

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, 2013 to December 31, 2014



FILED
05/09/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Kimberly Diller	01-01-13 to 08-09-13
	Keith Johnson (Interim)	08-10-13 to 09-03-13
	Oscar Gutierrez	09-04-13 to 11-14-14
	Josh Fetzer (Interim)	11-15-14 to 12-31-14
	Ron Hungerford	01-01-15 to 12-31-15
Mayor	Dean Jessup	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Karen Horth Powers	01-01-13 to 12-31-15
President of the Common Council	Tom Shevlot	01-01-13 to 12-31-13
	David Freeman	01-01-14 to 12-31-14
	Tom Shevlot	01-01-15 to 12-31-15
President of the Utility Service Board	Marcia Walton	01-01-13 to 12-31-15
Superintendent of Utilities	John Solenberg	01-01-13 to 02-09-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

This report is supplemental to our examination report of the City of Lawrence (City), for the period from January 1, 2013 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Examination Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement Examination Report of the City, which provides our opinion 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 Examination 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 Examination Results and Comments, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

December 22, 2015

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CONTROLLER
CITY OF LAWRENCE

CONTROLLER
CITY OF LAWRENCE
EXAMINATION RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORTS

The Annual Financial Reports for 2013 and 2014 did not properly reflect the financial activity of the City and contained a number of errors relating to the reporting of funds on the grants report. The 2013 grants report had no activity reported, even though the City had federal grant activity during the year. The 2014 grants report did not report all federal grant activity and did not accurately identify the grants that were reported. Adjustments were accepted by the unit and made to the financial statement. The financial statement presented reflects these adjustments.

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."

UTILITY OPERATING FUNDS TRANSFERRED TO CITY

Monthly transfers of funds from the Water and Wastewater Utilities' Operating funds to the City funds were authorized, but were not in accordance with Indiana Code 8-1.5-3-11, which first requires the establishment of a Cash Reserve fund. In 2013 and 2014, \$3,179,220 was transferred from the Utilities to the City each year. The funds were receipted to the General, Park Building Debt, and Park Debt - 1998 funds.

A similar comment appeared in previous reports, most recently Report B42601.

Indiana Code 8-1.5-3-11(c) states:

"'Surplus earnings' are those cash earnings remaining after provision has been made to take care of current obligations, including:

- (1) operating expense;
- (2) depreciation or replacement fund;
- (3) bond and interest sinking fund;
- (4) retirement fund; or
- (5) any other priority fund requirements fixed by law."

Indiana Code 8-1.5-3-11(b) states: "A cash reserve fund shall be created by ordinance and carried on the records of the utility or utilities by providing for monthly contributions or transfers to the cash reserve fund of surplus earnings of the utility or utilities."

Indiana Code 8-1.5-3-11(d) states in part: ". . . transfers may not be made from any utility funds to the general fund except from the cash reserve fund."

CONTROLLER
CITY OF LAWRENCE
EXAMINATION RESULTS AND COMMENTS
(Continued)

DEPOSITS

Receipts were deposited later than the next business day for 11 days included in the testing. Delays up to 15 days were noted between the date of the receipt and the subsequent deposit.

Indiana Code 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

COMPENSATION AND BENEFITS

Compensation and benefits were paid to utility employees that were not included in a salary ordinance or resolution for 2013.

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 statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SALES TAX NOT REMITTED

The Water Utility collected the proper sales tax for utility services from its customers. However, the Controller failed to remit the entire amount of the sales tax due to the Indiana Department of Revenue in 2013.

The retail sale of tangible personal property, utility services or commodities in the performance of private or proprietary activities are subject to sales tax. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All questions concerning the law or procedure for paying and collecting sales tax should be directed to the Indiana Department of Revenue, Sales Tax Division, Indiana Government Center North, Indianapolis, Indiana, 46204, telephone number (317) 233-4015. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PENALTIES, INTEREST, AND OTHER CHARGES

The Water Utility paid penalties, interest, and other charges to the Indiana Department of Revenue in the amount of \$35,859 because Utility Receipts Tax payments were not remitted on a timely basis for 2012 and 2013.

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 governmental unit.

CONTROLLER
CITY OF LAWRENCE
EXAMINATION RESULTS AND COMMENTS
(Continued)

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 governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliations for 2013 and 2014 were not completed in a timely manner. Currently, the last completed bank reconciliation is for March 2015.

A similar comment appeared in several prior reports, most recently Report B42601.

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."

RECORD OF HOURS WORKED

Several officials and employees were paid salaries from more than one fund of the City and/or Utilities. There was no formal process to determine what amount was to be paid from the different funds. Separate records showing which hours were worked for each position were not maintained.

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner.

IC 5-11-9-4 requires that records be maintained showing which hours are worked each day for employees employed by more than one political subdivision or in more than one position by the same public agency. This requirement can be met by indicating the number of hours worked on each Employee's Service Record, General Form No. 99A and/or General Form No. 99B. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OVERDRAWN FUND BALANCES

The financial statement presented for examination included the following funds with overdrawn balances at December 31, 2013 and 2014.

CONTROLLER
CITY OF LAWRENCE
EXAMINATION RESULTS AND COMMENTS
(Continued)

Fund	Amount Overdrawn	
	2013	2014
Federal Grants #1	\$ 175,905	\$ 251,299
Self Funding Insurance	2,111,206	1,834,702
Fire Debt (Stn 2 - Training Center)	161,373	-
Emergency Medical Services/Ambulance	482,356	115,016
Police Pension	-	53,478
Wastewater Utility Bond and Interest	1,000	-
Sewer '09 Bond Proceeds	31,008	-
Sewer Srf Loan Fund	30,434	-
Water Utility Operating Fund	-	637,849
Water Utility-Bond and Interest	1,000	-
Water '09 Bond Proceeds	33,430	-

A similar comment appeared in several prior reports, most recently Report B42601.

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROPRIATIONS

The records presented for examination indicated the following expenditures in excess of budgeted appropriations:

Fund	Years	Excess Amount Expended
Police Pension	2013	\$ 54,499
Municipal Building Corp Debt	2013	1,000
Police Pension	2014	32,427

A similar comment appeared in several prior reports, most recently Report B42601.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."



City of
LAWRENCE
Indiana

CONTROLLER'S OFFICE

Ron Hungerford, Controller

December 31, 2015

State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, IN 46204-2765
Attn: Lisa David l david@sboa.in.gov

Re: City Of Lawrence Audit Years 2013 & 2014

OFFICIAL RESPONSE

The City Of Lawrence is filing this official response to the Audit Results & Comments for Audit years of 2013 and 2014 as provided to the City Administration on December 22, 2015. On behalf of the City Of Lawrence and its Administration (serving from January 1, 2012 to December 31, 2015) I am submitting this official response based on my capacity as Controller from January 1, 2015 to December 31, 2015.

SUMMARY: The majority of deficient areas found during the audit can be linked to the same underlining issues: 1) the lack of continuity in the Controllers position and the Controller's department staffing turnover 2) minimal staffing levels due to fiscal constraints 3) training, systems knowledge and level of expertise; these had the result of creating or perpetuating the majority of these deficiencies as reported for audit years 2013 and 2014. Many of these deficiencies as reported were the same as similar comments from the prior 2012 audit period that remained unresolved. There were 2 different Controllers, Kim Diller until early August 2013 (who left just after the 2012 audit was completed) and Oscar Gutierrez from September 2013 to early November 2014. There were 2 Interim Controllers, Keith Johnson for August 2013 and Josh Fetzer for December 2014. In addition, there were other personnel changes within the Controller's department during the audit periods of 2013 and 2014, such as multiple personnel in the cash receipts/deposit function and the establishment of a Deputy Controller position in late 2013 who left in October 2014 on FMLA and did not return. Also, starting in 2012, there was a marked increase in the Controller's duties as a result of fiscal constraints (layoffs of human resource, administrative and other city personnel) which put an enormous strain on the available human capital in the Controller's department. These factors mitigated the ability to follow or develop and implement adequate processes, procedures and internal controls plus did not fully allow for the proper segregation of duties in some areas. The undersigned was Controller for only the year 2015 and worked diligently to understand the financial activities from 2013 and 2014 and make the necessary corrections to the financial information covered in this report, subsequently working with the SBOA during this audit exam to resolve as many financial adjustments as possible for these periods, as well as establishing a baseline for 2015 reporting purposes.

9001 East 59th Street, Suite 205
Lawrence, Indiana 46216
317.549.4804

Except for any items specifically outlined below, the Administration does not disagree with the findings of this audit for the years of 2013 and 2014. The Administration, based upon a favorable November 2015 election outcome, had plans to reorganize the Controller's department and duties starting in 2016 to facilitate the ability to remediate the findings of this audit and those of the 2012 audit. Due to the timing of this audit report, which was presented to the administration on December 22, 2015, and the fact that the current Administration as well as the undersigned will not be employed with the City of Lawrence after December 31, 2015, the new Administration and Controller effective January 1, 2016 will be in a position to remediate all of the deficiencies identified in the report.

ANNUAL REPORT

The Annual Report for 2013 as filed did not properly reflect the financial activity of the city and did contain a significant 'final' adjustment determined in June 2014 which was initially posted to the 2014 accounting records. The 2014 report as initially filed timely in late February 2015 by the undersigned was known to contain some inaccuracies but with the expectation that after a more thorough review of the financials and identification of required adjustments to the 2013 and 2014 years that an amended set of financials would be resubmitted later in 2015 to reflect these adjustments. As stated in the audit report the financial statements presented reflect these adjustments for 2013 and 2014. These adjustments were submitted by Ron Hungerford, Controller, on December 31, 2015, in Gateway.

INTERNAL CONTROLS

Due to the aforementioned lack of continuity of personnel in the Controller position and the Controller's department plus the increased workload starting in 2012, the ability to segregate duties, establish timely preparation and proper review of all financial activities impacted the ability to report accurate transactions and balances in the 2013 and 2014 Annual Financial Reports. The undersigned relied mostly on information as previously entered into the financial system for the City of Lawrence during 2014 plus his own review and upon the City's outside Federal Grant Administrator. In addition, the undersigned publically stated to Common Council and the Utility Service Board that upon his initial review in January and February 2015 plus subsequent information provided to him from the City's financial consultants that the Administration was aware the information for 2013 and 2014 as initially published in Gateway contained some inaccuracies and the undersigned was working to make the necessary corrections during the course of this audit and resubmitted corrected 2013 and 2014 information as stated above.

UTILITY OPERATING FUNDS TRANSFERRED TO CITY

This was the same comment as stated in the 2012 audit. The Administration was aware that changes to this process were going to be needed and plans were being developed for implementation in 2016 to address the concerns of this finding. The new Administration and Controller will have the opportunity to align current practice with statues regarding Utility Operating Fund transfers to the City.

DEPOSITS

Receipts were deposited later than the next business day for 11 days, with delays of up to 15 days between receipt and deposit. This was during the first 2 weeks of June 2014 in which the cash receipt personnel went on vacation. This is the result of minimal staffing and lack of cross trained personnel in the Controller's office to maintain this function during absences of the primary personnel responsible for this function. In 2015 the Controller's office had 2 or at times 3 personnel trained to make daily deposits.

COMPENSATION AND BENEFITS

Due to an oversight, the 2013 Lawrence Utilities Salary Ordinance was not presented to the Utility Service Board. Salary Ordinances for the years of 2014, 2015 and 2016 were presented to both Common Council and Utility Service Boards.

SALES TAX NOT REMITTED

The Water Utility collected the proper sales tax for utility services from its customers but failed to remit to the Indiana Department of Revenue the entire amount of the sales taxes collected for 2013. The new Controller as of January 1, 2016 should immediately resolve the underpaid 2013 Water Utility Sales Taxes due to the Indiana Department of Revenue in the approximate, tax due amount, of \$35,200. Changing the process/calculation to determine the proper amounts due on a monthly basis will need to be implemented in 2016.

PENALTIES, INTEREST, AND OTHER CHARGES

The Water Utility paid penalties, interest and other charges due to the Indiana Department of Revenue of \$35,859 because the utility did not remit Utility Receipt Taxes payments on a timely basis for 2012 and 2013. This was the result of lack of internal controls due to minimal staffing and inadequate financial review. The Utility Receipt tax was overpaid in 2014 due to process/calculation errors and utilization of this credit was in the first half of 2015. The process/calculation was corrected in 2015.

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliations for 2013 and 2014 were not completed in a timely manner. This is a result of lack of continuity in the Controller's Department as well as not having adequate staff to handle all the work necessary for the proper reconciliation of bank accounts which also continued into 2015. The Administration understands the need for timely monthly bank account reconciliations and had authorized a purchase order to the City's financial consultant to assist with the process in late 2015, but due to a major system breakdown and the loss of several weeks of financial data in early November 2015, this work was unable to begin as scheduled. The new Administration and Controller will need to address this issue in 2016.

INTERNAL CONTROLS – FUEL CARDS

Internal controls over the accounting for city issued fuel cards were insufficient. The City maintains an antiquated system that is over 30 years old. Again, due to the lack of continuity in the Controller's department as well as the street department the proper processes and procedures were not implemented. The new Administration and Controller should review the processes in place and make the proper changes to establish adequate internal controls and timely review plus maintenance of the fuel card tracking records.

RECORDS OF HOURS WORKED

Several officials were paid salaries from more than one fund of the City and/or Utilities historically going back approximately 10 years. Due to the lack of continuity in the Controller's department and the fiscal limitations of the City, some positions and salaries were paid from more than one fund including Utility Funds. The undersigned had recognized this issue prior to and during the preparation of the 2016 budgets and stated publically to the Common Council and Utility Service Board that a complete review of all personnel and their functions in 2016 would be necessary to properly support any allocations made to more than one fund. The 2016 Administration will need to have affected personnel fill out time sheets appropriately and conduct a proper analysis of all personnel utilization by function/department/fund.

OVERDRAWN CASH BALANCES

Overdrawn cash balances in 2013 were in 10 funds, mostly as a result of fiscal constraints discovered in 2012 that impacted negatively 2013 fund balances, but in 2014 there were only 5 funds with a negative balance as reported in this audit, one of which in 2014 was the Federal Grant Fund in which an overdrawn balance is expected for this type of fund due to matching funds being expended before a reimbursement can be requested and received for deposit. In late 2015 a cash entry was made to account for a 2013 cash transaction that was never completed to its conclusion. If this cash transaction had occurred in early 2014 the Self-Funding Insurance fund would have a positive balance as of the end of 2014 vs. an overdrawn balance as currently published. The overdrawn amount in Water Utility Operating Fund was budgeted in 2016 to get this fund back to above zero by early 2016. If the City had received the \$1.2 million in Indiana Medicaid Reimbursements for 2011 & 2012 by end of December 2014 (now these revenues are expected to be received by the end of January 2016) the EMS Fund would not have been overdrawn. The Police Pension Fund overdrawn balance was the result of timing issues from payments made before reimbursement. Therefore only 1 fund, hypothetically, would have been overdrawn as of December 2014: the Federal Grants fund for the reasons stated above.

APPROPRIATIONS

The records submitted for audit indicated the following expenditures in excess of budgeted appropriations: Police Pension for 2013 & 2014, Municipal Building Corporations Debt for 2013. Police Pension budget is fluid and impacted by changes in number of retirees' receiving payments and timing of reimbursements by the State of Indiana. Proper review and internal controls related to forecasting of fund balances will need to be implemented to budget appropriately or trigger a request for additional appropriations during the year to prevent this situation in the future.

ORDINANCES AND RESOLUTIONS

Fees on several building permits were waived in 2013 and 2014. Some of these permits were for City employees. Due to lack of continuity in the Controllers department, minimal staffing and proper internal controls were not established to review or detect discrepancies in all revenue producing functions, therefore these items remained persistent from the 2012 audit.

UTILITY BAD DEBT AND UNCOLLECTIBLE ACCOUNTS

A resolution was passed in July 2014 to address procedures for writing off debts, uncollectible accounts receivable or other adjustments. Due to the changes in the Controllers department in the last quarter of 2014, there was not any progress made in the development or implementation of a comprehensive policy to address these accounts.

CITY BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

There does not appear to be a formal policy for the writing off of emergency medical or trash accounts receivable bad debts, uncollectable accounts or other adjustments has been created. Due to the lack of continuity and minimal staffing in the Controllers department, as previously noted, these type of policies were not developed or implemented.

On behalf of the City of Lawrence Administration as of December 31, 2015,



Ron Hungerford, Controller

CONTROLLER
CITY OF LAWRENCE
EXIT CONFERENCE

The contents of this report were discussed on December 22, 2015, with Dean Jessup, Mayor; Timothy Joyce, Chief of Staff; Matthew Jeziorski, Deputy Chief of Staff; Ron Hungerford, Controller; Tom Shevlot, President of the Common Council; David Freeman, Council member; Steven Collier, Council member; Carl Barnett, Council member; Linda Treat, Council member; James Gutting, Council Attorney; and Kathleen Walton, City Clerk.

COMMON COUNCIL
CITY OF LAWRENCE

COMMON COUNCIL
CITY OF LAWRENCE
EXAMINATION RESULTS AND COMMENTS

INTERNAL CONTROLS

Internal controls and segregation of duties over the receipting, disbursing, recording, and accounting for financial activities were insufficient in some areas. Bank reconciliations were not performed or reviewed in a timely manner, with delays of several months being noted before the completion of the reconciliations. Additionally, correcting entries were not always posted in a timely manner. For departmental receipts, the process usually involves one or two people at the department, where one employee may have full control over the receipting process at any one time.

The City did not have internal controls in place to prevent material errors in reporting the transactions and balances in the 2013 and 2014 Annual Financial Reports (AFR), including the grants report on the State Gateway website. The Annual Financial Report is used to compile the City's financial statement. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS - FUEL CARDS

Internal controls over the accounting for fuel cards were insufficient. The City used cards for access to fuel for the City vehicles and equipment. The City provided a listing of employees with fuel cards in 2014 for examination. The listing indicated that 301 cards were valid and 35 were shown as invalid. An additional review indicated that 2 cards were issued in the name of a vehicle or equipment, and nine employees were listed as having 2 cards.

A similar comment appeared in several prior reports, most recently report B42601.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COMMON COUNCIL
CITY OF LAWRENCE
EXAMINATION RESULTS AND COMMENTS
(Continued)

ORDINANCES AND RESOLUTIONS

Fees for building permits issued to some City employees and not-for-profit organizations were not collected during 2013 and 2014. The fee ordinance in effect did not indicate any conditions under which fees could be waived or otherwise not collected.

A similar comment appeared in prior Report B42601.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

UTILITY BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

Accounts receivable contained delinquent accounts that have not been written off and for which collection appears unlikely. The utilities have used collection agencies and have filed liens in the past to collect on some outstanding accounts. The accounts receivable at year-end was inflated due to the large number of customer accounts having unpaid balances. The total accounts receivable reported on the December 31, 2014 Trial Balance was \$2,089,062. It was not possible to determine the collectability of the amounts reported. A resolution was passed in July 2014 to address procedures for writing off bad debts, uncollectible accounts receivable, or other adjustments.

A similar comment appeared in prior reports, most recently Report B42601.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

There was not a formal written policy for writing off emergency medical and trash accounts receivable bad debts, uncollectible accounts receivable, or other adjustments has been created.

A similar comment appeared in several prior reports, most recently report B42601.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)



City of
LAWRENCE
Indiana

CONTROLLER'S OFFICE

Ron Hungerford, Controller

December 31, 2015

State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, IN 46204-2765
Attn: Lisa David l david@sboa.in.gov

Re: City Of Lawrence Audit Years 2013 & 2014

OFFICIAL RESPONSE

The City Of Lawrence is filing this official response to the Audit Results & Comments for Audit years of 2013 and 2014 as provided to the City Administration on December 22, 2015. On behalf of the City Of Lawrence and its Administration (serving from January 1, 2012 to December 31, 2015) I am submitting this official response based on my capacity as Controller from January 1, 2015 to December 31, 2015.

SUMMARY: The majority of deficient areas found during the audit can be linked to the same underlining issues: 1) the lack of continuity in the Controllers position and the Controller's department staffing turnover 2) minimal staffing levels due to fiscal constraints 3) training, systems knowledge and level of expertise; these had the result of creating or perpetuating the majority of these deficiencies as reported for audit years 2013 and 2014. Many of these deficiencies as reported were the same as similar comments from the prior 2012 audit period that remained unresolved. There were 2 different Controllers, Kim Diller until early August 2013 (who left just after the 2012 audit was completed) and Oscar Gutierrez from September 2013 to early November 2014. There were 2 Interim Controllers, Keith Johnson for August 2013 and Josh Fetzer for December 2014. In addition, there were other personnel changes within the Controller's department during the audit periods of 2013 and 2014, such as multiple personnel in the cash receipts/deposit function and the establishment of a Deputy Controller position in late 2013 who left in October 2014 on FMLA and did not return. Also, starting in 2012, there was a marked increase in the Controller's duties as a result of fiscal constraints (layoffs of human resource, administrative and other city personnel) which put an enormous strain on the available human capital in the Controller's department. These factors mitigated the ability to follow or develop and implement adequate processes, procedures and internal controls plus did not fully allow for the proper segregation of duties in some areas. The undersigned was Controller for only the year 2015 and worked diligently to understand the financial activities from 2013 and 2014 and make the necessary corrections to the financial information covered in this report, subsequently working with the SBOA during this audit exam to resolve as many financial adjustments as possible for these periods, as well as establishing a baseline for 2015 reporting purposes.

9001 East 59th Street, Suite 205
Lawrence, Indiana 46216
317.549.4804

Except for any items specifically outlined below, the Administration does not disagree with the findings of this audit for the years of 2013 and 2014. The Administration, based upon a favorable November 2015 election outcome, had plans to reorganize the Controller's department and duties starting in 2016 to facilitate the ability to remediate the findings of this audit and those of the 2012 audit. Due to the timing of this audit report, which was presented to the administration on December 22, 2015, and the fact that the current Administration as well as the undersigned will not be employed with the City of Lawrence after December 31, 2015, the new Administration and Controller effective January 1, 2016 will be in a position to remediate all of the deficiencies identified in the report.

ANNUAL REPORT

The Annual Report for 2013 as filed did not properly reflect the financial activity of the city and did contain a significant 'final' adjustment determined in June 2014 which was initially posted to the 2014 accounting records. The 2014 report as initially filed timely in late February 2015 by the undersigned was known to contain some inaccuracies but with the expectation that after a more thorough review of the financials and identification of required adjustments to the 2013 and 2014 years that an amended set of financials would be resubmitted later in 2015 to reflect these adjustments. As stated in the audit report the financial statements presented reflect these adjustments for 2013 and 2014. These adjustments were submitted by Ron Hungerford, Controller, on December 31, 2015, in Gateway.

INTERNAL CONTROLS

Due to the aforementioned lack of continuity of personnel in the Controller position and the Controller's department plus the increased workload starting in 2012, the ability to segregate duties, establish timely preparation and proper review of all financial activities impacted the ability to report accurate transactions and balances in the 2013 and 2014 Annual Financial Reports. The undersigned relied mostly on information as previously entered into the financial system for the City of Lawrence during 2014 plus his own review and upon the City's outside Federal Grant Administrator. In addition, the undersigned publically stated to Common Council and the Utility Service Board that upon his initial review in January and February 2015 plus subsequent information provided to him from the City's financial consultants that the Administration was aware the information for 2013 and 2014 as initially published in Gateway contained some inaccuracies and the undersigned was working to make the necessary corrections during the course of this audit and resubmitted corrected 2013 and 2014 information as stated above.

UTILITY OPERATING FUNDS TRANSFERRED TO CITY

This was the same comment as stated in the 2012 audit. The Administration was aware that changes to this process were going to be needed and plans were being developed for implementation in 2016 to address the concerns of this finding. The new Administration and Controller will have the opportunity to align current practice with statues regarding Utility Operating Fund transfers to the City.

DEPOSITS

Receipts were deposited later than the next business day for 11 days, with delays of up to 15 days between receipt and deposit. This was during the first 2 weeks of June 2014 in which the cash receipt personnel went on vacation. This is the result of minimal staffing and lack of cross trained personnel in the Controller's office to maintain this function during absences of the primary personnel responsible for this function. In 2015 the Controller's office had 2 or at times 3 personnel trained to make daily deposits.

COMPENSATION AND BENEFITS

Due to an oversight, the 2013 Lawrence Utilities Salary Ordinance was not presented to the Utility Service Board. Salary Ordinances for the years of 2014, 2015 and 2016 were presented to both Common Council and Utility Service Boards.

SALES TAX NOT REMITTED

The Water Utility collected the proper sales tax for utility services from its customers but failed to remit to the Indiana Department of Revenue the entire amount of the sales taxes collected for 2013. The new Controller as of January 1, 2016 should immediately resolve the underpaid 2013 Water Utility Sales Taxes due to the Indiana Department of Revenue in the approximate, tax due amount, of \$35,200. Changing the process/calculation to determine the proper amounts due on a monthly basis will need to be implemented in 2016.

PENALTIES, INTEREST, AND OTHER CHARGES

The Water Utility paid penalties, interest and other charges due to the Indiana Department of Revenue of \$35,859 because the utility did not remit Utility Receipt Taxes payments on a timely basis for 2012 and 2013. This was the result of lack of internal controls due to minimal staffing and inadequate financial review. The Utility Receipt tax was overpaid in 2014 due to process/calculation errors and utilization of this credit was in the first half of 2015. The process/calculation was corrected in 2015.

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliations for 2013 and 2014 were not completed in a timely manner. This is a result of lack of continuity in the Controller's Department as well as not having adequate staff to handle all the work necessary for the proper reconciliation of bank accounts which also continued into 2015. The Administration understands the need for timely monthly bank account reconciliations and had authorized a purchase order to the City's financial consultant to assist with the process in late 2015, but due to a major system breakdown and the loss of several weeks of financial data in early November 2015, this work was unable to begin as scheduled. The new Administration and Controller will need to address this issue in 2016.

INTERNAL CONTROLS – FUEL CARDS

Internal controls over the accounting for city issued fuel cards were insufficient. The City maintains an antiquated system that is over 30 years old. Again, due to the lack of continuity in the Controller's department as well as the street department the proper processes and procedures were not implemented. The new Administration and Controller should review the processes in place and make the proper changes to establish adequate internal controls and timely review plus maintenance of the fuel card tracking records.

RECORDS OF HOURS WORKED

Several officials were paid salaries from more than one fund of the City and/or Utilities historically going back approximately 10 years. Due to the lack of continuity in the Controller's department and the fiscal limitations of the City, some positions and salaries were paid from more than one fund including Utility Funds. The undersigned had recognized this issue prior to and during the preparation of the 2016 budgets and stated publically to the Common Council and Utility Service Board that a complete review of all personnel and their functions in 2016 would be necessary to properly support any allocations made to more than one fund. The 2016 Administration will need to have affected personnel fill out time sheets appropriately and conduct a proper analysis of all personnel utilization by function/department/fund.

OVERDRAWN CASH BALANCES

Overdrawn cash balances in 2013 were in 10 funds, mostly as a result of fiscal constraints discovered in 2012 that impacted negatively 2013 fund balances, but in 2014 there were only 5 funds with a negative balance as reported in this audit, one of which in 2014 was the Federal Grant Fund in which an overdrawn balance is expected for this type of fund due to matching funds being expended before a reimbursement can be requested and received for deposit. In late 2015 a cash entry was made to account for a 2013 cash transaction that was never completed to its conclusion. If this cash transaction had occurred in early 2014 the Self-Funding Insurance fund would have a positive balance as of the end of 2014 vs. an overdrawn balance as currently published. The overdrawn amount in Water Utility Operating Fund was budgeted in 2016 to get this fund back to above zero by early 2016. If the City had received the \$1.2 million in Indiana Medicaid Reimbursements for 2011 & 2012 by end of December 2014 (now these revenues are expected to be received by the end of January 2016) the EMS Fund would not have been overdrawn. The Police Pension Fund overdrawn balance was the result of timing issues from payments made before reimbursement. Therefore only 1 fund, hypothetically, would have been overdrawn as of December 2014: the Federal Grants fund for the reasons stated above.

APPROPRIATIONS

The records submitted for audit indicated the following expenditures in excess of budgeted appropriations: Police Pension for 2013 & 2014, Municipal Building Corporations Debt for 2013. Police Pension budget is fluid and impacted by changes in number of retirees' receiving payments and timing of reimbursements by the State of Indiana. Proper review and internal controls related to forecasting of fund balances will need to be implemented to budget appropriately or trigger a request for additional appropriations during the year to prevent this situation in the future.

ORDINANCES AND RESOLUTIONS

Fees on several building permits were waived in 2013 and 2014. Some of these permits were for City employees. Due to lack of continuity in the Controllers department, minimal staffing and proper internal controls were not established to review or detect discrepancies in all revenue producing functions, therefore these items remained persistent from the 2012 audit.

UTILITY BAD DEBT AND UNCOLLECTIBLE ACCOUNTS

A resolution was passed in July 2014 to address procedures for writing off debts, uncollectible accounts receivable or other adjustments. Due to the changes in the Controllers department in the last quarter of 2014, there was not any progress made in the development or implementation of a comprehensive policy to address these accounts.

CITY BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

There does not appear to be a formal policy for the writing off of emergency medical or trash accounts receivable bad debts, uncollectable accounts or other adjustments has been created. Due to the lack of continuity and minimal staffing in the Controllers department, as previously noted, these type of policies were not developed or implemented.

On behalf of the City of Lawrence Administration as of December 31, 2015,



Ron Hungerford, Controller

COMMON COUNCIL
CITY OF LAWRENCE
EXIT CONFERENCE

The contents of this report were discussed on December 22, 2015, with Tom Shevlot, President of the Common Council; David Freeman, Council member; Steven Collier, Council member; Carl Barnett, Council member; Linda Treat, Council member; James Gutting, Council Attorney; Kathleen Walton, City Clerk; Dean Jessup, Mayor; Timothy Joyce, Chief of Staff; Matthew Jeziorski, Deputy Chief of Staff; and Ron Hungerford, Controller.