

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF SULLIVAN

SULLIVAN COUNTY, INDIANA

January 1, 2018 to December 31, 2019



FILED
12/30/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Donna Sue Pitts	01-01-18 to 12-31-20
Mayor	Clint D. Lamb	01-01-18 to 12-31-20
President of the Board of Public Works	Clint D. Lamb	01-01-18 to 12-31-20
President of the Common Council	Steve Martindale Tom McClanahan	01-01-18 to 12-31-19 01-01-20 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF SULLIVAN, SULLIVAN COUNTY, INDIANA

This report is supplemental to our audit report of the City of Sullivan (City), for the period from January 1, 2018 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/.

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, 2020

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CLERK-TREASURER
CITY OF SULLIVAN

CLERK-TREASURER
CITY OF SULLIVAN
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Report B51235.

Condition and Context

The financial statement presented for audit included the following funds with overdrawn cash balances at December 31, 2018 and 2019.

Fund	Amount Overdrawn December 31, 2018	Amount Overdrawn December 31, 2019
Redevelopment Commission	\$ 15,000	\$ 17,208
Sewer Operating	498,190	314,602

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 governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

The same comment also appeared in prior Report B51235.

Condition and Context

The City did not have a proper system of internal controls in place to prevent, or detect and correct, errors in the Annual Financial Report (AFR) entered into the Indiana Gateway for Government Units (Gateway) financial reporting system. The Clerk-Treasurer entered the financial information into Gateway without an oversight, review, or approval process.

The AFR did not properly reflect the financial activity of the Wastewater State Revolving Fund (SRF) loan activity for 2018 and 2019. These funds were omitted from the City's ledger and the financial statement, resulting in material understatements of receipts, disbursements, and cash balances.

Adjustments were proposed, accepted by management, and made to the financial statements.

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:

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

"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. . . ."

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

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 OVER SERVICE ORGANIZATION FOR AMBULANCE SERVICE

Condition and Context

The City did not have a proper system of internal controls in place related to the receipts for the ambulance service. The City uses a service organization to bill and collect patient payments for the ambulance service. The service organization remits daily, patient payments to the City's bank account, and collections are posted by the Clerk-Treasurer monthly after receiving the bank statement. There is no reconciliation between the information submitted to the service organization and the subsequent cash receipts and reports received from the service organization for cash collections.

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:

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

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COMINGLING OF FUNDS

Condition and Context

The City receipted the following types of receipts and related disbursements into its Clearing Account during the current audit period: State of Indiana CDBG distributions for multiple grant awards, Community Crossings grant funds, County downtown redevelopment and clothing allowance reimbursements, sewer and nuisance lien settlements, and loan proceeds. No subsidiary records were maintained to identify the cash balance of \$106,210 at December 31, 2019. A Clearing Account should be a Fiduciary fund type which is used to report assets held in a trustee or agency capacity.

Criteria

GAAFR defines agency funds used to account for assets held by a government unit in a trustee or agency capacity for others, and, therefore, cannot be used to support the government's own programs. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

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 Manual for Cities and Towns, Chapter 1)

Fund accounting enables governmental entities to easily monitor and report compliance with spending purposes (fund restrictions), spending limits (budget), and other fiscal accounting objectives. Fund accounting is an accounting system organized on the basis of funds. Each fund is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that are comprised of receipts, disbursements, and its investment and cash balance. Resources are allocated to and accounted for in individual funds based upon purpose for which they are to be spent and the means by which spending activities are controlled. (Accounting and Financial Reporting Regulation Manual, Part II B)

CLERK-TREASURER
CITY OF SULLIVAN
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2020, with Donna Sue Pitts, Clerk-Treasurer, and Clint D. Lamb, Mayor.