(State Examiner Directive 2018-1)

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

**OVERDRAWN CASH BALANCES**

*Condition and Context*

The same comment also appeared in prior Reports B44483, B45624, B48509, B50772, and B50773.

The financial statements presented for audit included the following funds with overdrawn cash balances at December 31, 2018:

| Fund                       | FY18<br>Amount<br>Overdrawn |
|----------------------------|-----------------------------|
| Hulman Links Non-Reverting | \$ 4,398,565                |
| Rea Park Non-Reverting     | 1,376,320                   |
| Group Health Non-Reverting | 1,788,997                   |

*Criteria*

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)

December 27, 2019

Mr. Paul D. Joyce, CPA  
State Examiner  
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**CITY OF  
TERRE HAUTE  
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**LESLIE ELLIS**  
*City Controller*

RE: Official Response to the Audit Results and Comments December 31, 2018

**CAPITAL ASSETS:**

The City of Terre Haute underwent a financial software conversion in 2018. The first conversion failed due to a vendor error that was discovered eight months after the original conversion. A second conversion was performed which impeded our progress updating fixed 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 old fixed asset data will be transferred to our new system once information is current. We are in the process of performing physical inventories in each department and once that is completed, the fixed assets will be updated in the new software system.

**CERTIFICATION ON INTERNAL CONTROL STANDARDS:**

All city employees hired prior to 2018 who handle cash have been trained under the current internal control standards. New seasonal staff was not trained in 2018 due to oversight of the fairly new internal control requirements set forth by the State of Indiana. The Controller's office is working with the Human Resources and IT Departments to provide internal control training during new hire orientation. This will be implemented in January 2020.

**INTERNAL CONTROLS – FINANCIAL TRANSACTIONS AND REPORTING:**

There was segregation of duties during the process of financial entry and review into the state gateway financial system. An outside consultant compiled the financial information. Staff entered the information and the City Controller reviewed the information. The proof of review and signoff was the use of the PIN when submitting the information. The PIN is only available to the City Controller and therefore is an indication of review and submission. However, there were no specific workpapers with a signature. In the future, the City Controller will submit a workpaper with checkmarks next to the balances.

### **LATE SUBMISSION OF ANNUAL FINANCIAL REPORT:**

The City Controller submitted the financial report on February 28. For some reason, the submission did not go through electronically. We have evidence from our internal schedule and workpapers that the report had been completed. However, we reopened it in April to make some adjustments and that is what is showing electronically as the submission date. In the future, the Controller's office will verify via email with the state board of accounts that the report has been received.

The final completion of the report was delayed by a forced software conversion. The financial software vendor issued an end-of-life memorandum, which stated that support would no longer be available January 1, of 2018. The City was forced to upgrade to another financial software package that the vendor was selling. The IT department mandated the upgrade because of risk mitigation. The data conversion of five years did not go well and we had to revert back to the original financial system to finish out the year. We also had to populate the new system in order to record transactions in 2019. The data conversion was completed twice and we still have adjustments to make in order to ensure data integrity. We also lost our only two degreed accountants during the process. Because the new financial software package did not have an adequate payroll system, the City also converted all payroll processes to ADP. This caused a tremendous strain on the staff and put data entry and reconciliation of data far behind. The staff has worked diligently and are starting to catch up. We feel very confident about the integrity of the data that has been processed and the amount of financial information we have been able to present given the highly stressful environment and huge workload forced on limited staff.

Part of the remedy is additional staffing with degreed accountants. The interview process has started and we plan to have two qualified employees in January 2020.

### **MONTHLY AND ANNUAL ENGAGEMENT UPLOADS:**

This is a new requirement by the Indiana State Board of Accounts that designated monthly information was to be uploaded into the gateway system starting no later than September 2018. The data conversions along with the ADP conversion kept the staff from being current enough to upload the information required by the State Board of Accounts. As soon as we are current, we will initiate the monthly upload of required information.

### **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. Group health expenses are allocated at each payroll, held in a liability account and the cash transfer is made to the Group Health Fund at the end of each month or quarter. As of the end of December, the transfers of cash had not been made and since this is a cash based report, the receivable could not be booked as revenue. Subsequently in FY 2019, the physical cash transfers have been made and the fund is running at break-even.

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.

Sincerely,

A handwritten signature in cursive script that reads "Leslie A. Ellis".

Leslie A Ellis  
City Controller  
City of Terre Haute

CITY CONTROLLER  
CITY OF TERRE HAUTE  
EXIT CONFERENCE

The contents of this report were discussed on December 16, 2019, with O. Earl Elliott, Common Council member.

The contents of this report were discussed on December 17, 2019, with Leslie A. Ellis, Controller; Duke A. Bennett, Mayor; and Martha Crossen, President of the Common Council.

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COMMON COUNCIL  
CITY OF TERRE HAUTE

COMMON COUNCIL  
CITY OF TERRE HAUTE  
AUDIT RESULT AND COMMENT

**TRAINING ON INTERNAL CONTROL STANDARDS**

*Condition and Context*

The City had not trained any new employees during the 2018 audit period that were required to receive training on internal control standards.

*Criteria*

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

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

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

COMMON COUNCIL  
CITY OF TERRE HAUTE  
EXIT CONFERENCE

The contents of this report were discussed on December 16, 2019, with O. Earl Elliott, Common Council member.

The contents of this report were discussed on December 17, 2019, with Leslie A. Ellis, Controller; Duke A. Bennett, Mayor; and Martha Crossen, President of the Common Council.