

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF LAWRENCE

MARION COUNTY, INDIANA

January 1, 2019 to December 31, 2019



FILED
10/22/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Jason Fenwick	01-01-19 to 12-31-20
Mayor	Steve Collier	01-01-19 to 12-31-20
President of the Board of Public Works	Dave Freeman Doug Reeser	01-01-19 to 03-31-19 04-01-19 to 12-31-20
President of the Common Council	Lisa Chavis	01-01-19 to 12-31-20
President of the Utility Service Board	Steve Hall	01-01-19 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF LAWRENCE, MARION COUNTY, INDIANA

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

October 7, 2020

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CITY CONTROLLER
CITY OF LAWRENCE

CITY CONTROLLER
CITY OF LAWRENCE
AUDIT RESULTS AND COMMENTS

MVH RESTRICTED FUND

Condition and Context

The City created a MVH Restricted sub-fund within the MVH fund and posted 50 percent of the State Motor Vehicle Highway distributions to the sub-fund. The City did not report the activity of the MVH restricted fund separately from the MVH fund in the Annual Financial Report filed in the Indiana Gateway for Government Units financial reporting system. Also, some of the expenses of the MVH Restricted fund were for salt, deicer, and road maintenance materials instead of construction, reconstruction, and preservation of the City's highways.

Criteria

The purpose of this Directive is to authorize and require . . . cities, and towns that receive distributions from the State Motor Vehicle Highway Account to create a new sub-fund within the MVH Fund to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018.

On the chart of accounts, the MVH Fund and MVH Restricted sub-fund shall be shown as follows:

...

Cities and Towns

Fund 201 MVH

Fund 203 MVH Restricted

Together, MVH and MVH Restricted shall constitute the total MVH Fund. MVH and MVH Restricted will be shown separately on the Annual Financial Report . . .

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."

CAPITAL ASSETS

Condition and Context

The City had a detailed listing of capital assets as of December 31, 2016. The Capital Asset ledger was updated for some additions in the years 2018 and 2019. Not all updates made to the ledger were detailed. There was not any evidence of disposed of assets being removed from the ledger. The Water and Wastewater Utilities had detailed records of assets as of December 31, 2017. The Capital Asset Ledgers of the Water and Wastewater Utilities were not updated for 2018 and 2019.

The Capital Asset policy of the City requires an annual inventory of capital assets. The City did not complete an inventory of capital assets in 2019.

CITY CONTROLLER
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AUDIT RESULTS AND COMMENTS
(Continued)

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 AND COMPLIANCE OVER FINANCIAL STATEMENTS AND REPORTING

Condition and Context

There were deficiencies in the internal control system of the City related to financial transactions and reporting. The City did not have a proper system of internal controls in place over financial close and reporting to prevent, or detect and correct, errors. Due to the lack of effective internal controls over the input of financial information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the Annual Financial Report (AFR) and the financial statement, material errors remained undetected.

The AFR for 2019 was materially incorrect and did not accurately reflect the transactions and balances of the City funds. As a result, the beginning balance of cash and investments was overstated by \$9,489,816, receipts were overstated by \$90,182, disbursements were overstated by \$7,184,792, and the ending balance of cash and investments was overstated by \$2,395,206. The overstatement resulted from including funds of the Lawrence Municipal Building Corporation in the 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. . . .

CITY CONTROLLER
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AUDIT RESULTS AND COMMENTS
(Continued)

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

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

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality 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](#)."

CITY CONTROLLER
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EXIT CONFERENCE

The contents of this report were discussed on October 7, 2020, with Steve Collier, Mayor; Jason Fenwick, City Controller; Lisa Chavis, President of the Common Council; Tyler Douthit, Deputy City Controller; and Humphrey Nagila, Financial Analyst.