

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF HARTFORD CITY

BLACKFORD COUNTY, INDIANA

January 1, 2018 to December 31, 2020



FILED
02/07/2022

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Capital Assets	6
Internal Controls over Financial Transactions and Reporting.....	6-7
Bank Account Reconciliations.....	7
Monthly Engagement Uploads.....	7-8
Motor Vehicle Highway (MVH) - Restricted Fund	8
Errors on Claims	8-9
Exit Conference	10

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Pam (Smart) Collett	01-01-18 to 12-31-19
	Pam Fancher	01-01-20 to 05-16-20
	(Vacant)	05-17-20 to 06-09-20
	Dana L. Whatley	06-10-20 to 12-31-22
Mayor	Benjamin E. Hodgins	01-01-18 to 12-31-19
	Daniel Eckstein	01-01-20 to 12-31-22
President of the Board of Public Works and Safety	Benjamin E. Hodgins	01-01-18 to 12-31-19
	Daniel Eckstein	01-01-20 to 12-31-22
President Pro Tempore of the Common Council	William Hess	01-01-18 to 12-31-19
	Jimmy Lytle	01-01-20 to 01-31-21
	Dustin George	02-01-21 to 12-31-21
	Ronald Dudleston	01-01-22 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF HARTFORD CITY, BLACKFORD COUNTY, INDIANA

This report is supplemental to our audit report of the City of Hartford City (City), for the period from January 1, 2018 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 Statements Audit Report of the City, which provides our opinions on the City's financial statements. 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

January 31, 2022

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CLERK-TREASURER
CITY OF HARTFORD CITY

CLERK-TREASURER
CITY OF HARTFORD CITY
AUDIT RESULTS AND COMMENTS

CAPITAL ASSETS

Condition and Context

The City did not maintain a complete and accurate detail of capital assets. Net deletions of \$16,629,134 were reported in the Indiana Gateway for Government Units financial reporting system for the audit period, but none were recorded in the capital asset records and no further explanations were provided.

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)

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

A similar comment appeared in prior Report B52199, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

The City adopted an internal control policy. However, there was no documentation of the implementation of internal control procedures over bank reconcilements and financial close and reporting.

Bank Reconciliation

The City did not have an effective internal control system over bank reconcilements. An internal control providing oversight, review, and approval was in place; however, bank reconcilements contained unidentified variances and bank reconcilements were not completed timely.

Disbursements

The City did not have an effective internal control system over paid time off for department supervisors. There were no verifiable internal controls in place, such as an oversight, review, or approval process, to ensure accurate availability and usage of paid time off.

Financial Close and Reporting

The City did not have an effective internal control system over financial reporting. The Clerk-Treasurer was primarily responsible for inputting information and submitting the Annual Financial Report (AFR) to the Indiana Gateway for Government Units financial reporting system, which was the source of the City's financial statements. There was no documented oversight, review, or approval process to ensure the accuracy of the financial information prior to submission. The lack of effective internal controls allowed immaterial errors to occur and not be corrected in the AFR.

CLERK-TREASURER
CITY OF HARTFORD CITY
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. . . ."

BANK ACCOUNT RECONCILIATIONS

A similar comment appeared in prior Reports B44478 and B52199, entitled *BANK ACCOUNT RECONCILIATIONS*.

Condition and Context

Depository reconciliations of the fund balances to the bank account balances were conducted monthly; however, the reconciliations contained unidentified variances. At December 31, 2019, there was an unidentified variance of \$12,157 (cash short). At December 31, 2020, there was an unidentified difference of \$50,006 (cash long).

Depository reconciliations were not completed timely for 27 of the 36 months of the audit period.

Criteria

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."

MONTHLY ENGAGEMENT UPLOADS

Condition and Context

As of January 25, 2022, complete bank reconciliations, all approved board minutes, and all funds ledgers for 2018, 2019, and 2020 had not been uploaded into the Indiana Gateway for Government Units financial reporting system by the Clerk-Treasurer.

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

Criteria

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 . . .

. . . 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 15th day of the second succeeding month, i.e., August monthly files are due on October 15. (State Examiner Directive 2018-1)

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

Motor Vehicle Highway (MVH) State distributions are to be allocated between the Motor Vehicle Highway fund and MVH Restricted Fund. During 2020, the April, June, and September MVH State distributions totaling \$55,820 were posted entirely to the Motor Vehicle Highway fund in error. Half of the distributions totaling \$27,910 should have been posted to the MVH Restricted Fund.

Criteria

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted. (State Examiner Directive 2018-2)

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ERRORS ON CLAIMS

Condition and Context

The following errors were noted on the substantive test of vendor claims:

1. The City had an interlocal contract for animal control services with the Blackford County Animal Shelter, Inc. The contract states: "that funds for the Animal Shelter shall be paid by the Governmental Units in two (2) installments on January 1st and July 1st of each year." However, contract payments for 2020 were made on October 18, 2019, and December 10, 2019.

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

2. Payments were made to the City attorney for the payment of services without a contract or approved amount documented in the board minutes.
3. Of the fifty-two claims tested, two did not have attached supporting documentation, such as an invoice.
4. Of the fifty-two claims tested, four did not contain documented approval by the fiscal officer.
5. One claim tested included the payment of state sales tax of \$26.

Criteria

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (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)

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;
- (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. . . ."

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges 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)

CLERK-TREASURER
CITY OF HARTFORD CITY
EXIT CONFERENCE

The contents of this report were discussed on January 31, 2022, with Dana L. Whatley, Clerk-Treasurer; Diana Heishman, Deputy Clerk-Treasurer; Daniel Eckstein, Mayor; Ronald Dudleston, President Pro Tempore of the Common Council; and Ron Parrott, Common Council member.