

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF EDINBURGH

JOHNSON COUNTY, INDIANA

January 1, 2011 to December 31, 2014



FILED
07/29/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jackie Smith Scott Finley	01-01-08 to 12-31-12 01-01-13 to 12-31-19
President of the Town Council	Ron Hoffman Kami Ervin	01-01-11 to 12-31-15 01-01-16 to 12-31-16
Superintendent of Water Utility	Mike Pendleton	01-01-11 to 12-31-16
Superintendent of Wastewater Utility	Glenn Giles	01-01-11 to 12-31-16
Superintendent of Electric Utility	Kevin Rubush	01-01-11 to 12-31-16
Director of Utilities	John Drybread	01-01-11 to 12-31-14
Town Manager	John Drybread Wade Watson (Acting)	01-01-15 to 12-13-15 12-14-15 to 12-31-16
Parks and Recreation Superintendent	Daniel Teter	01-01-11 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF EDINBURGH, JOHNSON COUNTY, INDIANA

This report is supplemental to our examination report of the Town of Edinburgh (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

March 30, 2016

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CLERK-TREASURER
TOWN OF EDINBURGH

CLERK-TREASURER
TOWN OF EDINBURGH
EXAMINATION RESULTS AND COMMENTS

INTERNAL CONTROLS - FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting:

Receipts

Segregation of duties over Town receipts and the daily collections process was not evident. Daily reports only identify the employee who generated them. There was no evidence of oversight, review, or approval of the transactions. Also, there was no documented evidence of oversight and review of the various Town departments that collect charges for services and various fees.

Financial Transactions

Journal entries to correct posting errors or misclassifications were backdated up to 12 months. Manual checks and/or electronic transactions were usually posted at month end, rather than when the actual transaction occurred. Not all transfers in had a corresponding transfers out.

Financial Reporting

The Town did not have a proper system of internal controls in place to prevent, detect, and correct errors in the preparation of the financial statements to ensure accurate and reliable reporting of the Town's financial activity.

Adequate internal control requires sufficient oversight, review, and approval to ensure complete and accurate financial reporting. Due to the lack of internal controls, misstatements in the financial statements were undetected by management.

The information presented in the Annual Financial Report, which is used to compile the financial statements, contained the following errors:

- For the year ending December 31, 2012, the Electric Utility-Operating fund receipts and cash and investments ending balance were \$10,000 overstated, and the Electric Utility-Cash Reserve fund receipts and cash and investments ending balance were \$10,000 understated.
- For the year ending December 31, 2013, receipts and disbursements were understated for the payroll fund by \$3,078,922.

Audit adjustments were proposed, accepted by the Clerk-Treasurer, and made to the financial statements presented in the Financial Statements Examination 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. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns Chapter 7)

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

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."

CAPITAL ASSETS

The Town and its Utilities have not maintained adequate capital assets records. Officials contracted out their capital asset recordkeeping and inventory in 2009; however, since that time they have recorded acquisitions and disposals on hardcopy forms. There was not a clear audit trail as to how the capital asset totals were accumulated. In addition, no inventory has been taken since 2009 to verify that the capital asset records are correct.

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)

OFFICIAL BOND

The Clerk Treasurer's Surety Bond was insufficient per the requirements outlined in the Indiana Code. The bond was in the amount of \$100,000 for each of the four years tested, but it should have been in the amount of \$300,000 for each of those years.

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

". . . 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."

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

PENALTIES, INTEREST, AND OTHER CHARGES

The Town paid penalties to the United States Treasury in the amount of \$1,283 because the Town did not remit payroll tax payments in a timely basis in December 2011 and January 2012.

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)

INTERNAL CONTROLS - WATER, WASTEWATER, AND ELECTRIC UTILITIES

Internal controls over the receipting, disbursing, recording, and accounting for the financial activities of the Utilities were insufficient. In addition, the Utilities Office staff did not present for audit written policies and procedures for accounts receivable collection processes, write-off procedures, customer shutoff procedures, customer adjustments, nonsufficient funds (NSF) checks, or other adjustments

The Utility Office staff all accepted payments, posted adjustments, performed balancing close out procedures each day, posted the transactions, filled out deposit slips, and one of the three staff took the deposits to the bank. There was no documented oversight or review of their work.

Supporting reports and documentation to support the wastewater liens filed were not retained for audit.

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)

CUSTOMER DEPOSIT REGISTER

The Detailed Utilities' Customer Deposit Registers (Detailed Register) did not reconcile with the Utilities' customer deposit cash and investment balances. As of December 31, 2013 and 2014, the Detailed Register had more than the Utilities' customer deposit cash and investment balances by \$143,863 and \$78,418, respectively.

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)



Town of Edinburgh

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TOWN OF EDINBURGH EXAMINATION RESULTS AND COMMENTS RESPONSE

To State Auditors:

I appreciated the opportunity to respond to the *Examination Results and Comments* from the 2011 – 2014 examination for the Town of Edinburgh. The town's response to these comments is as follows:

Clerk-Treasurer

Internal Controls – Financial Transactions and Reporting; Water, Wastewater, and Electric Utilities

The town is in the process of creating an internal controls policy which will clearly state each individual's responsibility as well as who will review each step. The policy will outline each duty regarding financial transactions and the proper procedures to be followed by employees. All employees will be trained on the town's internal controls and will sign a form that they have completed the training.

Journal entries correcting errors were posted on the day the error occurred. The town understands the issues with backdating journal entries and in the future will post journal entries with the date the errors were found.

Capital Assets

Capital Assets have been recorded in the capital assets file when they are purchased or sold. The internal forms were not always completed correctly. The file became difficult to decipher. The town plans to take an inventory of all capital assets during 2016 and better maintain future capital assets records.

Official Bond

The bond for the Clerk-Treasurer was insufficient through 2014. The bond was increased to \$300,000 midway through 2015 when it was found that the bond did not adequately cover the position.

Customer Deposit Register

During the financial software system conversion a portion of the system was setup incorrectly causing the customer deposits register and customer deposit cash and investments to become unbalanced. The town has corrected the incorrect setup and is working on balancing the register and cash balances.

Parks and Recreation

Internal Controls – Parks and Recreation

The town's internal control policy will cover all departments including the Parks Department. Internal controls will include greater oversight, cross checking, and segregation of duties. The policy will outline the specific duties of each position and the procedures the town will expect employees to follow. Employees will sign off that they have been trained on the towns internal controls policy.

Town Council

Payroll Allocation

The town will look at reallocating payroll expenses for specific employees to better align with the theory of direct expenses. Employee pays may need to be split to better align with their duties.

Ordinances and Resolutions

The town has not adopted a travel policy. A policy will be drafted and adopted regarding travel for town business.

Appropriations

The Parks and Recreation fund exceeded the appropriations by \$8,606 in 2013. This was an oversight as the DLGF reduced the Parks and Recreation budget by \$68,881 for 2013. The town has since kept tighter watch on annual budgets.

The town also did not appropriate funds for the Parks Non-Reverting Operating fund. I, as Clerk-Treasurer, was unaware that these funds were required to be appropriated. Starting in 2016, Park and Rec NRO funds will be appropriated through council approval.

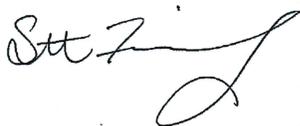
Timbergate Golf Course

Internal Controls – Timbergate Golf Course

The town's internal control policy will also cover Timbergate Golf Course. The policy will have a section specific to the golf course outlining duties to be performed by each position. All employees will be trained on internal controls procedures and will be required to sign a form that they have completed the training.

Theft of Funds

Timbergate golf course experienced a theft of funds by a part time employee and an accomplice. Both individuals were identified and arrested and ordered to pay restitution. Town officials failed to report the theft to the SBOA. The town now understand the importance of reporting thefts and unusual variances.



Scott Finley
Edinburgh Clerk-Treasurer

CLERK-TREASURER
TOWN OF EDINBURGH
EXIT CONFERENCE

The contents of this report were discussed on March 30, 2016, with Jackie Smith, former Clerk-Treasurer; Scott Finley, Clerk-Treasurer; Wade Watson, Acting Town Manager; Kami Ervin, President of the Town Council; and Mary Patterson, Director of Administration.

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PARKS AND RECREATION
TOWN OF EDINBURGH

PARKS AND RECREATION
TOWN OF EDINBURGH
EXAMINATION RESULT AND COMMENT

INTERNAL CONTROLS - PARKS AND RECREATION

Internal controls over cash receipts for the Parks and Recreation Department were insufficient. Cashiers total up their own cash receipts drawers and the last cashier of the day fills out the deposit slip and deposits the money.

Segregation of duties between persons having custody of monies collected, persons posting the receipts to the ledger, and persons performing reconciliations is one of the key concepts of internal control and it is one of the most effective internal controls for combating potential employee fraud. If the unit is too small to effectively segregate duties, compensating controls such as supervisor reviews and random drawer checks can provide some measure of control.

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)



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Official Bond

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Customer Deposit Register

During the financial software system conversion a portion of the system was setup incorrectly causing the customer deposits register and customer deposit cash and investments to become unbalanced. The town has corrected the incorrect setup and is working on balancing the register and cash balances.

Parks and Recreation

Internal Controls – Parks and Recreation

The town's internal control policy will cover all departments including the Parks Department. Internal controls will include greater oversight, cross checking, and segregation of duties. The policy will outline the specific duties of each position and the procedures the town will expect employees to follow. Employees will sign off that they have been trained on the towns internal controls policy.

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Payroll Allocation

The town will look at reallocating payroll expenses for specific employees to better align with the theory of direct expenses. Employee pays may need to be split to better align with their duties.

Ordinances and Resolutions

The town has not adopted a travel policy. A policy will be drafted and adopted regarding travel for town business.

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The town also did not appropriate funds for the Parks Non-Reverting Operating fund. I, as Clerk-Treasurer, was unaware that these funds were required to be appropriated. Starting in 2016, Park and Rec NRO funds will be appropriated through council approval.

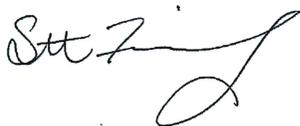
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The town's internal control policy will also cover Timbergate Golf Course. The policy will have a section specific to the golf course outlining duties to be performed by each position. All employees will be trained on internal controls procedures and will be required to sign a form that they have completed the training.

Theft of Funds

Timbergate golf course experienced a theft of funds by a part time employee and an accomplice. Both individuals were identified and arrested and ordered to pay restitution. Town officials failed to report the theft to the SBOA. The town now understand the importance of reporting thefts and unusual variances.



Scott Finley
Edinburgh Clerk-Treasurer

PARKS AND RECREATION
TOWN OF EDINBURGH
EXIT CONFERENCE

The contents of this report were discussed on March 30, 2016, with Daniel Teter, Parks and Recreation Superintendent; Jackie Smith, former Clerk-Treasurer; Scott Finley, Clerk-Treasurer; Wade Watson, Acting Town Manager; Kami Ervin, President of the Town Council; and Mary Patterson, Director of Administration.

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TOWN COUNCIL
TOWN OF EDINBURGH

TOWN COUNCIL
TOWN OF EDINBURGH
EXAMINATION RESULTS AND COMMENTS

PAYROLL ALLOCATION

The compensation for the following positions, Accounts Payable Clerk, Customer Service Clerk, Accounts Receivable Clerk, Billing Clerk, and Director of Utilities are allocated to a single utility, although the job activities support the Town and all the Utilities. This is contrary to the theory of direct expenses, where costs that benefit a specific unit are allocated to that unit. The compensation for these positions are documented in the below schedule.

Positon	2011	2012	2013	2014
Operations Accounting	Electric Utility	Electric Utility	Electric Utility	Electric Utility
Customer Service Clerk	Wastewater Utility	Wastewater Utility	Wastewater Utility	Wastewater Utility
Accounts Receivable Clerk	Not Applicable	Wastewater Utility	Water Utility	Water Utility
Billing Clerk	Water Utility	Electric Utility	Water Utility	Water Utility
Utilities Director	Electric Utility	Electric Utility	Electric Utility	Electric Utility

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)

ORDINANCES AND RESOLUTIONS

The Town did not have a written travel policy.

Each governmental unit should adopt a written travel policy in accordance with applicable statutes. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROPRIATIONS

The records presented for audit indicated that the Parks and Recreation fund expenditures were in excess of budgeted appropriations by \$8,606 for 2013.

In addition, the Town Council did not appropriate funds for the Park & Rec Nro fund.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

Indiana Code 36-10-3-22(b) states in part:

"The unit's fiscal body may establish by ordinance, upon request of the board:

- (1) a special nonreverting operating fund for park purposes from which expenditures may be made as provided by ordinance, either by appropriation by the board or by the unit's fiscal body; . . ."

TOWN COUNCIL
TOWN OF EDINBURGH
EXAMINATION RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROLS - TIMBERGATE GOLF COURSE

Cash Receipts

Internal controls over cash receipts for Timbergate Golf Course were insufficient. The manager on duty counted the drawers, filled out the deposit slips, and took the money to the bank.

Segregation of duties between persons having custody of monies collected, persons posting the receipts to the ledger, and persons performing reconciliations is one of the key concepts of internal control and it is one of the most effective internal controls for combating potential employee fraud. If the unit is too small to effectively segregate duties, compensating controls such as supervisor reviews and random drawer checks can provide some measure of control.

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MALFEASANCE, MISFEASANCE, OR NONFEASANCE - TIMBERGATE GOLF COURSE

Theft of Funds

On October 23, 2013, the Golf Course Manager reported a burglary and theft of funds from the Timbergate Golf Course to the Edinburgh Police Department (Police Department). The total amount of missing funds, which included cash change, daily collections, and men's league fees, was calculated as \$2,949.

On October 23, 2013, the Police Department investigated the missing funds and arrested a former golf course employee and another person for the theft. The Police Department recovered \$1,043 of the missing funds, leaving a balance of \$1,906.

The two persons arrested pled guilty and were ordered to pay restitution in the amount of \$2,011 each.

On August 6, 2015, the Town received restitution in the amount of \$1,699 leaving an unrecovered loss as of November 25, 2015, of \$2,323.

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns Chapter 7)

THEFT OF FUNDS NOT REPORTED TO INDIANA STATE BOARD OF ACCOUNTS - TIMBERGATE GOLF COURSE

On October 23, 2013, a theft of funds was discovered at Timbergate Golf Course. Town officials did not report the theft to the Indiana State Board of Accounts.

Indiana Code 5-11-1-27(c) states in part: "All erroneous or irregular variances, losses, shortages, or thefts of local government funds or property shall be reported immediately to the state board of accounts."



Town of Edinburgh

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TOWN OF EDINBURGH EXAMINATION RESULTS AND COMMENTS RESPONSE

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The town also did not appropriate funds for the Parks Non-Reverting Operating fund. I, as Clerk-Treasurer, was unaware that these funds were required to be appropriated. Starting in 2016, Park and Rec NRO funds will be appropriated through council approval.

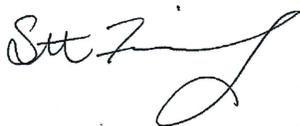
Timbergate Golf Course

Internal Controls – Timbergate Golf Course

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Scott Finley
Edinburgh Clerk-Treasurer

TOWN COUNCIL
TOWN OF EDINBURGH
EXIT CONFERENCE

The contents of this report were discussed on March 30, 2016, with Jackie Smith, former Clerk-Treasurer; Scott Finley, Clerk-Treasurer; Wade Watson, Acting Town Manager; Kami Ervin, President of the Town Council; and Mary Patterson, Director of Administration.

The Examination Results and Comments concerning Timbergate Golf Course were also discussed with Wayne Gibbs, Timbergate Golf Course General Manager.