

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, 2019 to December 31, 2020



FILED
12/20/2021

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Result and Comment:	
Internal Controls over Financial Transactions and Reporting.....	6-7
Exit Conference	8
Municipal Utilities:	
Audit Results and Comments:	
Internal Controls over Financial Transactions and Reporting.....	10-11
Loan Between Utilities.....	11-12
Unapproved Transfers	12-13
Exit Conference	14

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Richard Richardson Mark Fette	01-01-19 to 12-31-19 01-01-20 to 12-31-21
Mayor	Kelly Mollaun	01-01-19 to 12-31-21
President of the Board of Public Works and Safety	Kelly Mollaun	01-01-19 to 12-31-21
President Pro Tempore of the Common Council	Mel Davis Tony Abbott	01-01-19 to 12-31-19 01-01-20 to 12-31-21
Superintendent of Utilities	Olin Clawson (Vacant) William Kinnett	01-01-19 to 01-02-20 01-03-20 to 08-31-20 09-01-20 to 12-31-21



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 LAWRENCEBURG, DEARBORN COUNTY, INDIANA

This report is supplemental to our audit report of the City of Lawrenceburg (City), for the period from January 1, 2019 to December 31, 2020. 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 14, 2021

(This page intentionally left blank.)

CLERK-TREASURER
CITY OF LAWRENCEBURG

CLERK-TREASURER
CITY OF LAWRENCEBURG
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Repeat Comment

A similar comment also appeared in prior audit Report B54685, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

There was a deficiency in the internal control system of the City related to financial transactions and reporting.

The City had not established an effective system of internal controls over financial close and reporting. The Clerk-Treasurer's staff accountant entered, and the Clerk-Treasurer reviewed and approved, the City's financial information before uploading the information into the Indiana Gateway for Government Units financial reporting system, which was the source of the Annual Financial Report (AFR) and financial statement. However, the internal control was not effective and did not detect and allow correction of errors prior to submission.

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 was not provided to the Clerk-Treasurer to ensure the amounts being entered were accurate. The spreadsheets provided by the Utilities did not include all cash receipt and disbursement transactions for the Fiber Optics Utility. As a result, the receipts and disbursements in the financial statement for 2019 were understated by \$3,938,430. For 2020, receipts were understated by \$269,021, disbursements were understated by \$268,440, and ending cash and investments as of December 31, 2020, were understated by \$581.

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

CLERK-TREASURER
CITY OF LAWRENCEBURG
AUDIT RESULT AND COMMENT
(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. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity 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
EXIT CONFERENCE

The contents of this report were discussed on December 14, 2021, with Mark Fette, Clerk-Treasurer; Tony Abbott, President Pro Tempore of the Common Council; William Kinnett, Superintendent of Utilities; and Kelly Mollaun, Mayor and President of the Board of Public Works and Safety.

MUNICIPAL UTILITIES
CITY OF LAWRENCEBURG

MUNICIPAL UTILITIES
CITY OF LAWRENCEBURG
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Repeat Comment

A similar comment also appeared in prior audit Report B54685, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

There was a deficiency in the internal control system of the City related to financial transactions and reporting.

The City had not established an effective system of internal controls over financial close and reporting. The Clerk-Treasurer's staff accountant entered, and the Clerk-Treasurer reviewed and approved, the City's financial information before uploading the information into the Indiana Gateway for Government Units financial reporting system, which was the source of the Annual Financial Report (AFR) and financial statement. However, the internal control was not effective and did not detect and allow correction of errors prior to submission.

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 was not provided to the Clerk-Treasurer to ensure the amounts being entered were accurate. The spreadsheets provided by the Utilities did not include all cash receipt and disbursement transactions for the Fiber Optics Utility. As a result, the receipts and disbursements in the financial statement for 2019 were understated by \$3,938,430. For 2020, receipts were understated by \$269,021, disbursements were understated by \$268,440, and ending cash and investments as of December 31, 2020, were understated by \$581.

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. . . ."

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

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity 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](#)."

LOAN BETWEEN UTILITIES

Repeat Comment

A similar comment also appeared in prior audit Report B54685, entitled *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 prior to 2019, 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. During the prior audit, 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 2017 Utility Service Board minutes indicated a 5-year loan at 4 percent interest had been approved; however, no loan documentation was presented for audit.

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 Fiber Optics costs reimbursed.

During 2019, the Fiber Optics Utility became operational and had customer revenues; however, revenues were not sufficient to offset expenses incurred. As a result, the Electric Utility continued to make monthly transfers to bring the Fiber Optics fund to a zero cash balance for all of 2019 and January 2020. Transfers from the Electric Utility to the Fiber Optics Utility totaled \$2,318,304 and \$128,605, for 2019 and 2020, respectively. In November 2019, the Fiber Optics Utility transferred to the Electric Utility \$1,510,361. As of December 31, 2020, the Fiber Optics Utility still owed the Electric Utility \$3,627,319.

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 Manual for Cities and Towns, Chapter 1)

MUNICIPAL UTILITIES
CITY OF LAWRENCEBURG
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)

UNAPPROVED TRANSFERS

Condition and Context

In November 2019, both the Sewer Utility and Water Utility transferred \$755,181 to the Fiber Optics Utility. The transfers were made to reimburse for fiber optics build-out costs related to the portion associated to the Water and Sewer Utilities. However, no supporting documentation was provided to support the amounts transferred, nor was any evidence provided that the transfers had been approved by either the Utility Service Board or the Clerk-Treasurer.

Criteria

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)

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;

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

- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (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. . . ."

MUNICIPAL UTILITIES
CITY OF LAWRENCEBURG
EXIT CONFERENCE

The contents of this report were discussed on December 14, 2021, with Mark Fette, Clerk-Treasurer; Tony Abbott, President Pro Tempore of the Common Council; William Kinnett, Superintendent of Utilities; and Kelly Mollaun, Mayor and President of the Board of Public Works and Safety.