

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF SOUTH WHITLEY

WHITLEY COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED
06/16/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Robert Gould	01-01-12 to 12-31-15
	Janet E. Howard	01-01-16 to 12-31-19
President of the Town Council	Steve Smith	01-01-15 to 12-31-15
	Bill Boggs	01-01-16 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF SOUTH WHITLEY, WHITLEY COUNTY, INDIANA

This report is supplemental to our examination report of the Town of South Whitley (Town), for the period from January 1, 2015 to December 31, 2015. 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 Statement Examination Report of the Town, which provides our opinion on the Town'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

March 30, 2016

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CLERK-TREASURER
TOWN OF SOUTH WHITLEY

CLERK-TREASURER
TOWN OF SOUTH WHITLEY
EXAMINATION RESULTS AND COMMENTS

CASH DISBURSEMENTS

Cash, from petty cash funds on hand, was given to employees for mileage reimbursements. Petty cash was subsequently replenished with the provided mileage reimbursement form as documentation. A similar comment appeared in prior Report for the period January 1, 2013 to December 31, 2014.

Disbursements, other than properly authorized 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)

CONDITION OF RECORDS

The following deficiencies, relating to the recordkeeping that were noted in the prior report for the period January 1, 2013 to December 31, 2014, were again present during our period of examination:

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

Indiana Code 5-13-6-1(e) states in part: "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 examination did not provide sufficient information to establish the accuracy or correctness of the transactions. Transactions were recorded as "negative" receipts and disbursements. There were a considerable number of posting errors. These errors included receipts posted to incorrect funds, revenue bond ordinance transfer errors, and receipts and disbursements recorded on the fund report not reported on the financial statement.

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)

UTILITY RECEIPTS TAX

The Indiana Department of Revenue has outstanding notices for payment of outstanding utility receipts tax, including penalties and interest totaling \$704 for 2009, \$3,440 for 2012, and \$869 for 2014.

A similar comment appeared in prior Report for the period January 1, 2013 to December 31, 2014.

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

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. (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.

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)

ADJUSTMENTS TO UTILITY ACCOUNTS

Accounts receivable from utility and trash billings totaling \$15,377 during 2015, were written off the records for sewage leak adjustments, billing errors, etc., by the Clerk-Treasurer. Not all adjustments or write-offs were approved by Council.

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)

REVENUE BOND ORDINANCE TRANSFERS

The Town had an ordinance concerning monthly transfers from the Sewage Operating fund to Sewage Bond and Interest and Sewage Debt Service Reserve funds for the semiannual payment of revenue bond debt. Monthly transfers were not made by the Clerk-Treasurer as required by the ordinance. Transfers were made during April to fund the July payment due, transfers were made in July and September for funding the January 2016 payment due, and 16 entries were posted in December in an attempt to agree the fund balances with the bank account balances at December 31, 2015.

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)

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

LOAN FROM ELECTRIC UTILITY

A loan of \$150,000 was made on July 21, 2015, from the Electric Operating fund to the Water Operating fund. The Electric Utility had a cash reserve fund, but did not use this fund for the temporary loan.

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

"A cash reserve fund, if authorized by ordinance, may be used to make loans to another utility owned by the same municipality, for periods not to exceed five (5) years, at any interest rate. The repayment of the loan and interest shall be returned to the cash reserve fund."

INTERNAL CONTROLS

The following deficiencies, related to the internal control system for the Town that were noted in prior Report for the period January 1, 2013 to December 31, 2014, were again present during our period of examination:

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.
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.

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

4. Bank Reconciliations - The Clerk-Treasurer 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 Clerk-Treasurer did not properly maintain the records required by Indiana statutes and compliance guidelines. There were numerous transactions that were posted incorrectly. When incorrect transactions were identified, the Clerk-Treasurer used negative transactions or amounts without supporting itemization 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)

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.

A similar comment appeared in prior Report for the period January 1, 2013 to December 31, 2014.

Indiana Code 36-9-23-33 states in part:

"(c) Except as provided in subsection (m), 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, which must include the following:
 - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
 - (B) A description of the premises, as shown by the records of the county auditor.
 - (C) The amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

(d) The officer shall record a copy of each list or each individual instrument with the county recorder . . .

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

(f) . . . Using the lists and instruments prepared under subsection (c) and recorded under subsection (d), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (d), certify to the county auditor a list of the unpaid liens for collection with the next May installment of property taxes."

OVERPAYMENT COLLECTIONS

Based upon records presented for the 2013 audit, sales tax remittances on Electric and Water utility billings exceeded amounts due by approximately \$20,000.

As noted in prior Report for the period January 1, 2013 to December 31, 2014, sales tax remittances for the years 2011 and 2012 exceeded amounts due by approximately \$11,000 and \$10,000 respectively.

As of March 30, 2016, the amounts listed above have not been resolved or refunded.

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

COMPENSATION AND BENEFITS

Christmas bonuses were paid to Town employees and the bonuses were not included in the payroll system or on the salary ordinance. The total compensation and benefits paid to these employees was \$1,300 for 2015. In addition, the Clerk-Treasurer purchased football and hockey jerseys totaling \$640 on the Town's credit card.

A similar comment appeared in prior Report for the period January 1, 2013 to December 31, 2014.

All compensation and benefits paid to officials and employees must be included in the salary ordinance adopted by the legislative 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)

WAGE AND TAX STATEMENT FORM W-2 REPORTING

The Town made contributions to Health Savings Accounts of \$2,500 on an annual basis for participating employees. The contributions were not properly reported on Internal Revenue Service (IRS) Wage and Tax Statement Form W-2. Clothing allowances and Christmas bonuses paid were also not reported.

A similar comment appeared in prior Report for the period January 1, 2013 to December 31, 2014.

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. Non-compliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CLERK-TREASURER
TOWN OF SOUTH WHITLEY
EXIT CONFERENCE

The contents of this report were discussed on March 30, 2016, with Janet E. Howard, Clerk-Treasurer, and Bill Boggs, President of the Town Council.

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TOWN COUNCIL
TOWN OF SOUTH WHITLEY

TOWN COUNCIL
TOWN OF SOUTH WHITLEY
EXAMINATION RESULTS AND COMMENTS

ADJUSTMENTS TO UTILITY ACCOUNTS

Not all adjustments to utility accounts were approved by the Council. In addition, no written policy was presented for audit for writing off bad debts, uncollectible accounts receivable, or other adjustments.

A similar comment appeared in prior Report for the period January 1, 2013 to December 31, 2014.

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)

REVENUE BOND ORDINANCE TRANSFERS

The Town had an ordinance concerning monthly transfers from the Sewage Operating fund to Sewage Bond and Interest and Sewage Debt Service Reserve funds for the semiannual payment of revenue bond debt. The Town did not comply with its existing ordinance, as monthly transfers were not made. Transfers were made during April to fund the July payment due, transfers were made in July and September for funding the January 2016 payment due, and 16 entries were posted in December, in an attempt to agree the fund balances with the bank account balances at December 31, 2015.

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)

LOAN FROM ELECTRIC UTILITY

A loan of \$150,000 was made on July 21, 2015 from the Electric Operating fund to the Water Operating fund. The Electric Utility had a cash reserve fund that has been dormant for years, but did not use this fund for the temporary loan.

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

"A cash reserve fund, if authorized by ordinance, may be used to make loans to another utility owned by the same municipality, for periods not to exceed five (5) years, at any interest rate. The repayment of the loan and interest shall be returned to the cash reserve fund."

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TOWN COUNCIL
TOWN OF SOUTH WHITLEY
EXAMINATION 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.
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4. **Condition of Records -** Financial records were not properly maintained. There were numerous transactions that were posted incorrectly. When incorrect transactions were identified, the fiscal officer used negative transactions or amounts without supporting itemization 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.

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All compensation and benefits paid to officials and employees must be included in the salary ordinance adopted by the legislative 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)

TOWN COUNCIL
TOWN OF SOUTH WHITLEY
EXIT CONFERENCE

The contents of this report were discussed on March 30, 2016, with Bill Boggs, President of the Town Council.