

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF SHELburn

SULLIVAN COUNTY, INDIANA

January 1, 2012 to December 31, 2013



FILED

05/30/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Noah Jay Southwood	01-01-09 to 12-31-16
President of the Town Council	James Ward	01-01-12 to 12-31-14
Water Superintendent	Kenneth C. Miller	01-01-12 to 12-31-14



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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TO: THE OFFICIALS OF THE TOWN OF SHELBURN, SULLIVAN COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Shelburn (Town), for the period from January 1, 2012 to December 31, 2013. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Town, which provides our opinions on the Town's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

March 24, 2014

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CLERK-TREASURER
TOWN OF SHELburn

CLERK-TREASURER
TOWN OF SHELburn
FEDERAL FINDINGS

**FINDING 2013-001 - INTERNAL CONTROLS OVER THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Town did not have a proper system of internal control 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 control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA we noted the following errors: one federal program's expenditures were overstated by \$17,195,262; one federal program with expenditures of \$728,050 was not reported; direct grant and pass-through agency information, federal program titles, and federal CFDA numbers were not always correct. Audit adjustments were proposed, accepted by the Town, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

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)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section.310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards: The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision I the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and indentifying number assigned by the pass-through entity shall be included.
- (3) Provide the total Federal awards expended for each individual Federal program and the CFDA number or other indentifying number when the CFDA information is not available.

CLERK-TREASURER
TOWN OF SHELburn
FEDERAL FINDINGS
(Continued)

- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

FINDING 2013-002 - 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 the achievement of financial reporting objectives. The Town has not separated incompatible activities related to cash and investment balances, receipts, and disbursements. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. 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 and correct, 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 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)

TOWN OF SHELburn
15 NORTH RAILROAD STREET
SHELburn, IN 47879
(812) 397-5900

March 24, 2014

State Board of Accounts
302 Washington St., Room E418
Indianapolis, Indiana 46204-2765

We are providing this letter in connection with your audit of the financial statements of the Town of Shelburn as of December 31, 2013, and for the two year period then ended, for the purpose of providing a corrective action plan for Finding 2013-001 Internal Controls Over the Expenditures of Federal Awards.

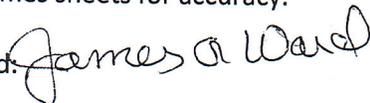
In order to improve procedures in the preparation of the Schedule of Expenditures of Federal Awards (SEFA), we agree to obtain a better understanding of what information is to be reported on the SEFA, including CFDA numbers, official grant titles, and grant award amounts, to accuracy and completeness.

We are also providing a corrective action plan with Finding 2013-002 Internal Controls Over Financial Transactions and Reporting. In order to improve the segregation of duties, thereby strengthening internal controls we agree to have our part-time billing and collection clerk review, initial and approve the monthly bank reconcilements, appoint a Town Council Member to review, initial and approve the monthly fund reports including monthly receipts and disbursements for accuracy and appoint a Town Council Member to review, initial and approve all Employee Weekly Times sheets for accuracy.

Signed: 

Title: Clerk-Treasurer

Date: March 24, 2014

Signed: 

Title: Town Council President

Date: March 24, 2014

CLERK-TREASURER
TOWN OF SHELburn
AUDIT RESULT AND COMMENT

FUND SOURCES AND USES

Receipts for accident reports and handgun license fees were incorrectly recorded in the Police Accident Report Fund and the Firearm's Training Fund, respectively. These receipts should have been recorded in the Continuing Education Fund.

The following types of revenue shall be deposited into the local law enforcement continuing education fund established under Indiana Code 5-2-8-2:

1. Law Enforcement Continuing Education fees (Indiana Code 33-37-5-8 and Indiana Code 33-37-8-3).
2. Inspection of Motor Vehicle fees (Indiana Code 9-29-4-2).
3. Vehicle Accident Reports fees (Indiana Code 9-29-11-1).
4. Handgun License fees (Indiana Code 35-47-2-3).
5. Proceeds from the Sale of Confiscated Weapons (Indiana Code 35-47-3-2).

Funds received by a law enforcement agency shall be used for the continuing education and training of law enforcement officers employed by the agency and for equipment and supplies for law enforcement purposes. [Indiana Code 5-2-8-6]

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CLERK-TREASURER
TOWN OF SHELBURN
EXIT CONFERENCE

The contents of this report were discussed on March 24, 2014, with Noah Jay Southwood, Clerk-Treasurer, and James Ward, President of the Town Council.

WATER UTILITY
TOWN OF SHELburn

WATER UTILITY
TOWN OF SHELBURN
AUDIT RESULTS AND COMMENTS

DEPOSITS

Some Utility receipts were deposited later than the next business day.

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 . . ."

ORDINANCES AND RESOLUTIONS

The Town has an ordinance concerning delinquent water customers. We noted that the Town did not comply with its existing ordinance regarding the shut off of service if a customer is delinquent. As identified in the test of customer billings, several accounts were delinquent for periods greater than one month without having the service shut off. The rate ordinance states that if payment is not made by the due date, a late notice is sent out. Ten days after the late notice is sent out, if no payments have been received, the water will be shut off.

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)

WATER UTILITY
TOWN OF SHELburn
EXIT CONFERENCE

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TOWN COUNCIL
TOWN OF SHELBURN

TOWN COUNCIL
TOWN OF SHELburn
FEDERAL FINDING

FINDING 2013-002 - 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 the achievement of financial reporting objectives. The Town has not separated incompatible activities related to cash and investment balances, receipts, and disbursements. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. **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 and correct, material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

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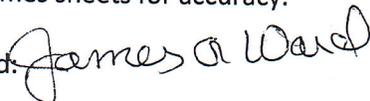
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Signed: 

Title: Clerk-Treasurer

Date: March 24, 2014

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Title: Town Council President

Date: March 24, 2014

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TOWN OF SHELBURN
AUDIT RESULT AND COMMENT

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TOWN COUNCIL
TOWN OF SHELBURN
EXIT CONFERENCE

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