

**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, 2019 to December 31, 2019



**FILED**  
10/28/2020



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Leslie A. Ellis	01-01-19 to 12-31-20
Mayor	Duke A. Bennett	01-01-19 to 12-31-20
President of the Board of Public Works	Jonathon Stinson	01-01-19 to 12-31-20
President of the Common Council	Martha Crossen George Azar	01-01-19 to 12-31-19 01-01-20 to 12-31-20
Wastewater Utility Director	Debra Padgett	01-01-19 to 12-31-20



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2019 to December 31, 2019. 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 opinions 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

October 13, 2020

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CITY CONTROLLER  
CITY OF TERRE HAUTE

CITY CONTROLLER  
CITY OF TERRE HAUTE  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS**

*Condition and Context*

There was an internal control deficiency over the timeliness of financial information and supporting audit evidence. The City submitted the 2019 Annual Financial Report (AFR) on February 28, 2020, through the Indiana Gateway for Government Units financial reporting system. On June 17, 2020, the Indiana State Board of Accounts contacted the City to start the audit process and was notified that adjustments needed to be made to the AFR. The City submitted the revised AFR on August 18, 2020. Audit evidence was not available to support the AFR until September 3, 2020.

The combined reconciliation, presented as audit evidence, did not include the investments, City Clerk funds or the petty cash/cash change funds. Therefore, the combined reconciliation did not reconcile with the cash and investments balances presented on the AFR.

*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:

". . . A system of sufficient internal control . . . ensures accuracy and timeliness in reporting  
. . .

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. . . ."

**MONTHLY AND ANNUAL ENGAGEMENT UPLOADS**

The same comment also appeared in prior Report B54219.

*Condition and Context*

As of August 18, 2020, the City had not uploaded any of the files required for the annual engagement uploads into the Indiana Gateway for Government Units (Gateway) financial reporting system for 2019.

Some of the monthly uploads were not uploaded until May 2020, and many were not uploaded until August 2020, with several were still missing at the time of the audit.

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

*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)

***TIMELY RECORDING - RECEIPTS***

This same comment appeared in a Management Letter addressed to the Controller for the City of Terre Haute for the period ending December 31, 2018.

*Condition and Context*

All of the receipts tested were not posted to the ledger at the time of the transaction or in a timely manner. Receipts were posted up to 111 days after the receipt date.

*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, Chapter 1)

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

**OVERDRAWN CASH BALANCES**

The same comment also appeared in prior Reports B44483, B45624, B48509, B50722, B50773, and B54219.

*Condition and Context*

The financial statement presented for audit included the following funds with overdrawn cash balances at December 31, 2019:

Fund	Amount Overdrawn
HULMAN LINKS NON-REVERTING	\$ 4,670,743
REA PARK NON-REVERTING	1,548,087
GROUP HEALTH - NON REVERTING	2,483,303

*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)

**CAPITAL ASSETS**

The same comment also appeared in prior Reports B45624, B48509, B50773, and B54219.

*Condition and Context*

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 being 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)

October 23, 2020

Mr. Paul D. Joyce, CPA  
State Examiner  
Indiana State Board of Accounts  
302 West Washington St.  
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Indianapolis, IN 46204-2765

**CITY OF  
TERRE HAUTE  
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**LESLIE ELLIS**  
City Controller

RE: Official Response to the Audit Results and Comments December 31, 2019

**INTERNAL CONTROLS:**

The Annual Financial Report submitted on February 28, 2020 was timely per Indiana Code 5-11-1-4. The submission deadline is 60 days after year end, which in 2020 was March 1. Revisions after the original submission are not unusual and typical of large units. The Indiana State Board of Accounts' document entitled "The Annual Financial Report (AFR)" states that

*The Annual Financial Reports must be submitted no later than 60 days after the beginning of the new calendar year. Once submitted, the unit does have the option to "unsubmit" their report if they find errors and are allowed correct entries in the system. At the same time, units can also correct their reports up to and including the audit by the SBOA. Keep this in mind when using these reports as submitted.*

The above document can be found here  
<https://gateway.ifionline.org/guides/about/LearnMoreAFR.pdf>

The combined reconciliation is an internal workpaper. The variance items were part of the Annual Financial Report and therefore reported. The variance was immaterial as stated in the "Audit Results And Comments" section of the Supplemental Compliance Report. It is our opinion, in consideration that the materiality threshold was not met, that the audit comment should not have been included in the report.

**MONTHLY AND ANNUAL ENGAGEMENT UPLOADS:**

The 2017 and 2018 Audits were not completed until December 2019. In 2020 we had to catch up on all 2017 and 2018 adjustments from prior years' audits as well as balancing our new financial software system. With the onset of COVID-19 in March, many of our staff were working from home and had limited access to records. All 2019 and 2020 uploads are now current in the Gateway system.

### **TIMELY RECORDING – RECEIPTS**

All receipts were posted into the bank in a timely manner. The employee responsible for recording the receipts was on FMLA, therefore the posting of receipts was behind. All receipt posting is now current. We are cross training another employee to avoid this from happening again.

### **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 will be receiving new casino revenue in 2022 that will balance the golf course budgets. Once the budgets are balanced, 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 Group Health Fund was partially self-funded through June 30, 2019. On July 1, 2019, the City switched to a fully insured plan but continued to have run out claims from the old plan through June 2020. The Group Health Fund will continue to be closely monitored and adjusted as needed to balance the fund. We anticipate the elimination of the Group Health Fund deficit balance by the end of 2021.

### **CAPITAL ASSETS:**

The City of Terre Haute completed a full physical asset inventory of all departments in 2020. The Capital Asset records are being reconciled and will be fully updated by December 31, 2020.

Sincerely,



Leslie A Ellis  
City Controller  
City of Terre Haute

OFFICIAL RESPONSE

State Board of Accounts  
302 West Washington Street, Room E 418  
Indianapolis, Indiana 46204-2765

Re: My review of the City of Terre Haute 12/31/19 financial statement audit report and related supplemental compliance report and management letter communicating noncompliance (all draft copies at this time) plus the “State Board of Accounts Corrective Action Plan Packet for Repeat Findings”

Ladies and Gentlemen:

I have written this letter in my capacity of a member of the Terre Haute City Council and Chairman of its Finance Committee. This response is solely my response.

I understand the details of the above-referenced reports including the related findings as I am a practicing CPA with audit experience. I am familiar with A-133 audit requirements.

City Administration has received an email from me informing them I am anxiously awaiting the Corrective Action Plan. In that email, I encouraged them to refer to the State Board of Accounts “Corrective Action Plan Packet for Repeat Findings” in preparing their response.

I have also requested City Administration to plan to present the 2019 financial statement audit report and all related reports to the City Council at a public City Council meeting. This presentation should inform Council members about the results and provide us with knowledge to address our responsibilities as the City’s fiscal body in the future.

If anyone has any questions, please contact me.

Sincerely,

By O. Earl Elliott, CPA 10/14/2020  
O. Earl Elliott, CPA  
Member, Terre Haute City Council

CITY CONTROLLER  
CITY OF TERRE HAUTE  
EXIT CONFERENCE

The contents of this report were discussed on October 13, 2020, with Leslie A. Ellis, Controller, and Duke A. Bennet, Mayor.

The contents of this report were discussed on October 15, 2020, with Earl Elliott, Common Council member.