

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF LAWRENCEBURG

DEARBORN COUNTY, INDIANA

January 1, 2017 to December 31, 2018



FILED
03/23/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Tyler Rainey	01-01-16 to 01-26-18
	Richard Richardson	01-27-18 to 12-31-19
	Mark Fette	01-01-20 to 12-31-23
Mayor	Kelly Mollaun	01-01-16 to 12-31-23
President of the Board of Public Works and Safety	Kelly Mollaun	01-01-17 to 12-31-23
President Pro Tempore of the Common Council	Randy Abner	01-01-17 to 12-31-17
	Tony Abbott	01-01-18 to 12-31-18
	Mel Davis	01-01-19 to 12-31-19
	Tony Abbott	01-01-20 to 12-31-20
Superintendent of Utilities	Olin Clawson	01-01-17 to 01-02-20
	(Vacant)	01-03-20 to Present



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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INDIANAPOLIS, INDIANA 46204-2769

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TO: THE OFFICIALS OF THE CITY OF LAWRENCEBURG, DEARBORN COUNTY, INDIANA

This report is supplemental to our audit report of the City of Lawrenceburg (City), for the period from January 1, 2017 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/.

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

February 6, 2020

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CLERK-TREASURER
CITY OF LAWRENCEBURG

CLERK-TREASURER
CITY OF LAWRENCEBURG
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

The City implemented internal controls over financial transactions and reporting; however, the controls were not effective and, as a result, the Annual Financial Reports (AFR) submitted for the years 2017 and 2018 contained errors.

The Clerk-Treasurer's staff accountant entered the City's financial information into the Indiana Gateway for Government Units (Gateway) financial reporting system; the Clerk-Treasurer then reviewed and approved the information entered before uploading. The Gateway was the source of the AFR and the financial statement. The Lawrenceburg Municipal Utilities Department (Utilities) maintained its own accounting records. The Utilities provided a spreadsheet with the financial transactions to be included in the AFR for the funds of the Utilities. Documentation to support the figures in the spreadsheet were not provided to the Clerk-Treasurer to ensure the amounts being entered were accurate. The Utilities failed to provide the financial transactions of the Utilities' Fiber Optics fund for the years 2017 and 2018 and, therefore, the transactions were not included in the AFRs. As a result, the receipts and disbursements were understated in the financial statement in the amount of \$328,983 for 2017, and \$2,319,246 for 2018.

Audit adjustments were proposed, accepted by the City, and made to the financial statement.

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. . . ."

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 LAWRENCEBURG
AUDIT RESULTS AND COMMENTS
(Continued)

FORM 100-R REPORT ERRORS

Condition and Context

The Certified Report of Names, Addresses, Duties and Compensation of Public Employees (Form 100-R) filed for the years 2017 and 2018 were inaccurate. The reports submitted by the City did not include compensation paid to employees of the Utilities. The Utilities failed to provide this information to the Clerk-Treasurer. Compensation paid to the Utilities' employees totaled \$1,682,904 and \$1,934,510, for 2017 and 2018, respectively.

Criteria

Indiana Code 5-11-13-1(a) states in part:

"Every state, county, city, town, township, or school official . . . during the month of January of each year prepare, make, and sign a certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

PERSONAL EXPENSES

Condition and Context

A review of the records for both the City and its Utilities indicated that items were purchased for employees for their personal use and subsequently repaid through payroll deductions. The City did not have a policy that would allow for these types of purchase arrangements.

In August 2016, the Utilities department purchased a grinder pump for \$4,376 on behalf of the Mayor to be used at his personal residence. The cost of the pump was to be reimbursed by the Mayor through weekly payroll deduction. Weekly payroll withholding records indicated that the pump was paid off in full as of March 2017.

Other personal expenses noted that were paid for using City or Utility funds on behalf of employees with the costs to be reimbursed through payroll deductions included: concrete work for several City employees including the Mayor and personal cell phones. As of November 2019, there were four employees with active payroll deductions to repay the amounts owed for these personal expenses.

Criteria

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the unit. Any personal expenses paid by the unit may be the personal obligation of the responsible official or employee. Assets of the unit may not be used in a manner unrelated to the functions and purposes of the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



**City of Lawrenceburg
Clerk-Treasurer's Office**

Mark Fette

212 Walnut Street

PO Box 4166

Lawrenceburg, Indiana 47025-4166

State Board of Accounts,

February 10, 2020

After reviewing the information provided to the Clerk-Treasurer's office, during the Exit Conference, it is our opinion that we are in agreeance to the information that was gathered. Changes were made in the Clerk-Treasurer's office to amend the AFR Gateway upload to add Utility employees to the form. Regarding payroll deductions, we are working on drafting verbiage that would put the employee deduction information back into the employee handbook, thus creating a policy for the City to adhere to. We understand that this policy, whether in the handbook or not, has been taking place for some time and precedent has been set. Employees are required to purchase their own cell phones, and this is done by way of a payroll deduction. The information was a part of the handbook in 2003 but, for unknown reasons, was removed from the 2017 Employee Handbook. The Employee Handbook was not updated between 2003 and 2017. That verbiage will be added back to the handbook as soon as possible.

Regarding the Lawrenceburg Municipal Utility (LMU) Findings, we are in agreeance with those as well. The Clerk-Treasurer's office was aware of these issues and issued various reports to the Utility Service Board and LMU officials from 2018-2019. Those reports and questions went unheeded. Most notably, an Umbaugh report was commissioned on February 25, 2019 outlining reconciliation issues with the Whiskey City Rodeo of 2018, various issues with the Fiber Project (Including the lack of proper legislation to transfer Electric Utility monies to the Fiber division), nepotism findings (Including the Director being in direct supervision of family that had been hired as summer help.), issues with documentation of the Directors work hours (Which had previously been raised as early as May of 2018) and issues with the execution of various contracts that the Utility Director had unilaterally entered into without the expressed consent of the Utility Service Board.

The Clerk-Treasurer's office worked to ensure that these issues were brought to the attention of the State Board of Accounts, only after giving the Utility Service Board and LMU officials time to correct the actions. When no corrective action was implemented the State Board of Accounts was notified of the various issues and irregularities coming from LMU and the State Board of Accounts was provided with the Umbaugh report. An official audit was requested, on Clerk-Treasurer letter head, dated September 6, 2019. That official audit request included concerns that the Whiskey City Rodeo of

2018 had not been accounted for properly (specifically advertising commitments to Rodeo personalities and fiber costs being absorbed by the Rodeo), dwindling cash reserves from the Electric Utility that were being moved to Fiber and lack of proper loan paperwork allowing movement of funds from the Electric Utility to the Fiber project. At the close of that letter it was noted that, "The Clerk-Treasurer's office, of Lawrenceburg Indiana, feels that there is enough evidence to warrant an immediately, and thorough, check of Lawrenceburg Municipal Utilities (LMU) for 2016-present. The community deserves to know if there are any issues with the current department and I am reaching out to you, to bring confidence back to the Utility Department of Lawrenceburg Indiana."

Some corrective action has taken place and the Clerk-Treasurer's office, in conjunction with every department of the City of Lawrenceburg, will continue to work through these issues to bring them to a close. We thank you for your commitment to integrity and making sure that this audit took place in a timely manner.

With Regards,

Mark Fette



Clerk-Treasurer
City of Lawrenceburg Indiana

Richard Richardson



Former Clerk-Treasurer
City of Lawrenceburg Indiana

CLERK-TREASURER
CITY OF LAWRENCEBURG
EXIT CONFERENCE

The contents of this report were discussed on February 6, 2020, with Mark Fette, Clerk-Treasurer; Richard Richardson, former Clerk-Treasurer; Tony Abbott, President Pro Tempore of the Common Council; Justin Noppert, Common Council member; Delmar Weldon, City Attorney; and Guinevere Emery, Communications Director.

MUNICIPAL UTILITIES
CITY OF LAWRENCEBURG

MUNICIPAL UTILITIES
CITY OF LAWRENCEBURG
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

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MUNICIPAL UTILITIES
CITY OF LAWRENCEBURG
AUDIT RESULTS AND COMMENTS
(Continued)

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PERSONAL EXPENSES

Condition and Context

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MUNICIPAL UTILITIES
CITY OF LAWRENCEBURG
AUDIT RESULTS AND COMMENTS
(Continued)

FUND SOURCES AND USES - WHISKEY CITY RODEO

Condition and Context

In 2017 and 2018, the Utilities held an event called the Whiskey City Rodeo (rodeo). The rodeo included traditional rodeo events, such as bull riding, as well as, skills competitions relevant to the lineman trade. The purpose of the rodeo was to bring attention to the knowledge, skills, and abilities of linemen, as well as, to generate interest in the profession. It also acted as a training event for participants from the Electric Utility and elsewhere.

The rodeo generated revenue through sponsorships, entry fees, and merchandise sales. The costs associated with holding the rodeo were paid for by the Electric Utility. The financial transactions related to the event were accounted for in the Utilities' records.

A review of the financial transactions associated with the events indicated that the rodeo operated at a loss. As a result, the loss was covered by the rate-payers (customers) through funds generated in the normal operations of the Utility.

The combined disbursements for both years of the rodeo are as follows:

<u>Category Number</u>	<u>Category Name</u>	<u>Total Disbursements</u>
1	Supplies and Equipment	\$ 310,643.93
2	Travel and Meal Expense	23,779.32
3	Promotional Expense	69,050.00
4	Bullriding Contracts	31,622.20
5	Other Professional Services	24,753.24

Category 1 - Items were originally purchased for the rodeo; however, Utility Officials stated some items have been repurposed for use in the normal operation of the Utilities and, therefore, Utility Officials did not consider these to be actual cost that should be charged for the rodeo events. These items include \$148,394 for the purchase, erection, and disassembly of a temporary fabric building used in the event. The Utility has permanently erected the fabric building and is now using it to warehouse utility materials. Another \$70,985 was identified by Utility Officials as material and supplies, which included utility poles, ropers, switches, a gaming computer, and a virtual reality headset used for educational purposes.

Category 4 - Amount represents payments made on a contract with a famous rodeo celebrity. The contract stated the celebrity was to "publicize and promote the 2018 Whiskey City Rodeo and LMU products and services, as determined by LMU." The contract also outlined the celebrity's schedule for the rodeo, which included appearances on all three days of the event. Officials stated that the contract was primarily to advertise and promote utility services and treated it entirely as an advertising expense of the Utility rather than a direct rodeo expense.

The net loss of the events borne by the utility rate-payers before reallocation of expenses was \$390,236. Based on the reallocation of expenses made by the Utility Officials, the net loss borne by the rate-payers was \$71,857. An event of this nature is not within the normal operation of the Electric Utility.

MUNICIPAL UTILITIES
CITY OF LAWRENCEBURG
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Sources and uses of funds must be limited to those authorized by enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Regarding Utility Service Boards, Indiana Code 8-1.5-3-4(a) states in part:

"The board has general supervisory powers over the utilities under its control, with responsibility for the detailed supervision of each utility to be vested in its superintendent, who is responsible to the board for the business and technical operation of the utility. The board shall: . . .

- (7) recommend to the legislative body reasonable and just rates and charges for services to the patrons of each utility;
- (8) appropriate, lease, rent, purchase, and hold all real and personal property of the utility;
- (9) enter upon lands for the purpose of surveying or examining the land to determine the location of any plant or appurtenances;
- (10) award contracts for:
 - (A) the purchase of capital equipment;
 - (B) the construction of capital improvements; or
 - (C) other property or purposes that are necessary for the full and efficient construction, management, and operation of each utility;
- (11) adopt rules for the safe, economical, and efficient management and protection of each utility; . . ."

Indiana Code 8-1.5-3-5(a) states in part:

"The superintendent of each utility shall: . . .

- (4) oversee the operation of the utility and any construction work, repairs, or alterations to the system; and
- (5) advise the board in all matters that will bring about an efficient and economical operation and maintenance of the utility."

Indiana Code 8-1.5-3-8 states in part:

"(a) A municipality owning a utility under this chapter shall furnish reasonably adequate services and facilities.

MUNICIPAL UTILITIES
CITY OF LAWRENCEBURG
AUDIT RESULTS AND COMMENTS
(Continued)

(b) The rates and charges made by a municipality for a service rendered or to be rendered, either directly or in connection therewith, must be nondiscriminatory, reasonable, and just.

(c) 'Reasonable and just rates and charges for services' means rates and charges that produce sufficient revenue to:

(1) pay all the legal and other necessary expenses incident to the operation of the utility, including:

(A) maintenance costs;

(B) operating charges;

(C) upkeep;

(D) repairs;

(E) depreciation;

(F) interest charges on bonds or other obligations, including leases; and

(G) costs associated with the acquisition of utility property under [IC 8-1.5-2](#);

(2) provide a sinking fund for the liquidation of bonds or other obligations, including leases;

(3) provide a debt service reserve for bonds or other obligations, including leases, in an amount established by the municipality, not to exceed the maximum annual debt service on the bonds or obligations or the maximum annual lease rentals;

(4) provide adequate money for working capital;

(5) provide adequate money for making extensions and replacements to the extent not provided for through depreciation in subdivision (1); and

(6) provide money for the payment of any taxes that may be assessed against the utility.

(d) It is the intent of this section that the rates and charges produce an income sufficient to maintain the utility property in a sound physical and financial condition to render adequate and efficient service. Rates and charges too low to meet these requirements are unlawful.

(e) The board may recommend to the municipal legislative body rates and charges sufficient to include a reasonable return on the utility plant of the municipality. . . ."

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the unit. Any personal expenses 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)

MUNICIPAL UTILITIES
CITY OF LAWRENCEBURG
AUDIT RESULTS AND COMMENTS
(Continued)

Assets of the unit may not be used in a manner unrelated to the functions and purposes of the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, utility funds should not be used to pay for personal items. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS - WHISKEY CITY RODEO

Condition and Context

The Utilities implemented internal controls over receipts and disbursements; however, the controls were not adequate or effective for transactions related to the rodeo.

Receipts

Money was collected for ticket and merchandise sales at the event with no review, comparison, or any other documented oversight. Additionally, no receipts for ticket sales or for merchandise sales were presented for audit. As a result, we could not determine if all revenues related to the rodeo had been properly accounted for.

Disbursements

The Utilities' internal control process included a review of and approval of Accounts Payable Vouchers (APV) by the Utility Service Board to ensure proper documentation existed and that expenses were for allowable costs for the utilities.

As noted in the above comment "FUND SOURCES AND USES - WHISKEY CITY RODEO" disbursements were made for expenses incurred for the rodeo. The Utilities did not have statutory authority to incur expenses unrelated to its operations; however, the Utility Service Board approved the related disbursements even though the expenses were not allowable costs of the utilities.

Additionally, three reimbursements paid to the former Utilities Director for expenses related to the rodeo, totaling \$23,924, were approved by the Utility Service Board and subsequently paid without adequate supporting documentation. The expenses were originally paid by the former Utilities Director using his personal credit card. The APV's for the reimbursements were presented to the Utility Service Board and approved for payment without containing all the required supporting documentation such as a detailed itemized invoice, credit card slip, or receipt showing payment.

MUNICIPAL UTILITIES
CITY OF LAWRENCEBURG
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. . . ."

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual Cities and Towns, Chapter 1)

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 5-11-10-1.6 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;

MUNICIPAL UTILITIES
CITY OF LAWRENCEBURG
AUDIT RESULTS AND COMMENTS
(Continued)

- (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)

CONTRACTS

Condition and Context

Contracts were entered into on behalf of the Utilities by the former Utilities Director. These contracts were not signed by the Utility Service Board, who is ultimately the contracting authority for the Utilities. Documentation of the delegation of this authority to the former Utilities Director was not presented for audit.

Criteria

Indiana Code 8-1.5-3-4(a) states in part:

"The board has general supervisory powers over the utilities under its control, with responsibility for the detailed supervision of each utility to be vested in its superintendent, who is responsible to the board for the business and technical operation of the utility. The board shall: . . .

- (10) award contracts for:
 - (A) the purchase of capital equipment;
 - (B) the construction of capital improvements; or
 - (C) other property or purposes that are necessary for the full and efficient construction, management, and operation of each utility; . . ."

RECORD OF HOURS WORKED

Condition and Context

During the audit period, there were no payroll timesheets or other time records maintained for the hours worked by the former Utilities Director. The former Utilities Director was paid by contract and was paid a consistent amount weekly regardless of the number of hours worked; however, it is our audit position that timesheets or other time records should be maintained as supporting documentation and approved by the appropriate official for all non-elected employees, including those employees who are paid by contract.

MUNICIPAL UTILITIES
CITY OF LAWRENCEBURG
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Indiana Code 5-11-9-4(b) states in part:

"The state board of accounts shall require that records be maintained showing which hours are worked each day by officers and employees:

- (1) covered by section 1 or 2 of this chapter; and
- (2) employed by more than one (1) public agency . . ."

Indiana Code 5-11-9-2 states: "On and after January 1, 1948, all accounts or vouchers of any political subdivision of the state for personal services of officers and employees shall be made in such form as may be prescribed by the state board of accounts."

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form 99A, Employee's Service Record
General Form 99B, Employee's Earnings Record
General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor. (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)

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)

NEPOTISM

Condition and Context

The Utilities hired two relatives of the former Utilities Director as part-time interns during the audit period. During the course of their employment, the relatives were in the direct line of supervision of the Director as defined by the City's nepotism policy. No adjustment to the Utilities' organizational chart was made to remove the Director from the direct line of supervision over the qualified relatives. Timesheets for the relatives were generally approved by the Director himself as indicated by his signature.

MUNICIPAL UTILITIES
CITY OF LAWRENCEBURG
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Indiana Code 36-1-20.2-10, as well as the City of Lawrenceburg Code Section 33.11, states that: "Individuals who are relatives may not be employed by a unit in a position that results in one (1) relative being in the direct line of supervision of the other relative."

Indiana Code 36-1-20.2-4, as well as the City of Lawrenceburg Code Section 33.11, defines Employee in Direct Line of Supervision as meaning "an elected officer or employee who is in a position to affect the terms and conditions of another individual's employment, including making decisions about work assignments, compensation, grievances, advancement, or performance evaluation."

Indiana Code 36-1-20.2-8, as well as the City of Lawrenceburg Code Section 33.11, defines Relative as meaning "(1) A spouse, (2) A parent or stepparent, (3) A child or stepchild, (4) A brother, sister, stepbrother, or stepsister, (5) A niece or nephew, (6) An aunt or uncle, (7) A daughter-in-law or son-in-law, (b) For purposes of this section, an adopted child of an individual is treated as a natural child of the individual, (c) For purposes of this section, the terms 'brother' and 'sister' include a brother or sister by the half blood."

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

LOAN BETWEEN UTILITIES

Condition and Context

Beginning in 2017, the Utilities established a new Fiber Optics Utility and began incurring costs related to the startup of the utility. Startup expenses for the Fiber Optics Utility were being charged to the newly-established Fiber Optics fund. Since the Fiber Optics Utility had no revenue during the audit period, transfers were made at the end of every month from the Electric Operating fund to the Fiber Optics fund equivalent to the amount of startup expenses charged to the Fiber Optics fund each month. The transfers ensured the Fiber Optics fund had a zero cash balance at the end of each month.

Officials stated that the Utility Service Board approved a loan between the Electric Utility and the Fiber Optics Utility to cover the expenses incurred for the startup and that the Fiber Optics fund would repay the Electric Utility upon completion of the project. A review of the November 6, 2017 Utility Service Board minutes indicated a 5 year loan at 4 percent interest had been approved; however, upon further inquiry the former Utilities Director stated that the loan documentation had not been prepared and would not be until the completion of the project. As of December 31, 2018, the Electric Operating fund had transferred \$2,690,771 to the Fiber Optics fund to cover startup costs incurred.

There are no statutory provisions for one utility to pay for the startup expenses for another utility. Additionally, any loans between utilities must be made through an established cash reserve fund and not from the utility's operating fund. The Electric Utility had an Electric Reserve fund (cash reserve fund) from which it could make a loan, but the balance of that fund was not sufficient to cover the startup cost incurred as of December 31, 2018.

Criteria

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 1)

MUNICIPAL UTILITIES
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AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 8-1.5-3-11(f) states: "A cash reserve fund, if authorized by ordinance, may be used to make loans to another utility owned by the same municipality, for periods not to exceed five (5) years, at any interest rate. The repayment of the loan and interest shall be returned to the cash reserve fund."

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, utility funds should not be used to pay for personal items. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Establishment of a Cash Reserve Fund permits transfer of surplus utility funds to the city or town general fund. After appropriation, such transferred funds may then be used for any legal general fund purpose. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

BILLING ERRORS RESULTING IN FINANCIAL LOSS

Condition and Context

Internal controls over customer utility billings were not sufficient to identify billing errors in a timely manner. During software conversions, and upon entering of new customers into the billing software, there was no documented review to ensure that customer information and billing codes were entered correctly. There was also no documented review or approval of monthly billings to ensure amounts billed were accurate and reasonable.

During 2018, the Utilities discovered some billing discrepancies. As a result, Utility officials conducted an internal review of all utility customer billings. The results of the internal review determined over-billings in the amount of \$71,522, and underbillings in the amount of \$497,016, for a net financial loss of \$425,494. Some of these errors went back over ten years. In October 2018, Utility officials notified the Indiana State Board of Accounts of the financial losses as required by Indiana Code 5-11-1-27.

Utility Officials indicated that they believed the majority of the errors were caused by customer account codes not properly transferring during previous billing software conversions. Errors noted during the internal review include water multipliers that were not transferred correctly for some larger customers, and some customers were classified incorrectly. A summary of the errors noted and corresponding amount of over (under) billing follows:

MUNICIPAL UTILITIES
CITY OF LAWRENCEBURG
AUDIT RESULTS AND COMMENTS
(Continued)

Error Category Number	Error Category Name	Amount of Over (Under) - billing
1	Incorrect multiplier	\$ (45,793.17)
2	Residential customer billed as commercial	10,739.43
3	Commercial customer billed at city rate	5,396.04
4	Billed for zero consumption	(75,470.93)
5	Not billed at large power rate	(7,861.74)
6	City rate billed as commercial	(42,720.47)
6	Commercial customer billed as residential	(10,536.94)
7	Typographical error	1,196.57
8	No meter installed	(11,706.02)
9	Meter shut off	(6,672.55)
10	Multiple Issues Listed Above	(242,064.69)

As of December 31, 2019, the overbillings totaling \$71,522 had been refunded; however, no action has been taken on the under billing totaling \$497,016.

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. . . ."

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



**City of Lawrenceburg
Clerk-Treasurer's Office**

Mark Fette

212 Walnut Street

PO Box 4166

Lawrenceburg, Indiana 47025-4166

State Board of Accounts,

February 10, 2020

After reviewing the information provided to the Clerk-Treasurer's office, during the Exit Conference, it is our opinion that we are in agreeance to the information that was gathered. Changes were made in the Clerk-Treasurer's office to amend the AFR Gateway upload to add Utility employees to the form. Regarding payroll deductions, we are working on drafting verbiage that would put the employee deduction information back into the employee handbook, thus creating a policy for the City to adhere to. We understand that this policy, whether in the handbook or not, has been taking place for some time and precedent has been set. Employees are required to purchase their own cell phones, and this is done by way of a payroll deduction. The information was a part of the handbook in 2003 but, for unknown reasons, was removed from the 2017 Employee Handbook. The Employee Handbook was not updated between 2003 and 2017. That verbiage will be added back to the handbook as soon as possible.

Regarding the Lawrenceburg Municipal Utility (LMU) Findings, we are in agreeance with those as well. The Clerk-Treasurer's office was aware of these issues and issued various reports to the Utility Service Board and LMU officials from 2018-2019. Those reports and questions went unheeded. Most notably, an Umbaugh report was commissioned on February 25, 2019 outlining reconciliation issues with the Whiskey City Rodeo of 2018, various issues with the Fiber Project (Including the lack of proper legislation to transfer Electric Utility monies to the Fiber division), nepotism findings (Including the Director being in direct supervision of family that had been hired as summer help.), issues with documentation of the Directors work hours (Which had previously been raised as early as May of 2018) and issues with the execution of various contracts that the Utility Director had unilaterally entered into without the expressed consent of the Utility Service Board.

The Clerk-Treasurer's office worked to ensure that these issues were brought to the attention of the State Board of Accounts, only after giving the Utility Service Board and LMU officials time to correct the actions. When no corrective action was implemented the State Board of Accounts was notified of the various issues and irregularities coming from LMU and the State Board of Accounts was provided with the Umbaugh report. An official audit was requested, on Clerk-Treasurer letter head, dated September 6, 2019. That official audit request included concerns that the Whiskey City Rodeo of

2018 had not been accounted for properly (specifically advertising commitments to Rodeo personalities and fiber costs being absorbed by the Rodeo), dwindling cash reserves from the Electric Utility that were being moved to Fiber and lack of proper loan paperwork allowing movement of funds from the Electric Utility to the Fiber project. At the close of that letter it was noted that, "The Clerk-Treasurer's office, of Lawrenceburg Indiana, feels that there is enough evidence to warrant an immediately, and thorough, check of Lawrenceburg Municipal Utilities (LMU) for 2016-present. The community deserves to know if there are any issues with the current department and I am reaching out to you, to bring confidence back to the Utility Department of Lawrenceburg Indiana."

Some corrective action has taken place and the Clerk-Treasurer's office, in conjunction with every department of the City of Lawrenceburg, will continue to work through these issues to bring them to a close. We thank you for your commitment to integrity and making sure that this audit took place in a timely manner.

With Regards,

Mark Fette



Clerk-Treasurer
City of Lawrenceburg Indiana

Richard Richardson



Former Clerk-Treasurer
City of Lawrenceburg Indiana

MUNICIPAL UTILITIES
CITY OF LAWRENCEBURG
EXIT CONFERENCE

The contents of this report were discussed on February 6, 2020, with Mark Fette, Clerk-Treasurer; Richard Richardson, former Clerk-Treasurer; Tony Abbott, President Pro Tempore of the Common Council; Justin Noppert, Common Council member; Delmar Weldon, City Attorney; Guinevere Emery, Communications Director; and Kelly Mollaun, President of the Board of Public Works and Safety.