

B37735

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

AUDIT REPORT  
OF

CLERK-TREASURER  
TOWN OF WINDFALL  
TIPTON COUNTY, INDIANA

January 1, 2008 to December 31, 2009



**FILED**  
11/04/2010



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#### TOWN OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	K. Ann Riffe Joni Pearson	01-01-08 to 12-31-09 01-01-10 to 12-31-11
President of the Town Council	Lonnie Kinder Jack Baugher	01-01-08 to 11-30-09 12-01-09 to 12-31-10



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF WINDFALL, TIPTON COUNTY

We have audited the records of the Clerk-Treasurer for the period from January 1, 2008 to December 31, 2009, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments. The financial transactions of this office are reflected in the Biennial Report of Town of Windfall, Tipton County, for the years 2008 and 2009.

STATE BOARD OF ACCOUNTS

August 31, 2010

CLERK-TREASURER  
TOWN OF WINDFALL  
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to go undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Town Board to monitor and assess the quality of the Town's system of internal control. The Town Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

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 objections, 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)

FINANCIAL REPORT OPINION MODIFICATIONS

The Statement of Activities and Net Assets – Cash and Investment Basis, which is required to be presented as part of the Town's basic financial statements, was not presented in the Town's financial statements for 2008 and 2009. Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Auditors' Report for the financial statements.

CLERK-TREASURER  
TOWN OF WINDFALL  
AUDIT RESULTS AND COMMENTS  
(Continued)

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ANNUAL REPORT

An annual report for fiscal year 2008 was not remitted to the State Board of Accounts.

IC 5-11-1-4 states in part: "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. . ."

IC 5-11-1-10 states in part: "A public officer who: (1) fails to make, verify, and file with the state examiner any report required by this chapter; . . . commits a Class B infraction and forfeits office."

PENALTIES, INTEREST, OTHER CHARGES AND OVERPAYMENTS

The payment of penalties, interest, other charges and overpayments was noted as follows through July 31, 2010:

Type of Tax	Tax Period		Totals
	2008	2009	
Penalties and Interest Paid:			
State Sales Tax	\$ 465.53	\$ 611.56	\$ 1,077.09
State and County Withholding Tax	201.81	263.64	465.45
Federal Withholding and Social Security Tax	1,141.39	2,958.04	<u>4,099.43</u>
Total Penalties and Interest Paid			<u>\$ 5,641.97</u>
Monthly Overpayments Made:			
State Sales Tax	\$ 7,107.01	\$ 1,445.22	<u>\$ 8,552.23</u>

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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.

CLERK-TREASURER  
TOWN OF WINDFALL  
AUDIT 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)

The former Clerk-Treasurer, K. Ann Riffe, was requested to reimburse the total amount of penalties and interest paid in the amount of \$5,641.97 (\$4,564.88 to the Town and \$1,077.09 to the Water Utility). (See Summary, page 15)

BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

Accounts receivable for utility and trash billings due were deleted from the records. The minutes presented for audit did not indicate approval of the governing body. Additionally, documentation was not presented for audit concerning verification of reasons for adjustments to billings or of unsuccessful collection procedures prior to adjustments to the records.

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.

Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs.

Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COLLECTION OF AMOUNTS DUE

The amount of \$163,132.88 was due from customers for water, wastewater and trash services as of January 19, 2010. Of this amount, \$113,382.99 (approximately 69.5%) was overdue at least 90 days. Additionally, as of August 31, 2010, the amount of \$1,114.82 is due from current Clerk-Treasurer, Joni Pearson.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

CLERK-TREASURER  
TOWN OF WINDFALL  
AUDIT RESULTS AND COMMENTS  
(Continued)

IC 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following: (1) a list of the delinquent fees and penalties that are enforceable under this section . . . (2) an individual instrument for each lot or parcel of real property on which the fees are delinquent. . . . (c) The officer shall record a copy of each list or each individual instrument with the county recorder. . . . (e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . ."

TRANSACTION RECORDING - PAYROLL TRANSFERS FROM UTILITIES

During the audit period, calculated amounts due from the Water and Wastewater Utilities for gross payroll were not transferred between the funds or the respective bank accounts. This resulted in the Utility funds operating balances being overstated and the payroll fund being understated. As of December 31, 2009, the Water Utility owed the Payroll Fund \$99,234.32 (\$46,339.46 for 2008 plus \$52,894.86 for 2009) and the Wastewater Utility owed the Payroll Fund \$77,161.86 (\$36,763.44 for 2008 plus \$40,398.42 for 2009).

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DISTRIBUTION OF GROSS REVENUES TO THE VARIOUS FUNDS - WATER UTILITY

Deposits to the Water Utility Sinking Fund bank account, as required by the United States Department of Agriculture Rural Development agreement, were not made on a timely basis throughout 2008 and 2009. As a result, the account did not have a sufficient balance to cover payments due, resulting in payments being made from other than the sinking fund.

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)

OVERDRAWN CASH BALANCES

The cash balance of the Wastewater Utility Fund was overdrawn May 31, 2008, and the Water Utility Sinking Fund was overdrawn beginning in August 2009 until the account was closed in December 2009.

The cash 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)

CLERK-TREASURER  
TOWN OF WINDFALL  
AUDIT RESULTS AND COMMENTS  
(Continued)

OVERDRAWN FUND BALANCES

The Payroll Fund was overdrawn in the amount of \$105,710 at December 31, 2008. The Payroll Fund and the Trash Fund were overdrawn at December 31, 2009, in the amounts of \$179,599 and \$13,715, respectively.

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)

OVERPAYMENT OF COLLECTIONS - WATER UTILITY

The Town deposits all utility collections to the Water Utility Operating Fund bank account. Collections for both the Wastewater Utility Operating Fund and the Trash Fund are then transferred to the respective funds. As reported in prior audit report B32441, collections made from January 2006 through April 2006 were transferred twice to the Wastewater Utility Operating Fund and the Trash Fund. The total amount of overpayment was \$43,978.07 to the Wastewater Utility Operating Fund and \$11,264.70 to the Trash Fund. In December 2008, \$1,500.00 was repaid from the Wastewater Utility Operating Fund to the Water Operating Fund. As of December 31, 2009, the remaining uncorrected excessive transfers totaled \$53,742.77 (\$42,478.07 from the Wastewater Utility Operating Fund; and \$11,264.70 from the Trash Fund).

Receipt and disbursement corrections or other errors should be corrected by memorandum entry with the issuance of a check and receipt to document the flow of the transactions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS

There were no capital asset or utility plant in service records presented for audit.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPORTING DOCUMENTATION

Several payments were observed which did not contain adequate supporting documentation, such as receipts, invoices, and other public records. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit 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 7)

CLERK-TREASURER  
TOWN OF WINDFALL  
AUDIT RESULTS AND COMMENTS  
(Continued)

SALES TAX

Sales tax was paid on some purchases (in 2008, twenty-two purchases where sales tax totaled \$299.59; in 2009, twenty-three purchases where sales tax totaled \$405.27). In addition, there were some vendor payments for which the supporting documentation presented did not allow determination of payment of sales tax.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CUSTOMER DEPOSIT REGISTER

A detailed customer deposit register was not presented for audit. Therefore, the customer deposit amount recorded on the general ledger could not be verified or substantiated.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

HYDRANT RENTAL CHARGES

The Water Utility Rate Ordinance in effect during the audit period indicates that a \$10.40 monthly charge for each hydrant was to be used as a basis for the rental payments to the Water Utility. Per inquiry of the Utility Superintendent, there are fifty-two (52) hydrants in the Town. Accordingly, the annual hydrant rental to be paid by the Town to the Water Utility should be \$6,489.60. There was no hydrant rental paid by the Town during 2008, and in December of 2009, \$13,950.00 was paid as hydrant rental by the Town of Windfall to the Windfall Water Utility. This resulted in an overpayment of \$970.90 for 2008 and 2009 combined.

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)

DONATIONS

The Town donated \$500.00 to the Wildcat Volunteer Fire Department for a Christmas donation.

Governmental funds should not be donated or given to other organizations, individuals, or governmental units unless specifically authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CLERK-TREASURER  
TOWN OF WINDFALL  
AUDIT RESULTS AND COMMENTS  
(Continued)

DISTRIBUTION OF GROSS REVENUES TO TRUSTEE - WASTEWATER UTILITY

During the audit period, monthly transfers of revenues (14 out of 24 months) were not distributed to the Trustee (Paying Agent) for the Wastewater Revenue Bonds in accordance with the Services Agreement signed June 1, 2000. In addition to payments not always being made monthly (as required by the agreement), at December 31, 2009, there was \$8,451.00 due to the Trustee that was not paid until 2010.

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)

SUBSEQUENT EVENTS - WASTEWATER UTILITY DEBT PAID FROM WATER UTILITY FUNDS

The Town officials used Water Utility operating funds to pay the bond obligation of the Wastewater Utility. On January 13, 2010, \$31,073.12 was paid from the Water Utility operating fund for the 2000 Wastewater Revenue Bond debt payment that would normally have been paid in December 2009.

Payments or transfers which are not authorized by statute, ordinance or resolution must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OFFICIAL BONDS - REQUIREMENTS

The following conditions were noted relating to the official bonds for K. Ann Riffe, Clerk-Treasurer:

- (1) The bonds cover the period January 1, 2008 through January 1, 2011;
- (2) The bonds were not filed in the Office of the County Recorder;
- (3) The bonds were made payable to the Town of Windfall and not the State of Indiana; and
- (4) The bonds were in the amounts of \$15,000.

IC 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder. . ."

IC 5-4-1-10 states:

"All official bonds shall be payable to the state of Indiana; and every such bond shall be obligatory to such state, upon the principal and sureties, for the faithful discharge of all duties required of such officer by any law, then or subsequently in force, for the use of any person injured by any breach of the condition thereof."

CLERK-TREASURER  
TOWN OF WINDFALL  
AUDIT RESULTS AND COMMENTS  
(Continued)

IC 5-4-1-18(c) states in part:

" . . . the fiscal bodies of the respective units shall fix the amount of the bond of . . . town clerk-treasurers . . . as follows: (1) The amount of annual coverage must equal thirty thousand dollars (\$30,000) for each one million dollars (\$1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2). (2) The amount of annual coverage may not be less than thirty thousand dollars (\$30,000) nor more than three hundred thousand dollars (\$300,000) unless the fiscal body approves a greater amount of annual coverage for the officer or employee . . ."

OFFICIAL BONDS

Official bonds for K. Ann Riffe, former Clerk-Treasurer, were obtained and covered the period beginning from January 1, 2008 and ending January 1, 2011. The guarantor was Nationwide Mutual Insurance Company.

AUDIT COSTS - CONDITION OF RECORDS

Additional audit time was required to audit financial statements and other information necessary for the audit report. The State of Indiana incurred additional audit costs in the amount of \$1,587.60.

Audit costs or other costs incurred because of poor records, nonexistent records or other inadequate bookkeeping practices may be the personal obligation of the responsible official or employee of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CLERK-TREASURER  
TOWN OF WINDFALL  
EXIT CONFERENCE

The contents of this report were discussed on September 14, 2010, with Joni Pearson, Clerk-Treasurer; Pat Brown, Town Council member; and Lonnie Kinder, Town Council member. The officials concurred with our audit findings.

The contents of this report were discussed on September 22, 2010, with K. Ann Riffe, former Clerk-Treasurer. The official response has been made a part of this report and may be found on pages 13 and 14.

# Official Response

It was a long 2 years. Had I known then what I know now, I would gladly have paid for my own training out of pocket.

Did I make mistakes? Sure I did. Not because I wasn't capable of doing the job or didn't repeatedly ask for help, but because I never received the training I needed to succeed early on.

I tried to take control of the chaotic situation to the best of my ability after I was left to sort out a paper trail & learn an entirely new computer system while overseeing an extensive water project. The previous Clerk-Treasurer (Janis Dever) had passed away & I was informed funds were not available to hire anyone who could help me. I began to notice a predictable pattern of finger-pointing in my direction when problems arose.

The expectation of perfectionism is ironic to me to say the least when a council leader can disengage at will & place the blame back on the Clerk-Treasurer. Now, I'm the one left to make arrears for lack of knowledge & unanswered questions.

I refuse to accept that some want this to go down as failure on my part. When in retrospect, it was my own Board President at the time who set the stage for the grand finale by belittling me

in public to town residents - one of which acted the slandering of my name to all attendees at a board meeting. Although an apology was never given, one was not expected either.

It was the ultimate set-up for failure when, from the beginning, he knew exactly what I needed to do my job accurately. He spent long days with my opponent ensuring her success before I was elected. In the end, he refused to take the same action on my behalf & give me the respect I deserved due to his personal hatred toward me.

Therefore, I do not agree that I should be held responsible for these charges. There are many other factors to take into consideration when I was intentionally isolated to take the blame.

Former Clerk-Treasurer,  
Karin Riffe

CLERK-TREASURER  
TOWN OF WINDFALL  
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
K. Ann Riffe, former Clerk-Treasurer:			
Penalties, Interest, Other Charges and Overpayments,			
pages 5 and 6	<u>\$ 5,641.97</u>	<u>\$ -</u>	<u>\$ 5,641.97</u>

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AFFIDAVIT

STATE OF INDIANA )  
 )  
Howard COUNTY)

I, David Bixler, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the Clerk-Treasurer, Town of Windfall, Tipton County, Indiana, for the period from January 1, 2008 to December 31, 2009, is true and correct to the best of my knowledge and belief.

David Bixler  
Field Examiner

Subscribed and sworn to before me this 12th day of October, 2010.

Melinda Brown  
Notary Public

My Commission Expires: November 15, 2014

County of Residence: Howard

