

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MARTINSVILLE

MORGAN COUNTY, INDIANA

January 1, 2020 to December 31, 2020



**FILED**  
01/06/2022



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Clerk-Treasurer:	
Audit Results and Comments:	
Payroll Deficiencies.....	6-7
Ordinances and Resolutions.....	7
Condition of Records - Utility Collections.....	7
CRF Funding.....	7-8
Financial Transactions and Reporting .....	8-10
Exit Conference .....	11

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Rebecca J. Tumey	01-01-20 to 12-31-21
Mayor	Kenneth Costin	01-01-20 to 12-31-21
President of the Board of Public Works	Kenneth Costin	01-01-20 to 12-31-21
President Pro Tempore of the Common Council	Eric Bowlen (Vacant) Phil R. Deckard II	01-01-20 to 06-08-20 06-09-20 to 07-12-20 07-13-20 to 12-31-21
Utility Office Manager	Tracy Hastings (Vacant) Heather Staggs	01-01-20 to 06-08-20 06-09-20 to 08-02-20 08-03-20 to 12-31-21



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF MARTINSVILLE, MORGAN COUNTY, INDIANA

This report is supplemental to our audit report of the City of Martinsville (City), for the period from January 1, 2020 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/](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 21, 2021

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CLERK-TREASURER  
CITY OF MARTINSVILLE

CLERK-TREASURER  
CITY OF MARTINSVILLE  
AUDIT RESULTS AND COMMENTS

**PAYROLL DEFICIENCIES**

*Condition and Context*

The following payroll deficiencies were noted during the audit:

- The hourly rate, for one of the fifteen employees tested, did not agree with the rate stated in the pay schedule of the Teamster Union's contract which was adopted by the Common Council for those employees.
- The Payroll Voucher was not approved by the department head for seven of the fifteen employees tested.
- The Court Clerk did not maintain a record of hours worked.
- Timecards for two pay periods could not be located for an employee of the Street and Sanitation Department.
- An employee of the Street and Sanitation Department was paid overtime on five of the six payrolls tested. The timecards of this employee were handwritten and did not provide enough detail to determine the number of hours worked each day or the number of hours worked for each department.

*Criteria*

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Officials and employees are required to use prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

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

(2) employed by more than one (1) public agency or in more than one (1) position by the same public agency . . ."

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

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

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)

**ORDINANCES AND RESOLUTIONS**

*Condition and Context*

Rates charged at the transfer station were not in accordance with Resolution 2020-603, Resolution Implementing New Rates for Transfer Station Fees.

*Criteria*

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)

**CONDITION OF RECORDS - UTILITY COLLECTIONS**

*Condition and Context*

Documentation provided by the Utility Department to the Clerk-Treasurer's office for daily utility collections did not include a detailed breakdown of where to allocate partial payments collected from customers on payment plans (water, sewer, stormwater, etc.). The system used for tracking payment plans was not complete. The computer system only tracked the total amount owed on the payment plan rather than pro-rating the amount owed to the appropriate utilities.

The total amount of daily collections for days in which payments on payment plans were made was posted to the Utility Clearance fund, but the portion that was paid on payment plans was never transferred out of this fund and into the appropriate utility operating funds.

*Criteria*

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**CRF FUNDING**

*Condition and Context:*

The City did not properly account for the Coronavirus Relief Fund (CRF) in accordance with the options outlined in the State Examiner Directive 2020-3.

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

City receipted the Indiana Finance Authority (IFA) administered CRF reimbursement of \$377,775 for health and safety payroll costs into the CFR Grant CFDA 21.019 fund. The expenditures upon which the reimbursement was based should have been reversed and recorded in the CFR Grant CFDA 21.019 fund, or the reimbursed amount transferred through the claims process to the General fund, which would have allowed the money to be expended for any general unit purpose. Either of these two methods would have allowed for the proper processing and recording of the CRF reimbursement.

The City had a year-end balance of \$377,775 in the CFR Grant CFDA 21.019 fund.

*Criteria*

Transactions for public health and safety payroll costs must be accounted for through one of these two prescribed options.

**Option One.** Reimbursements received from IFA shall be receipted into the separate CARES grant fund. The reimbursed amount for public health and safety payroll costs originally incurred in the general fund (or other fund) will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the general fund (or other fund) cash balance and re-appropriate the general fund (or other fund) in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the general fund (or other fund), it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once option one is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

**Option Two.** Reimbursements received from IFA shall be receipted into the separate CARES grant fund. A claim will be created against the separate CARES grant fund for the reimbursed amount in favor of the general fund. This claim must be supported by documentation of the public health and safety payroll costs that have been expensed from the general fund or other funds.

The amount of the claim will be receipted into the general fund cash balance. Normal appropriation procedures will apply to these funds.

Once option two is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. This option requires a resolution or ordinance as detailed in the memorandum CARES Reimbursement of Public Health and Safety Payroll Costs, September 30, 2020.** (State Examiner Directive 2020-3)

**FINANCIAL TRANSACTIONS AND REPORTING**

A similar comment also appeared in prior Report B55903, entitled *INTERNAL CONTROLS*.

*Condition and Context*

The City had not established an adequate system of internal controls related to financial transactions and reporting. The City had not separated incompatible activities related to cash and investments, Employee Benefit Trust, and financial close and reporting.

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

*Cash*

Monthly bank reconcilements for each bank account were prepared, reviewed, and approved by two individuals. However, a combined reconciliation of all City funds to the financial statement was not prepared.

*Employee Benefit Trust*

The City created the Employee Benefit Trust fund to account for costs incurred for insurance premiums and other medical expenses. The City utilized a third-party administrator to administer the Employee Benefit Trust (Self-insurance fund). The administrator provided the City with weekly reports showing the beginning and ending cash balances, and receipts and disbursements. The City received a weekly Unpaid Claims Report, which documented the health insurance claims to be paid on behalf of the City employees. There is no evidence that these reports were reviewed, and they were not retained for audit. The administrator also provided a year-to-date spreadsheet of receipts and disbursements. This report was used to enter the activity of the Employee Benefit Trust fund into the Annual Financial Report (AFR), but the activity was not entered into the City's ledger. The activity shown on this report was not verified to the weekly reports.

There was no evidence of internal controls to verify that the information received from the administrator was accurate.

*Financial Transactions and Reporting*

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

The Employee Benefit Trust fund was not maintained on the Key Fund software or the manual ledger.

Sixteen of the debt related funds held with the Bank of New York were maintained on a manual ledger, but were not included in the Key Fund software. However, these funds were included on the AFR.

Due to the lack of internal controls, the financial statement presented for audit included the following errors:

1. The receipts and disbursements for the 600 Trust Employee Benefit/Active fund were each understated by \$3,179,277.
2. Crime Prevention fund disbursements of \$21,555 were omitted.

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

CLERK-TREASURER  
CITY OF MARTINSVILLE  
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. . . ."

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

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](#)."

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)

CLERK-TREASURER  
CITY OF MARTINSVILLE  
EXIT CONFERENCE

The contents of this report were discussed on December 21, 2021, with Rebecca J. Tumey, Clerk-Treasurer; Ben Merida, Deputy Clerk-Treasurer; Phil R. Deckard II, President Pro Tempore of the Common Council; and Dale S. Coffey, City Attorney.