

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

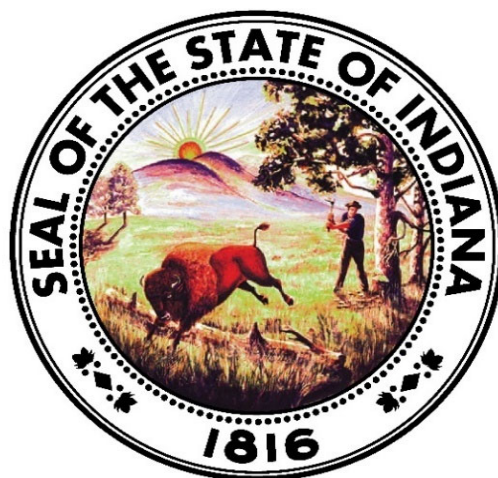
SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF CLINTON

VERMILLION COUNTY, INDIANA

January 1, 2021 to December 31, 2022



FILED
07/03/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Lory Kersey (Vacant) Steve Hose	01-01-21 to 02-15-23 02-16-23 to 03-06-23 03-07-23 to 12-31-23
Mayor	Jack Gilfoy	01-01-21 to 12-31-23
President of the Board of Public Works	Jack Gilfoy	01-01-21 to 12-31-23
President Pro Tempore of the Common Council	John Moore Steve Hose (Vacant) John D. Moore	01-01-21 to 12-31-22 01-01-23 to 03-06-23 03-07-23 to 03-20-23 03-21-23 to 12-31-23
Utility Office Manager	Jessica Vandivier	01-01-21 to 12-31-23



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 the audit report of the City of Clinton (City), for the period from January 1, 2021 to December 31, 2022. 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 the 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.

Beth Kelley, CPA, CFE
Deputy State Examiner

June 21, 2023

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CLERK-TREASURER
CITY OF CLINTON

CLERK-TREASURER
CITY OF CLINTON
AUDIT RESULTS AND COMMENTS

ACCOUNTING FOR AMERICAN RESCUE PLAN ACT (ARPA)

Condition and Context

The Common Council passed Resolution 2021-2, which stated that, "a comprehensive plan for the allocation and expenditure of funds received through the ARP HB 1319 be commenced, conducted and presented to the City Council of the City of Clinton, Indiana prior to the expenditure of any funds received through The Plan." However, documentation of a comprehensive plan for the allocation and expenditure of the American Rescue Plan (ARP) funds from the State and Local Fiscal Recovery Funds (SLFRF) grant award was not presented to the Common Council for approval prior to the expenditure of funds. Funds totaling \$150,156 were expended in 2021, between the dates of July 26, 2021 and December 31, 2021, and funds totaling \$235,834 were expended in 2022, between the dates of January 19, 2022 and December 6, 2022.

In addition, the City did not appropriate the fund timely as required. The City approved additional appropriations totaling \$382,883 on December 20, 2022, and \$2,750 on February 21, 2023, for the American Rescue Plan fund; however, the additional appropriations occurred after the expenditures were made.

Criteria

. . . **ARPA Coronavirus Local Fiscal Recovery Fund.** Counties, Cities, and Towns will each receive an allocation of Coronavirus State and Local Fiscal Recovery Funds. Each local unit that receives an allocation from the Coronavirus Local Fiscal Recovery Fund under Section 603 of the Social Security Act, as added by Section 9901 of the ARP, shall establish by ordinance a separate local grant fund called the ARPA Coronavirus Local Fiscal Recovery Fund within the fund number range described above. For a county, the ARPA grant fund must be established by ordinance of the County Commissioners. For a city or town, the ARPA grant fund must be established by ordinance of the legislative body. The ordinance must specify the uses of the fund in accordance with the purposes outlined in Section 603(c). The ordinance should reference a plan that will provide the details for the use of these funds. All moneys received from the Local Fiscal Recovery Fund must be receipted into the separate ARPA grant fund.

Before money in the fund is disbursed, the fiscal body must appropriate the money in the fund for a use consistent with Section 603(c) as stated in the adopted ordinance and the plan. Only a local appropriation is needed. To ensure accountability and transparency of the use of these funds, all disbursements must be made from the ARPA grant fund; money from the ARPA fund may not be transferred to another fund of the county, city, or town. . . .

(Amended State Examiner Directive 2021-1)

ADVANCE PAYMENTS

Condition and Context

The City paid employees in advance of hours worked for the last day of each biweekly pay period during the audit period. Payroll was completed on Wednesday, and the last day of the pay period was Thursday. If hours worked for the final day of the pay period were different than the amount used to calculate payroll, adjustments were made to the subsequent payroll period to account for the difference.

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

Criteria

Compensation and any other payments for goods and services must not be paid in advance of receipt of the goods or services unless specifically authorized by law. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ANNUAL FINANCIAL REPORT - OTHER INFORMATION

Condition and Context

Financial, supplemental, and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. The City had not established effective internal controls over the AFR information entered into Gateway, which resulted in the following errors:

Financial Data

1. The beginning cash and investments at January 1, 2021, were understated by \$219,786.
2. Receipts for 2021 and 2022 were overstated by \$160,012; and understated by \$179,608, respectively.
3. Disbursements for 2021 and 2022 were understated by \$63,780 and \$239,251, respectively.
4. The ending cash and investments at December 31, 2022, were overstated by \$41,724.

Adjustments were proposed, accepted by the City, and made to the financial statement presented in the Financial Statement Audit Report and to the Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Required Supplementary Information.

Capital Assets

At December 31, 2021, capital asset categories could not be verified due to a lack of supporting documentation for amounts reported.

At December 31, 2022, the amounts reported for capital assets did not agree to the detailed asset records. The following errors were noted:

1. The Governmental activities Infrastructure category was understated by \$2,828,205.
2. The Governmental activities Buildings category was understated by \$60,000.
3. The Governmental activities Improvements other than buildings category was understated by \$3,840.
4. The Governmental activities Machinery, equipment, and vehicles category was understated by \$275,583.

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

5. The Wastewater Utility's Machinery, equipment, and vehicles category was understated by \$290,000.

Payables and Receivables

At December 31, 2021, and December 31, 2022, reported payables and receivables could not be verified due to a lack of supporting documentation for amounts reported.

Leases and Debt

At December 31, 2021:

1. Annual Lease Payment, Lease Beginning Date, and Lease Ending Date details were omitted from the lease portion of the schedule for the City's Fire Truck, Fire House, and Vac Truck leases, understating Annual Lease Payments by \$159,848 in total.
2. The City's Fire House lease was reported under the debt section improperly, overstating the Ending Principal Balance and Principal Due Within One Year totals within the debt section of the schedule by \$1,120,171 and \$47,443, respectively.
3. The City's Fire Truck lease was reported under the debt section improperly, overstating the Ending Principal Balance and Principal Due Within One Year totals within the debt section of the schedule by \$282,501 and \$40,000, respectively.
4. For the City's Waterworks Revenue Bonds of 2018, the Ending Principal Balance was understated by \$108,000, and the Principal Due Within One Year was overstated by \$112,000.
5. The City's Water Bonds 2004 were omitted from the debt section of the schedule, understating the Ending Principal Balance and Principal Due Within One Year totals within the debt section of the schedule by \$472,000 and \$112,000, respectively.

At December 31, 2022:

1. The Annual Lease Payment for the City's Fire House lease was understated by \$38,629.
2. The City's Fire House lease was reported twice (once under Leases and once under Debt), overstating the Ending Principal Balance and Principal Due Within One Year totals within the debt section of the schedule by \$1,072,728 and \$48,728, respectively.
3. The City's Fire Truck lease was reported twice (once under Leases and once under Debt), overstating the Ending Principal Balance and Principal Due Within One Year totals within the debt section of the schedule by \$242,501 and \$42,000, respectively.
4. For the City's Waterworks Revenue Bonds of 2018, the Ending Principal Balance was understated by \$220,000, and the Principal Due Within One Year was overstated by \$163,000.
5. The City's Water Bonds 2004 were omitted from the debt section of the schedule, understating the Ending Principal Balance and Principal Due Within One Year totals within the debt section of the schedule by \$360,000 and \$116,000, respectively.

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

Grant Schedule

At December 31, 2021:

1. The grant schedule erroneously included \$2,000,000 in insurance, overstating expenditures by \$2,000,000.
2. Federal awards expended for the American Rescue Plan were omitted from the schedule, understating expenditures by \$150,156.
3. Several additional individually immaterial grants were omitted from the schedule resulting in a total understatement of expenditures of \$98,785.

At December 31, 2022:

1. Federal awards expended for the City's USDA grant were omitted from the schedule, understating expenditures by \$131,800.
2. Several additional individually immaterial grants were omitted from the schedule resulting in a total understatement of expenditures of \$340,327.

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](#)."

CAPITAL ASSETS

The same comment also appeared in prior Report B58644, and in a Management Letter addressed to the Clerk-Treasurer, the Mayor, and the 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. The most recent inventory was completed in 2023.

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)

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

COMPENSATION AND BENEFITS

Condition and Context

For 10 of 20 employees tested, we could not determine whether the employee was paid the correct amount. The salary ordinances adopted by the governing body only indicate the minimum wage rate for hourly positions instead of stating the rate of pay for individual positions.

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)

ERRORS ON CLAIMS

The same comment also appeared in prior Report B58644.

Condition and Context

The following errors were noted for vendor disbursements:

1. The City could not provide documentation of canceled checks or Accounts Payable Vouchers for 20 debt payments.
2. Supporting documentation such as an invoice or bill was not available for 4 of 61 vendor checks selected for testing.
3. For 1 of 61 vendor checks selected for testing, documentation of a canceled check was not available to determine whether the transaction was recorded in a timely manner.

The following error was noted for payroll disbursements:

- Individual employee payroll checks were not approved by the fiscal officer or governing board. Gross payroll expenditures by department were listed on the claims docket for approval, but this did not show the amounts paid to each employee.

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:

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

- (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. . . ."

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)

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)

INTERNAL CONTROLS

The same comment also appeared in prior Reports B51691 and B58644, 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 receipts, disbursements, and financial close and reporting.

City 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.

City 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.

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 Mayor's Assistant and Clerk-Treasurer; however, the internal control procedures were not properly implemented as only gross payroll by the City department, rather than individual employee payroll checks, was approved.

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 (AFR) submitted in the Gateway for Government Units financial reporting system by the Clerk-Treasurer; however, there was no audit evidence that this review took place for the 2022 AFR.

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. . . ."

MONTHLY AND ANNUAL UPLOADS

Condition and Context

The files and governmental unit information that are required to be uploaded monthly include the bank reconciliations, approved Common Council minutes and the funds ledger, summarizing total receipts, disbursements, and balances by fund.

Annual upload requirements include the year-end bank statement, year-end outstanding check list, year-end investments, detail of receipt activity, detail of disbursement activity, current year salary ordinance, and an annual vendor history report.

The City did not comply with the State Examiner Directive and failed to upload the monthly files for December 2022 and all the required annual files for 2022.

Criteria

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)

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

This amended directive is effective starting with December 2020 monthly files. The upload of December 2020 monthly files will be due February 15, 2021, and by the 15th of each month thereafter unless the State Board of Accounts (SBOA) establishes a different date. This is effective for 2020 annual files which will be due for upload March 1, 2021, for calendar year end units. . . . Thereafter, annual files must be uploaded no later than March 1st . . . for the prior year end unless the SBOA establishes a different date. . . .

(Amended State Examiner Directive 2018-1)

CLERK-TREASURER
CITY OF CLINTON
EXIT CONFERENCE

The contents of this report were discussed on June 21, 2023, with Steve Hose, Clerk-Treasurer; Jack Gilfoy, Mayor/President of the Board of Public Works; John D. Moore, President Pro Tempore of the Common Council; Bart Mooney, Common Council member; Dean Strohm, Common Council member; JT Walker, Common Council member; Robert Alexander, Board of Public Works member; and Marissa Stoffel, City Court Clerk.