

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

AUDIT REPORT  
OF

CLERK-TREASURER  
TOWN OF SOUTH WHITLEY  
WHITLEY COUNTY, INDIANA

January 1, 2011 to December 31, 2012



**FILED**  
09/19/2013



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TOWN OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Mitchel J. Winger Robert Gould	01-01-08 to 12-31-11 01-01-12 to 12-31-15
President of the Town Council	John M. Dunn Tony Starkey	01-01-11 to 12-31-11 01-01-12 to 12-31-13



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF SOUTH WHITLEY

We were engaged to audit the records of the Clerk-Treasurer for the period from January 1, 2011 to December 31, 2012, and certify that the 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 the Town of South Whitley for the years ended December 31, 2011 and 2012.

STATE BOARD OF ACCOUNTS

June 6, 2013

CLERK-TREASURER  
TOWN OF SOUTH WHITLEY  
AUDIT RESULTS AND COMMENTS

***PENALTIES, INTEREST, AND OTHER CHARGES***

Penalties and interest were paid during 2011 and 2012 for errors and late remittances of payroll taxes and sales taxes billed on Electric and Water Utility revenue.

Penalties and interest for payroll taxes paid to the Internal Revenue Service (US Department of Treasury) totaled \$2,557.52, of which \$1,758.12 occurred during 2011, the former Clerk-Treasurer's term of office. Of the \$1,758.12, \$884.93 accrued after the exit conference date from the prior audit.

Penalties and interest for payroll taxes paid to the Indiana Department of Revenue (State and County Withholding Taxes) totaled \$1,521.20, of which \$1,309.80 occurred during the former Clerk-Treasurer's term of office. The entire \$1,309.80 accrued before the exit conference date from the prior audit.

Penalties and interest for sales tax paid to the Indiana Department of Revenue (Sales Tax on Electric and Water Utility billings) totaled \$2,173.18, all of which was paid during 2012. The penalties and interest were paid without determining why the assessments were being issued.

A similar comment appeared in prior Report B39075.

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.

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)

Mitchel J. Winger, former Clerk-Treasurer, was requested to reimburse the Town \$884.93. Reimbursement was made in full on July 12, 2013. (See Summary of Charges, page 13)

***UTILITY COLLECTIONS NOT DEPOSITED***

We tested three months of utility collections during the audit period. Of the 46 receipts tested, 28 percent did not agree with the makeup (cash, check, money order) deposited. Cash and checks totaling \$751.54, collected October 27, 2011, were not deposited in October or November of 2011, and there is no indication they were deposited anytime thereafter.

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)

At all times, the manual and/or 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)

Mitchel J. Winger, former Clerk-Treasurer, was requested to reimburse the Town \$751.54. Reimbursement was made in full on July 12, 2013. (See Summary of Charges, page 13)

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

**CONDITION OF RECORDS**

The following deficiencies, relating to the recordkeeping that were noted in the prior Report B39075, were again present during our period of audit:

1. Record balances have not been reconciled to depository balances since June 30, 2010.

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."

At all times, the manual and/or 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)

2. Financial records presented for audit did not provide sufficient information to establish the accuracy or correctness of the transactions. There were a considerable number of posting errors. These errors included receipts posted to incorrect funds, bond ordinance disbursement transfers without corresponding receipt transfers, debt principal and interest payments posted to incorrect funds, payroll withholding fund transfer errors, duplicate disbursement postings for employer share of payroll taxes, and bank transfers posted as disbursements only.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

3. Numerous 2011 transactions were not posted or were posted incorrectly. Numerous 2012 transactions were posted more than once. As incorrect transactions were discovered, correcting transactions were recorded as "negative" receipts and disbursements in an attempt to correct the original transactions. Transactions posted during 2012 were "back-dated" to 2011 in an attempt to post entries not recorded during the time period of September 1, 2011 through December 31, 2011.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**INTERNAL CONTROLS**

We noted several deficiencies in the internal control system for 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 the 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 remain undetected.

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

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 Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility place 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.
4. Bank Reconciliations - The Town's fiscal officer did not regularly reconcile the Town's fund balances to the bank balances as shown on monthly bank statements. Failure to perform these reconciliations could enable errors and irregularities to occur and not be detected.
5. Condition of Records - The Town's fiscal officer did not properly maintain the records required by Indiana statutes and compliance guidelines. There were numerous transactions that were not posted, others that were posted incorrectly, and still others that were posted more than once. When incorrect transactions or duplicate postings were identified, the fiscal officer used negative transactions to correct, or attempt to correct the original transactions. As a result of the failure to properly maintain accounting records, the Town received a disclaimer of opinion on its financial statement. The failure to maintain records represents material noncompliance at the financial statement level.

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)

### **ANNUAL REPORT**

The annual reports prepared by the Clerk-Treasurer for the years 2011 and 2012 did not reflect the activity of the funds ledger. Cash and investments totaling \$818,201 were not included in the January 1, 2011, beginning balances and \$12,405 in tax distributions was reported twice in 2012. In addition, the Town did not complete the supplemental reports section of the annual report.

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."

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

**UTILITY RECEIPTS TAX**

Form URT-1, Indiana Utility Receipts Tax Return, was not filed for 2011 or 2012. For 2011, estimated payments were remitted to the Indiana Department of Revenue but no final return (URT-1) was prepared. For 2012, no estimated payments were remitted to the Indiana Department of Revenue. A similar comment appeared in prior Report B39075.

Generally, retail receipts from all utility services consumed within Indiana are subject to the utility receipts tax regardless of the point of generation or transmission across state lines. Receipts from the provision of mobile telecommunication service are subject to utility receipts tax to the extent that the receipts are sourced to Indiana pursuant to IC 6-8.1-15. However, gross receipts received by a political subdivision for sewage and sewage service are not subject to the tax.

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.

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)

**PAYROLL DEFICIENCIES**

Numerous deficiencies were noted during a review of payroll for the period under audit:

1. Amounts remitted to the Internal Revenue Service (US Department of Treasury) for Social Security taxes were inaccurate for 2011. The Town's (employer) matching share was calculated at 4.2 percent of gross wages, instead of the required 6.2 percent of gross wages.
2. Fund appropriations (disbursements for payroll related activity) did not match the respective payroll withholding fund receipts.
3. Employer share of Social Security and Medicare was posted twice as disbursements to the funds ledger during 2012.
4. Employer's Quarterly Federal Tax Returns (Form 941) filed during the period under audit were inaccurate or could not be located. In one particular instance, because of an incorrect Form 941 filing, a refund of \$407 was received by the Town. After further review, it was determined that there was an amount due of \$2 instead of a refund of \$407 for the quarter in question.
5. Form W-2 Wage and Tax Statements for 2011 could not be located.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should 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 7)

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

**COMPOSITION OF RECEIPT DEPOSITS**

Checks issued to replenish petty cash were substituted for cash collected for utility payments. As a result, the composition (cash, check, money order) of deposits could not be verified to the original receipts making up the deposits. A similar comment appeared in prior Report B39075.

Public funds shall be deposited in the same form in which they were received. This simply means all daily receipts received by the political subdivision should be deposited intact. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**CASH DISBURSEMENTS**

Petty cash was often replenished for more than the \$100 in the petty cash fund. Purchases in excess of the amount in petty cash are often made by employees (personal funds) and then subsequently reimbursed in cash by the Clerk-Treasurer after the petty cash fund was replenished.

Disbursements, other than proper petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**RECEIPT ISSUANCE**

We performed a test designed to verify that receipts issued were properly recorded in the Town's records at the time the transactions occurred. On October 21, 2011, seven utility payments totaling \$1,229.18 were deposited to the Town's bank account. The corresponding utility stubs were stamped as paid, but the receipts were not posted to the unit's records.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**PUBLIC RECORDS RETENTION**

Various records related to utility accounts receivable, such as billings reports, penalty reports and cash summary reports were not presented for audit. A similar comment appeared in prior Report B39075.

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

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

**ERRORS ON CLAIMS**

A test of claims identified the following deficiencies with an error rate greater than 10 percent:

1. Claims were not prepared for 10 percent of disbursements tested. This error resulted in \$126,469 of expenditures which were not supported by a proper claim.
2. Of the claims tested, 40 percent did not have Town Council approval. This error resulted in \$196,777 of expenditures which did not have proper Town Council approval.
3. Of the claims tested, 28 percent did not have evidence to support receipt of goods or services. This error resulted in \$24,131 of expenditures which did not have evidence to support receipt of goods or services.
4. Of the claims tested, 34 percent did not have proper approval by the fiscal officer (Clerk-Treasurer). This error resulted in \$196,272 of expenditures which did not have proper approval by the fiscal officer.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

**OVERPAYMENT COLLECTIONS**

Pam Waller, Deputy Clerk-Treasurer, was reimbursed \$788.43 on May 23, 2012, for Federal Unemployment reportedly withheld per the Payroll Summary Report for the period of August 29, 2011 through April 30, 2012. Based upon a review of weekly payroll summary reports for this time period, it was determined that the Federal Unemployment was not withheld from the Deputy Clerk-Treasurer's paychecks. The officials will resolve this overpayment by withholding the amount from the Deputy Clerk-Treasurer's remaining pay in 2013.

Based upon the records presented for audit, it appears that the sales tax remittances for the years 2011 and 2012 exceeded the amounts due by approximately \$11,000 and \$10,000, respectively.

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

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

***SUPPORTING DOCUMENTATION***

We noted two checks written during 2011 for which there was no adequate supporting documentation presented for audit. The first check was written to "CSO CDBG Sewer Project" for \$19,950.08 and was endorsed by Fleis & Vandenbrink Eng. Inc. The second check was written to Grounds for Play for \$5,979.00. Due to the lack of supporting information, we could not verify the purpose of the disbursement. After further review, it was determined that the first check was for engineering services on the Wastewater Treatment Plant Upgrade project and the second check was for playground equipment. A similar comment appeared in prior Report B39075.

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)

***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The Town did not have a proper system of internal controls in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The Town should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal controls in place that operate effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: (1) two separate federal awards were omitted from the schedule at December 31, 2011, (2) one federal award was omitted from the schedule at December 31, 2012, and (3) the federal award amount that was included at December 31, 2012, was incorrect. Audit adjustments were proposed, accepted by the Town, and made to the SEFA presented in this report.

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)

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

**OFFICIAL BOND**

The Clerk-Treasurer's surety bond for 2012 was for \$60,000 which was insufficient per the Indiana code. Minimum coverage should be \$90,000.

Indiana Code 5-4-1-18(c) states:

"Except as provided in subsections (h) and (i), the fiscal bodies of the respective units shall fix the amount of the bond of city controllers, city clerk-treasurers, town clerk-treasurers, Barrett Law fund custodians, county treasurers, county sheriffs, circuit court clerks, township trustees, and conservancy district financial clerks as follows:

- (1) The amount 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 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 for the officer or employee. County auditors shall file bonds in amounts of not less than thirty thousand dollars (\$30,000), as fixed by the fiscal body of the county. The amount of the bond of any other person required to file an individual bond shall be fixed by the fiscal body of the unit at not less than fifteen thousand dollars (\$15,000)."

**BOND COVERAGE**

The following is information from the official bond which was presented for our review:

Company: Western Surety Company  
Bond #: 0601 40091175  
Type of Coverage: Public Official Bond for Mitchel J. Winger, Clerk-Treasurer  
Period of Coverage: 01-01-11 to 12-31-11  
Amount of coverage: \$30,000

CLERK-TREASURER  
TOWN OF SOUTH WHITLEY  
EXIT CONFERENCE

The contents of this report were discussed on June 5, 2013, with Mitchel J. Winger, former Clerk-Treasurer.

The contents of this report were discussed on June 6, 2013, with Robert Gould, Clerk-Treasurer, and Tony Starkey, President of the Town Council.

CLERK-TREASURER  
TOWN OF SOUTH WHITLEY  
SUMMARY OF CHARGES

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Mitchel J. Winger, former Clerk-Treasurer:			
Penalties, Interest, and Other Charges, page 4	\$ 884.93	\$	\$
Utility Collections Not Deposited, page 4	751.54		
Reimbursed by Mitchel J. Winger on July 12, 2013, Receipt Number 7385	<u>                    </u>	<u>1,636.47</u>	<u>                    </u> -
Totals	<u>\$ 1,636.47</u>	<u>\$ 1,636.47</u>	<u>\$</u> <u>                    </u> -

This report was forwarded to the Office of the Indiana Attorney General and the local prosecuting attorney.