

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF CLARKS HILL

TIPPECANOE COUNTY, INDIANA

January 1, 2011 to December 31, 2014



FILED
04/26/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Deborah Sutton	01-01-11 to 03-31-15
	Diana Luper	04-01-15 to 12-31-16
President of the Town Council	John Barton III	01-01-11 to 12-31-11
	Clark Whitley	01-01-12 to 12-31-13
	Dustin Winger	01-01-14 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF CLARKS HILL, TIPPECANOE COUNTY, INDIANA

This report is supplemental to our examination report of the Town of Clarks Hill (Town), for the period from January 1, 2011 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 Town. It should be read in conjunction with our Financial Statements Examination Report of the Town, which provides our opinion on the Town's financial statements. 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

February 11, 2016

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CLERK-TREASURER
TOWN OF CLARKS HILL

CLERK-TREASURER
TOWN OF CLARKS HILL
EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS

Financial records presented for examination were incomplete and not reflective of the activity of the General, Motor Vehicle Highway, Water Utility - Operating, Wastewater Utility - Operating and Payroll funds. The records presented contained errors and omissions of financial transactions which caused these funds to be materially misstated.

Some of the deficiencies noted were that the financial activity for the Community Development Block Grant awarded to the Town was not reflected in the Town's ledger of receipts, disbursement, and cash and investment balances, except for the \$5,000 receipt incorrectly recorded in the Town's CEDIT Special Revenue fund. The Town received a total of \$259,964 in 2012 and \$259,344 in 2013 in state and local distributions for their Community Development fund and disbursed a total of \$263,000, \$287,022, and \$377 in 2012, 2013, and 2014, respectively.

In 2013, one state distribution check for \$1,777 was received and deposited but never recorded. State distributions for 2014 totaling \$12,711 were intercepted by the Indiana Public Retirement System because the Town failed to make pension payments for its employees. These financial transactions were not recorded as a receipt or corresponding disbursement.

In 2013 and 2014, there were 89 and 25 transactions, respectively, which were not recorded or incorrectly recorded. The errors included receipts, checks, and bank withdrawals not properly recorded.

The Town's Payroll fund was not accounted for correctly. Multiple times throughout the examination period, payroll expenditures were disbursed from the Payroll fund without any corresponding receipt from the appropriate funds into the Payroll fund. This resulted in a deficit cash balance of \$170,649 as of December 31, 2014. There was also one bank transfer from the Money Market account to the Town checking account for \$17,000 incorrectly recorded as a cash receipt to the Payroll fund.

The Clerk-Treasurer did not maintain the Ledger of Appropriations, Encumbrances, Disbursements and Balances (City or Town Form No. 209); therefore, the Town was unable to verify whether or not they overspent the budget as approved by the Department of Local Government Finance.

One duplicate check was signed by the Clerk-Treasurer; however, the date, amount, and payee were not recorded on the duplicate check. We were unable to determine whether or not the original check cleared.

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)

RETENTION OF PUBLIC RECORDS

The 2013 bank statements for the Town of Clarks Hill, Clarks Hill Water Utility, and the Clarks Hill Wastewater Utility could not be located. Eventually, the summary page for each month was provided, but not the financial details or optical images of cancelled checks.

Federal Forms W-2, Wage and Tax Statement for 2013, and the Accounts Payable Vouchers for February of 2014 were not presented for examination.

CLERK-TREASURER
TOWN OF CLARKS HILL
EXAMINATION RESULTS AND COMMENTS
(Continued)

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."

OVERDRAWN CASH BALANCES

The financial statements presented for the Town included the following funds with overdrawn cash balances at each year end:

Years	Fund	Amount Overdrawn
2012	Payroll	\$ 38,487
2012	Water Utility - Operating	11,506
2013	Payroll	167,927
2014	Payroll	170,649
2014	Wastewater Utility - Bond and Interest	13,347

A similar comment appeared in prior Report B39244.

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)

PENALTIES, INTEREST, AND OTHER CHARGES

The Town paid penalties, interest, and other charges to the Internal Revenue Service, the Indiana Department of Revenue, and to their bank for late payments and overdraft fees. Sufficient documentation to determine the full amount of the late payments and fees paid was not readily available.

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)

CLERK-TREASURER
TOWN OF CLARKS HILL
EXAMINATION RESULTS AND COMMENTS
(Continued)

ANNUAL FINANCIAL REPORT

The Town's Annual Financial Reports for 2011, 2012, 2013, and 2014 contained numerous errors and did not properly reflect the financial activity of the Town of Clarks Hill and its Utilities. The Town's reported cash and investment balances at January 1, 2011, did not agree with the prior examination report's cash and investment balances at December 31, 2010, or to the Town's fund ledgers. The beginning cash and investment balance reported by the Town differed from the amount they reported as the ending balance in the prior year for each year of the examination period.

In addition, reported cash receipts and disbursements could not be verified to the Town's ledgers for any of the years during the examination period.

The amount by which the beginning cash and investment balances for each differed from the ending balances of the prior year is as follows:

<u>Years</u>	<u>Difference</u>
2011	\$ (140,670)
2012	(190,069)
2013	(112,936)
2014	(186,480)

A similar comment appeared in prior Report B39244.

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."

DAILY DEPOSITS

Receipts were deposited later than the next business day in 20 percent of receipts tested for the examination period. Also, four state distributions checks totaling \$6,998 were deposited up to 30 days after the date of the check.

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

The Clerk-Treasurer paid a total of \$424,249 in employee compensation to 13 employees during 2012, 2013, and 2014 without a salary ordinance which would authorize the payments.

CLERK-TREASURER
TOWN OF CLARKS HILL
EXAMINATION RESULTS AND COMMENTS
(Continued)

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 Towns, Chapter 7)

FUND SOURCES AND USES

A \$5,000 Community Development Block Grant state distribution check dated August 8, 2013, was receipted into the Town's CEDIT Special Revenue fund. In January of 2013, the Town disbursed \$16,250 from the Water Utility - Operating fund for a 1975 Wastewater Utility - Bond and Interest fund payment. Also, throughout the examination period, \$2,376 was paid from the Water Utility - Operating fund for Wastewater Utility - Operating fund chemical expenditures.

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)

DISTRIBUTION OF GROSS REVENUES TO THE VARIOUS FUNDS

The 2014 Wastewater gross revenues were not distributed to the various Wastewater Utility funds in accordance with Revenue Bond Ordinance 74-2. One-tenth of the subsequent bond principal and interest payments should be transferred to the Wastewater Utility - Bond and Interest fund on the first of every month, and \$285 should be transferred to the Wastewater Utility - Debt Reserve fund on the first of every month. There were no transfers made to either fund for calendar year 2014.

Similar comments were included in prior Reports B35846 and B39244.

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)

SALES TAX

The Town's Water Utility collected the proper sales tax for utility services from its customers, but failed to remit the sales tax collected to the Indiana Department of Revenue (IDOR) on a timely basis or for the proper amounts. For the years 2013 and 2014, the Water Utility paid some of its sales tax based on IDOR assessments, not from the actual amount collected based on billing information. In 2014, the Town paid the IDOR \$9,382 based on assessments for estimated sales tax; however, the computed amount owed was only \$3,703.

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)

CLERK-TREASURER
TOWN OF CLARKS HILL
EXAMINATION RESULTS AND COMMENTS
(Continued)

UTILITY RECEIPTS TAX

As stated in the prior Report B39244, the Water Utility did not pay Utility Receipts Tax to the Indiana Department of Revenue during the examination period. Upon filing these returns, penalties and interest may be assessed.

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 Indiana Code 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)

HYDRANT RENTAL RECEIVABLE (PAYABLE)

The Town did not pay hydrant rental in accordance with their policy. The hydrant rental ordinance indicated annual payments should equal \$6,800. There were no payments made for the years 2011 through 2014. Based on the rate ordinance effective in 2010, the Town owed the Water Utility \$36,800 as of December 31, 2014.

A similar comment was included in the prior Report B39244.

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)

CAPITAL ASSETS

As previously reported in prior Reports B35846 and B39244, the Town and Utilities do not maintain sufficient records of capital assets.

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 applicable 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)

CLERK-TREASURER
TOWN OF CLARKS HILL
EXAMINATION RESULTS AND COMMENTS
(Continued)

CUSTOMER DEPOSIT REGISTER

As stated in the prior Report B39244, the detailed customer deposit register did not reconcile with the customer deposit amount recorded in the ledger.

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)

CLERK-TREASURER
TOWN OF CLARKS HILL
EXIT CONFERENCE

The contents of this report were discussed on February 11, 2016, with Dustin Winger, President of the Town Council, and Diana Luper, Clerk-Treasurer.

TOWN COUNCIL
TOWN OF CLARKS HILL

TOWN COUNCIL
TOWN OF CLARKS HILL
EXAMINATION RESULT AND COMMENT

ORDINANCES AND RESOLUTIONS

The Town Council did not adopt a salary ordinance for any year during the examination period.

Indiana Code 36-5-3-2(b) states: "The town legislative body shall, by ordinance, fix the compensation of its own members, the town clerk-treasurer, and the town marshal. The legislative body shall provide reasonable compensation for other town officers and employees."

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)

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