

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF CLINTON

VERMILLION COUNTY, INDIANA

January 1, 2018 to December 31, 2020



FILED
02/22/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Dorothy Russell Lory Kersey	01-01-18 to 04-30-19 05-01-19 to 12-31-22
Mayor	Jack Gilfoy	01-01-18 to 12-31-22
President of the Board of Public Works	Jack Gilfoy	01-01-18 to 12-31-22
President Pro Tempore of the Common Council	Dean Strohm John Moore	01-01-18 to 01-25-21 01-26-21 to 12-31-22
Utility Office Manager	Pamela Hartsough Jessica Vandivier	01-01-18 to 12-16-18 12-17-18 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF CLINTON, VERMILLION COUNTY, INDIANA

This report is supplemental to our audit report of the City of Clinton (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

February 7, 2022

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CLERK-TREASURER
CITY OF CLINTON

CLERK-TREASURER
CITY OF CLINTON
AUDIT RESULTS AND COMMENTS

ACCOUNTING FOR CORONAVIRUS RELIEF FUNDS

Condition and Context

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

The City received the Indiana Finance Authority reimbursement for payroll of \$153,507 into the CARES Act - COVID 19 PS Reimburse fund (CARES fund). A total of \$59,670 was then transferred by check to the General fund and the Public Safety LIT fund, the originating funds for the payroll expense. The City should have processed reversing entries as outlined in option one of the Directive for the Public Safety LIT fund portion. By not creating reversing entries, expenditure activities were reflected in the incorrect fund and did not re-establish appropriations.

Due to only transferring a portion of the reimbursement, the CARES fund had a year-end balance of \$93,367.

Criteria

Each local unit of government that receives an allocation from the Coronavirus Relief Fund administered by IFA shall establish a separate CARES grant fund with a fund number consistent with memorandum *Accounting and Appropriation of COVID-19 Grants, April 29, 2020 (updated September 29, 2020)*.

All Reimbursements received from IFA shall be receipted into a separate CARES grant fund that is specific to IFA reimbursements. . . .

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.

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

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)**

CAPITAL ASSETS

This same comment appeared in a Management Letter addressed to the Clerk-Treasurer, Mayor, and Common Council of the City for the audit period ending December 31, 2017.

Condition and Context

The City did not have a complete and updated detailed listing of all capital assets owned which reflected their acquisition value. An annual physical inventory was not completed on an annual basis in accordance with the City's Capital Asset Policy.

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)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Clerk-Treasurer incorrectly certified, in the Indiana Gateway for Government Units financial reporting system, that City personnel had received training regarding internal control standards for 2019 and 2020. Training on internal control standards was not done for all required personnel for years 2019 and 2020.

Criteria

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 CLINTON
AUDIT RESULTS AND COMMENTS
(Continued)

ERRORS ON CLAIMS

Condition and Context

The following errors were noted over vendor disbursements:

1. For 1 of 85 disbursements selected for testing, the claim could not be located or provided.
2. Out of 85 disbursement claims tested, 61 were not listed on the Accounts Payable Voucher Register (claims docket) approved by the governing board.
3. Out of 85 disbursement claims tested, 3 had an Accounts Payable Voucher, but no other supporting documentation.

The following errors were noted over payroll disbursements:

1. The Clerk-Treasurer approved an Accounts Payable Voucher that showed gross payroll expenditures by department, but this did not show the calculation of amounts paid to each employee.
2. Payroll disbursements are not included on the claims docket for approval by the governing board.

Criteria

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. . . ."

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

INTERNAL CONTROLS

The same comment also appeared in prior Report B51691, and a similar comment also appeared in prior Report B42574, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

There were deficiencies in the internal control system of the City and City Court related to cash and investments, receipts, disbursements, and financial close and reporting.

Cash and Investments

The City had designed internal control procedures over cash and investments requiring review of bank statements by the Deputy Clerk-Treasurer and review of bank reconciliations by department heads, the Mayor, the Board of Public Works, and the Common Council. There was no audit evidence that the internal controls were implemented during the audit period.

Receipts

The City had designed internal control procedures over receipts requiring review of detailed receipt reports by department heads as applicable, the Mayor, the Board of Public Works, and the Common Council, as well as dual review of daily utility collections to the deposit slip. There was no audit evidence that the internal controls were implemented during the audit period.

Court Receipts

There was no segregation of duties over City Court receipts; one individual received, recorded, and deposited payments received without a review or approval process in place.

Vendor Disbursements

The City had designed internal control procedures over vendor disbursements requiring the Common Council review and approve monthly all Accounts Payable Vouchers (claims); however, the internal control procedures were not properly implemented, as not all claims were included on the Accounts Payable Voucher Register each month for their approval.

Payroll Disbursements

The City had designed internal control procedures over payroll disbursements including segregation of duties of preparation and approval of biweekly gross departmental payroll between the Deputy Clerk-Treasurer/Mayor's Assistant and Clerk-Treasurer; however, the internal control procedures were not properly implemented as only gross payroll by city department, rather than individual employee payroll checks, was approved.

Court Disbursements

There was no segregation of duties over the City Court disbursements. One individual wrote, recorded, and distributed checks without a review or approval process in place.

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

Financial Close and Reporting

The City had designed internal control procedures over financial close and reporting requiring the review, by a Common Council member, of the Annual Financial Report submitted in the Gateway for Government Units financial reporting system by the Clerk-Treasurer; however, there was no documentation that the internal control procedures were properly implemented, as there was no audit evidence that this review took place during the audit period.

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. . . ."

CLERK-TREASURER
CITY OF CLINTON
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2022, with Lory Kersey, Clerk-Treasurer; John Moore, President Pro Tempore of the Common Council; Dean Strohm, Common Council member; and Jack Gilfoy, Mayor.

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COMMON COUNCIL
CITY OF CLINTON

COMMON COUNCIL
CITY OF CLINTON
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

The City's internal control standards policy states in part: "that all employees whose duties include receiving, depositing or otherwise having access to funds of the City shall be required to undergo training on the internal control standards. . . ." The City's current Clerk-Treasurer has not received the training.

Criteria

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

COMMON COUNCIL
CITY OF CLINTON
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2022, with Lory Kersey, Clerk-Treasurer; John Moore, President Pro Tempore of the Common Council; Dean Strohm, Common Council member; and Jack Gilfoy, Mayor.