

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

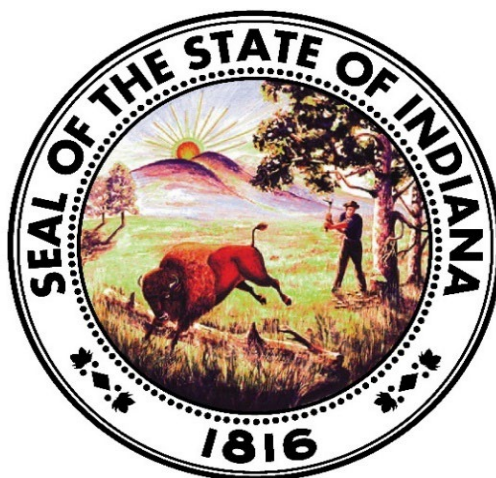
SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF SHELburn

SULLIVAN COUNTY, INDIANA

January 1, 2022 to December 31, 2023



FILED
10/07/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Noah J. Southwood	01-01-22 to 03-18-22
	Jane Landry (interim)	03-19-22 to 07-07-22
	Melissa J. Copeland	07-08-22 to 12-31-24
President of the Town Council	Jesse Kasinger	01-01-22 to 12-31-23
	Noah J. Southwood	01-01-24 to 12-31-24



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE TOWN OF SHELburn, SULLIVAN COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Shelburn (Town), for the period from January 1, 2022 to December 31, 2023. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Town. It should be read in conjunction with the Financial Statement Audit Report of the Town, which provides our opinions 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 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 Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Beth Kelley, CPA, CFE
Deputy State Examiner

July 24, 2024

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CLERK-TREASURER
TOWN OF SHELburn

CLERK-TREASURER
TOWN OF SHELburn
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Condition and Context

Internal control deficiencies resulted in noncompliance over the record of hours worked; penalties, interest, and other charges; annual financial report - other information; errors on claims; capital assets; collection of amounts due; clerk-treasurer vacation and leave benefits; additional compensation and benefits paid to former Clerk-Treasurer; and payout of leave time and compensatory hours detailed further in the comments below.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

PAYOUT OF ACCRUED LEAVE TIME AND COMPENSATORY HOURS

Condition and Context

Per the salary ordinances, employees of the Town earned five days of sick leave and vacation days based on their years of service, each year. For sick leave balances at year end in excess of ten days, employees had the option to carry up to ten days to the next year, receive a payout for all ten days, or any combination thereof. Employees were required to take one week of vacation and could carry up to ten vacation days to the next year. Employees were entitled to a payout at year end for any accrued vacation remaining that exceeded ten days.

The Town did not follow the salary ordinances regarding payout of accrued leave time throughout the audit period. Employees requested payout of 907 hours of accrued leave time, totaling \$18,678, prior to year end in 2022. Employees requested payout of 555 hours of accrued leave time, totaling \$10,735, prior to year end in 2023. Payouts should only have been made at year end and should not have been made during the year.

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

Per the salary ordinances, Town employees also earned 1.5 compensatory hours for each hour of overtime work in lieu of receiving overtime pay. The salary ordinances stated that compensatory time will accrue up to 240 hours. If an employee has less than 240 hours of accrued time, he or she may only be paid for compensatory hours, if those hours are used as time off in lieu of working hours or upon termination of employment with the Town. Any compensatory time over 240 hours is paid out to the employee.

The Town did not follow the salary ordinances regarding payout of compensatory time throughout the audit period. In 2022, employees were paid out 1,368 hours of compensatory time, totaling \$29,223, when their accrued balance was under 240 hours. In 2023, employees were paid out 891 hours of compensatory time, totaling \$29,987, when their accrued balance was under 240 hours. None of the employees that received a payout of compensatory hours terminated employment with the Town during the audit period.

Criteria

The salary ordinances for 2022 (Ord. 2021-12-14-1) and 2023 (Ord. 2022-12-29-1) state in part:

"Vacations & Holidays

Employees may choose to work during scheduled vacation times and receive pay for all hours worked in addition to vacation pay only with prior approval of the Town Council. At no time is vacation considered hours worked for purposes of calculating overtime and/or compensatory time. Up to ten (10) days of accrued vacation may carry over from year to year. Accrued vacation more than ten (10) days shall be paid at the employees then regular rate of pay prior to the end of the year. Each employee will be required to take a minimum of one (1) week vacation each year. Paid Holidays will be as set forth in the Town of Shelburn Employees Manual.

Sick time

Each full-time employee shall accrue five (5) paid sick days per year. A doctor's excuse will be required for any sickness more than three (3) consecutive days. Employees may choose to be paid for any unused sick days at the end of the year or have up to ten (10) unused sick days carried over into the next year. The balance of unused sick days over ten (10) shall be paid to the employee before the end of the year.

Overtime

All hours worked in excess of forty (40) hours per week will be considered overtime hours. Employees will be compensated for overtime at the rate of one and one half (116) hours off for each hour of overtime worked. These compensatory hours may be accumulated up to a total of two hundred forty (240) hours (160 hours of overtime worked). Any compensatory hours in excess of 240 will be paid at the employee's regular hourly rate of pay and included in the employee's weekly pay. Payment of overtime in excess of 240 hours limit will continue until the employee takes sufficient time off to reduce the number of accumulated hours to less than 240 hours. These compensatory hours will accumulate as long as the employee remains employed by the Town of Shelburn, Indiana. The total number of hours may be reduced only if the employee receives time off is paid for his/her compensatory time. At such time as the employee leaves the Town of Shelburn's employment, for any reason, any accumulated hours will be paid at the employee's current rate of pay."

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

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ADDITIONAL COMPENSATION AND BENEFITS PAID TO FORMER CLERK-TREASURER

Condition and Context

Noah J. Southwood (Southwood), former Clerk-Treasurer, was paid a weekly salary of \$326.92 as Clerk-Treasurer and \$678.38 as Utility Office Manager per the salary ordinance for a total weekly salary of \$1,005.30 for the years 2020, 2021, and 2022. Southwood resigned from the Clerk-Treasurer and Utility Office Manager positions on March 19, 2022.

Southwood was considered an elected Town Officer as Clerk-Treasurer and an employee of the Town as Utility Office Manager. In 2020, 2021, and 2022, we noted that Southwood received additional compensation above the amount stated in each year's salary ordinance. Upon further inquiry and review, we determined that over the course of the years 2020, 2021, and 2022, Southwood issued himself 22 additional paychecks at his weekly salary rate of \$1,005.30 as payout for unused weeks of accrued leave time earned.

The Town's yearly salary ordinances stated that the Clerk-Treasurer was entitled to the same benefits as all other Town employees, which included earning leave time and the option to receive payout of unused accrued leave time. Effective July 1, 2019, Indiana Code 36-5-3-2(a) specifically identifies the compensation and benefits that an elected town officer is eligible to receive, which does not include the benefit of leave time.

As Clerk-Treasurer, he was not entitled to receive a payout for unused accrued leave time. The Town paid the employer portion of Social Security and Medicare taxes on behalf of Southwood on the additional compensation, which is considered an employee benefit and, therefore, also unallowed.

The following schedule summarizes the portion of the leave payout associated with Southwood's duties as Clerk-Treasurer that are unallowed additional compensation and the corresponding benefits paid by the Town on behalf of Southwood.

Year	Number of Weeks of Accrued Leave Time Cashed by Southwood	Weekly Rate of Pay	Unallowed Additional Compensation Paid to Southwood	Social Security and Medicare Taxes Paid by Town on Behalf of Southwood (7.65%)	Total Unallowed Compensation and Benefits Received by Southwood
2020	6	\$ 326.92	\$ 1,961.52	\$ 150.06	\$ 2,111.58
2021	7	326.92	2,288.44	175.07	2,463.51
2022	9	326.92	2,942.28	225.08	3,167.36
Total					\$ 7,742.45

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

Criteria

Salary Ordinances for 2018 (Ord. 2017-12-11-1), 2019 (Ord. 2018-12-17-1), 2020 (Ord. 2019-12-23-1), 2021 (Ord. 2020-12-8-2), and 2022 (Ord. 2021-12-14-1) state in part:

"Vacations & Holidays

Employees may choose to work during scheduled vacation times and receive pay for all hours worked in addition to vacation pay only with prior approval of the Town Council. At no time is vacation considered hours worked for purposes of calculating overtime and/or compensatory time. Up to ten (10) days of accrued vacation may carry over from year to year. Accrued vacation more than ten (10) days shall be paid at the employees then regular rate of pay prior to the end of the year. Each employee will be required to take a minimum of one (1) week vacation each year. Paid Holidays will be as set forth in the Town of Shelburn Employees Manual.

Sick time

Each full-time employee shall accrue five (5) paid sick days per year. A doctor's excuse will be required for any sickness more than three (3) consecutive days. Employees may choose to be paid for any unused sick days at the end of the year or have up to ten (10) unused sick days carried over into the next year. The balance of unused sick days over ten (10) shall be paid to the employee before the end of the year."

Salary Ordinances for 2018 (Ord. 2017-12-11-2), 2019 (Ord. 2018-12-17-2), 2020 (Ord. 2019-12-23-2), 2021 (Ord. 2020-12-8-1), and 2022 (Ord. 2021-12-14-2) state in part:

"Let it be further ordained that the compensation of Clerk-Treasurer shall include, in addition to the salary set forth above or otherwise provided for the same health insurance, vacation, and leave benefits, and mileage reimbursement that are made available to the employees of the Town."

Indiana Code 5-11-9-4(b) states in part:

"The state board of accounts shall require that records be maintained showing which hours are worked each day by officers and employees: . . .

- (2) employed by more than one (1) public agency or in more than one (1) position by the same public agency."

Indiana Code 36-5-3-2(a) states in part:

"As used in this section, 'compensation' means the total of all money paid to an elected town officer for performing duties as a town officer, regardless of the source of funds from which the money is paid. The term includes all employee benefits paid to an elected town officer, including life insurance, health insurance, disability insurance, retirement benefits, and pension benefits. . . ."

We requested Southwood, former Clerk-Treasurer, to reimburse the Town for additional compensation and benefits paid totaling \$7,742.45. (See Summary of Charges, page 28)

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

CLERK-TREASURER VACATION AND LEAVE BENEFITS

Condition and Context

The 2022 and 2023 salary ordinances stated that the Clerk-Treasurer was entitled to the same benefits as other Town employees, which included earning vacation, sick, personal, and bereavement leave, as well as payouts of accrued vacation and sick time earned. State statute specifies the compensation to which elected officials are entitled and does not include vacation days or sick, personal, or bereavement leave.

Criteria

Indiana Code 36-5-3-2(a) states in part:

"As used in this section, 'compensation' means the total of all money paid to an elected town officer for performing duties as a town officer, regardless of the source of funds from which the money is paid. The term includes all employee benefits paid to an elected town officer, including life insurance, health insurance, disability insurance, retirement benefits, and pension benefits. . . ."

PENALTIES, INTEREST, AND OTHER CHARGES

This same comment appeared in a Management Letter addressed to the Officials of the Town for the period ending December 31, 2021.

Condition and Context

The Town did not pay claims timely during the audit period and was assessed penalties, interest, and other charges totaling \$914.77. The breakdown of the specific fees that were assessed and paid by the Town is as follows:

Penalties, Interest, and Other Charges Assessed	Paid By Melissa J. Copeland, Current Clerk-Treasurer
Late Fees on Vehicle Loans	\$ 100.00
Late Fees Paid to Vendors	17.08
Penalties and Interest - State Sales Taxes	669.77
Penalties and Interest - State Payroll Withholding Taxes	127.92
Total	\$ 914.77

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

Criteria

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 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 unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

We requested Melissa J. Copeland, current Clerk-Treasurer, to reimburse the Town for payments of penalties, interest, and other charges totaling \$914.77. (See Summary of Charges, page 28)

ERRORS ON CLAIMS

The same comment also appeared in prior Report B60465.

Condition and Context

Multiple issues were identified during review of disbursements. Samples of 32 Town vendor claims, 4 Redevelopment Authority vendor claims, and 13 Town payroll claims were selected for testing. Errors were noted with these claims as follows:

- No claim or supporting documentation was presented for audit for 3 Town vendor claims and 1 Redevelopment Authority vendor claim.
- There were 4 Town vendor claims and 1 Redevelopment Authority vendor claims that were paid without proper supporting documentation. There were 8 Town payroll claims that were paid without supporting documentation such as time or attendance records.
- There were 3 Redevelopment Authority vendor claims that were not included in the claim dockets and, therefore, were not approved by the Town Council.
- There were 11 Town vendor claims that were paid in advance of approval by the Town Council that were not in accordance with the criteria established in Ordinance 2017-11-13 authorizing the prepayment of certain claims to avoid penalties arising from late payment.
- There were 4 Town vendor claims and 9 Town payroll claims that were not proper uses of funds. Unallowable expenditures included fuel for Town vehicles and Town supplies and Christmas decorations paid from Water Operating fund; golf cart stickers and drug tests for reserve police officers paid from the Law Enforcement Continuing Education fund; and Clerk-Treasurer compensation paid entirely from the Water Operating and Sewage Operating funds (see the comment under the Town Council entitled *EXPENDITURES FOR COMPENSATION FROM UTILITY FUNDS* for additional detail).

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

Criteria

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

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. . . ."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination 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 1)

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

ANNUAL FINANCIAL REPORT - OTHER INFORMATION

A similar comment appeared in prior Report B60465, entitled *ANNUAL FINANCIAL REPORT*.

Condition and Context

Financial and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units financial reporting system.

Schedule of Accounts Receivables and Payables

The Town did not report accounts payable for the Water, Wastewater, and Stormwater utilities in its 2022 AFR. This resulted in an understatement of accounts payable in the amount of \$41,056.

Schedules of Leases and Debt

- The Town did not report the Town of Shelburn Redevelopment Authority Economic Development Lease Rental Bonds of 2017 and 2020 in its 2022 AFR, which resulted in an understatement of the ending principal balance and principal due within one year in the amounts of \$3,182,000 and \$157,000, respectively.
- The Town did not report the 2017 Interurban Economic Development Lease and 2020 Downtown and Water Improvements Economic Development Lease with the Town of Shelburn Redevelopment Authority in its 2022 AFR, which resulted in an understatement of the total annual lease payments in the amount of \$274,000.
- The Town did not report the backhoe lease in its 2022 AFR, which resulted in an understatement of the annual lease payment in the amount of \$17,200.
- The Town did not report the payments made on the principal balances for the 2019 police car, 2020 police SUV, and 2021 Chevy truck loans in its 2022 AFR. This resulted in an overstatement of the total ending principal balance in the amount of \$23,782. The 2019 police car loan was paid in full in 2021, but the Town reported a principal amount due within a year for the loan, thereby overstating the total principal due within one year by \$6,250.
- The Town did not report the Town of Shelburn Redevelopment Authority Economic Development Lease Rental Bonds of 2017 and 2020 in its 2023 AFR, which resulted in an understatement of the ending principal balance and principal due within one year in the amounts of \$3,022,000 and \$165,000, respectively.
- The Town did not report the 2017 Interurban Economic Development Lease and 2020 Downtown and Water Improvements Economic Development Lease with the Town of Shelburn Redevelopment Authority in its 2023 AFR, which resulted in an understatement of the total annual lease payments in the amount of \$275,000.
- The Town did not report principal amounts due within one year for its wastewater and stormwater revenue bonds, 2020 police SUV loan, and 2021 Chevy truck loan, which resulted in an understatement of \$58,541.

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

- The Town overstated the ending principal balances of its wastewater revenue bonds, 2019 police car loan, and 2020 police SUV loan in its 2023 AFR by \$276, \$4,453, and \$7,946, respectively. The Town understated the ending principal balances of its stormwater revenues bonds and 2021 Chevy truck loan in its 2023 AFR by \$14,738 and \$1,640, respectively. This resulted in an understatement of the total ending principal balance in the amount of \$3,703.

Adjustments were proposed, approved by the Town, and made to the 2023 Schedule of Leases and Debt presented as Other Information in the Financial Statement Audit Report of the Town.

Schedule of Capital Assets

The Town did not maintain a capital asset ledger during the audit period. The Town hired an outside consultant to prepare a capital assets ledger and presented the ledger as of December 31, 2021, for review in April 2024, which established the beginning balances of capital assets for the audit period. The Town reported total capital assets of \$14,241,041 in its 2022 and 2023 AFRs, which was \$10,032 more than the total capital assets reflected in the ledger as of December 31, 2021. The consultant is currently updating the capital asset ledger for additions and deletions that have occurred since December 2021, so that the Town can report accurately its capital assets in the future.

Grant Schedule

The Town did not report the American Rescue Plan (ARPA) funds spent by the Town as federal expenditures in its 2023 AFR, which resulted in an understatement of the grant schedule in the amount of \$72,882.

Criteria

The Annual Financial Report (AFR) required under IC 5-11-1-4(a) shall be filed with the state examiner not later than sixty (60) days after the close of each fiscal year. (Accounting and Uniform Guidelines Compliance Manual for Cities and Towns, Chapter 1)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must 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 1)

CAPITAL ASSETS

The same comment also appeared in prior Report B60465.

Condition and Context

The Town did not have a capital asset policy that detailed the threshold at which an item is considered a capital asset. The Town also did not maintain a complete detailed listing of all capital assets which reflected their acquisition value and, therefore, had no means by which to document additions to and deletions from capital assets. Additionally, no evidence was provided that a complete physical inventory had been performed at least every two years.

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

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detailed listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

COLLECTION OF AMOUNTS DUE

This same comment appeared in a Management Letter addressed to the Officials of the Town for the audit period ending December 31, 2021.

Condition and Context

The Town entered into a lease agreement with the Shelburn Police Department Reserve Association Corporation (Police Reserves), which was established as a 501(c)(3) tax-exempt organization by the Town Marshal, for rental of the Town's Community Building to hold fundraising events for the Town's reserve police force. The terms of the lease agreement established a \$1,500 monthly payment for the period December 18, 2019 to December 18, 2022.

With the onset of the COVID-19 pandemic, the Police Reserves were unable to hold fundraising events, and accordingly, no funds were available to make the monthly rental payments in 2020 or 2021. The Town was due \$18,000 in rental payments each year under the lease agreement. No efforts were made by the Town to amend or cancel the lease agreement due to the Police Reserve's inability to utilize the building for fundraising purposes.

Fundraising events resumed in 2022, but the Police Reserves made no rental payments during the year. The Town did not make any efforts to collect the \$18,000 in rental payments due under the lease.

On December 13, 2022, the Town entered into a new lease agreement with the Police Reserves effective January 1, 2023, for \$325 per month. The lease agreement was paid up to date through December 31, 2023.

Criteria

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

RECORD OF HOURS WORKED

Condition and Context

As an elected official, the Clerk-Treasurer was not required to maintain time or attendance records. However, many years prior to the audit period, the Town Council minutes stated that the Clerk-Treasurer was also hired as the Town's Utility Office Manager, a separate position in the Town's salary ordinance, and would be compensated for performing the duties of that position accordingly. Three individuals served as Clerk-Treasurer/Utility Office Manager during the audit period, and none of the three maintained an employee service record or other documentation, such as a timecard, to show the time spent working in the capacity of the Utility Office Manager position.

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

Criteria

Indiana Code 5-11-9-4(b) states in part:

"The state board of accounts shall require that records be maintained showing which hours were worked each day by officers and employees: . . .

(2) employed by more than one (1) public agency or in more than one (1) position by the same public agency described in section 1 or 2 of this chapter."

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

- General Form 99A, Employee's Service Record
- General Form 99B, Employee's Earnings Record
- General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

OFFICIAL BONDS

The following schedule is information regarding official bonds, payable to the State of Indiana, for Noah J. Southwood, former Clerk-Treasurer, and Melissa J. Copeland, current Clerk-Treasurer.

Clerk-Treasurer	Surety	Period	Amount
Noah J. Southwood	Cincinnati Insurance Co.	01-01-20 to 01-01-21	\$ 60,000
Noah J. Southwood	Cincinnati Insurance Co.	01-01-21 to 01-01-22	60,000
Noah J. Southwood	Cincinnati Insurance Co.	01-01-22 to 01-01-23	60,000
Melissa J. Copeland	Platte River Insurance Co.	07-01-22 to 12-31-22	60,000
Melissa J. Copeland	Platte River Insurance Co.	12-31-22 to 12-31-23	60,000

CLERK-TREASURER
TOWN OF SHELburn
EXIT CONFERENCE

The contents of this report were discussed on July 24, 2024, with Noah J. Southwood, former Clerk-Treasurer and current President of the Town Council; Melissa J. Copeland, Clerk-Treasurer; Aaron Lewis, Town Council member; and Jared Miller, Town Council member.

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TOWN COUNCIL
TOWN OF SHELburn

TOWN COUNCIL
TOWN OF SHELburn
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Condition and Context

Internal control deficiencies resulted in noncompliance over the adjustments to customer accounts - wastewater, capital assets, and expenditures of utility funds detailed further in the comments below.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

ADJUSTMENTS TO CUSTOMER ACCOUNTS - WASTEWATER UTILITY

Condition and Context

Ordinance No. 2017-4-10 established the Wastewater Utility rates effective during the audit period. The ordinance did not allow for adjustments to customers' accounts for water usage that did not run through the wastewater treatment plant.

A sample of 25 customer utility billings were selected for testing. There were 3 billings that included adjustments made by the Utility Clerk to the amount billed for wastewater service when customers experienced water leaks or filled swimming pools. There was no evidence that these adjustments were presented to the Town Council for approval. Additionally, the Town operated a discount program as part of its wastewater billing for excess water usage in the spring and summer due to events such as watering lawns and landscaping. A feature built into the billing software enabled the Utility Clerk to turn on the discount which was then automatically applied to all customers' accounts. The discount was determined by calculating customers' average usage for the first three months' each year. For billings occurring in April through September, the discount applied to each customer account was the amount beyond what the charge would have been based upon the average usage. There was no evidence that the Town Council had approved such a program, including the method used to determine the amount of the discount applied.

TOWN COUNCIL
TOWN OF SHELBURN
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

The governing body of a unit must have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balance. Documentation must exist for all efforts made by the unit to collect amounts owed prior to any write-offs. Write-offs or adjustments to records which are not documented or warranted may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CAPITAL ASSETS

The same comment also appeared in prior Report B60465.

Condition and Context

The Town did not have a capital asset policy that detailed the threshold at which an item is considered a capital asset. The Town also did not maintain a complete detailed listing of all capital assets which reflected their acquisition value and therefore had no means by which to document additions to and deletions from capital assets. Additionally, no evidence was provided that a complete physical inventory had been performed at least every two years.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detailed listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

EXPENDITURES FOR COMPENSATION FROM UTILITY FUNDS

A similar comment also appeared in prior Report B60465, entitled *EXPENDITURE OF UTILITY FUNDS FOR PAYROLL*.

Condition and Context

Issues were noted throughout the audit period with expenditures for compensation made from the Town's Water and Wastewater Utility funds. The salary ordinances adopted for both years under audit stated that compensation for the Clerk-Treasurer, Utility Office Manager, and Town Marshal would be paid from more than one fund as follows:

TOWN COUNCIL
TOWN OF SHELBURN
AUDIT RESULTS AND COMMENTS
(Continued)

Position	2022 Funds	2023 Funds
Clerk-Treasurer	80% Water Operating 20% Wastewater Operating	80% Water Operating 20% Wastewater Operating
Office Manager	80% Water Operating 20% Wastewater Operating	80% Water Operating 20% Wastewater Operating
Town Marshal	90% General 10% Water Operating	90% General 10% Water Operating

The Town Marshal's compensation should have been paid entirely from Town funds since the position is not directly related to the operation of the water utility.

There was no documentation to substantiate that the proration of compensation for the Clerk-Treasurer and Utility Office Manager was done in a rational manner. Additionally, the Clerk-Treasurer performed duties for both the Town and the water and wastewater utilities. Accordingly, the Clerk-Treasurer's compensation should have been shared between the Town's General fund, the Water Operating fund, and the Wastewater Operating fund.

Criteria

Indiana Code 8-1.5-3-11(d) states in part: ". . . transfers may not be made from any utility funds to the general fund except from the cash reserve fund."

Indiana Code 36-9-23-25 states in part:

"(a) Subject to section 37 of this chapter, the municipal legislative body shall, by ordinance, establish just and equitable fees for the services rendered by the sewage works, and provide the dates on which the fees are due.

(b) Just and equitable fees are the fees required to maintain the sewage works in the sound physical and financial condition necessary to render adequate and efficient service. The fees must be sufficient to:

- (1) pay all expenses incidental to the operation of the works, including legal expenses, maintenance costs, operating charges, repairs, lease rentals, and interest charges on bonds or other obligations
- (2) provide the sinking fund required by section 21 of this chapter;
- (3) provide adequate money to be used as working capital; and
- (4) provide adequate money for improving and replacing the works. . . ."

TOWN COUNCIL
TOWN OF SHELBURN
AUDIT RESULTS AND COMMENTS
(Continued)

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, utility funds should not be used to pay for personal items. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner.

Establishment of a Cash Reserve Fund permits transfer of surplus utility funds to the city or town general fund. After appropriation, such transferred funds may then be used for any legal general fund purpose.

(The Cities and Towns Bulletin and Uniform Compliance Guidelines, June 2021)

TOWN COUNCIL
TOWN OF SHELburn
EXIT CONFERENCE

The contents of this report were discussed on July 24, 2024, with Noah J. Southwood, former Clerk-Treasurer and current President of the Town Council; Melissa J. Copeland, Clerk-Treasurer; Aaron Lewis, Town Council member; and Jared Miller, Town Council member.

TOWN MARSHAL
TOWN OF SHELBURN

TOWN MARSHAL
TOWN OF SHELburn
AUDIT RESULT AND COMMENT

RECORD OF HOURS WORKED

Condition and Context

Internal control deficiencies within the Town's payroll function resulted in noncompliance with recordkeeping requirements. Throughout the audit period, the Town Marshal was employed by the Northeast Sullivan School Corporation as a full-time School Resource Officer. The Town Marshal did not maintain an employee service record or other documentation, such as a timecard, to show the hours worked on behalf of the Town.

Criteria

Indiana Code 5-11-9-4(b) states in part:

"The state board of accounts shall require that records be maintained showing which hours were worked each day by officers and employees: . . .

(2) employed by more than one (1) public agency or in more than one (1) position by the same public agency described in section 1 or 2 of this chapter."

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

- General Form 99A, Employee's Service Record
- General Form 99B, Employee's Earnings Record
- General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TOWN MARSHAL
TOWN OF SHELburn
EXIT CONFERENCE

The contents of this report were discussed on July 24, 2024, with Noah J. Southwood, former Clerk-Treasurer and current President of the Town Council; Melissa J. Copeland, Clerk-Treasurer; Aaron Lewis, Town Council member; and Jared Miller, Town Council member.

The contents of this report were discussed on July 25, 2024, with Matthew Price, Town Marshal.

TOWN OF SHELburn
SUMMARY OF CHARGES
(Due to Malfeasance, Misfeasance, or Nonfeasance)

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Noah J. Southwood, former Clerk-Treasurer:			
Additional Compensation and Benefits			
paid to former Clerk-Treasurer, pages 8 and 9	\$ 7,742.45	\$ -	\$ 7,742.45
Total Charges to Noah J. Southwood	<u>\$ 7,742.45</u>	<u>\$ -</u>	<u>\$ 7,742.45</u>
Melissa J. Copeland, Clerk-Treasurer:			
Penalties, Interest, and Other Charges, page 10 and 11	\$ 914.77	\$ -	\$ 914.77
Total Charges to Melissa J. Copeland	<u>\$ 914.77</u>	<u>\$ -</u>	<u>\$ 914.77</u>
Totals	<u>\$ 8,657.22</u>	<u>\$ -</u>	<u>\$ 8,657.22</u>

This report was forwarded to the Office of the Indiana Attorney General.

AFFIDAVIT

STATE OF INDIANA)
)
DUBOIS COUNTY)

We, Jonathan H. Bennington and Ryan Barwe, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the Town of Shelburn, Sullivan County, Indiana, for the period from January 1, 2022 to December 31, 2023, is true and correct to the best of our knowledge and belief.

Ryan Barwe
Jonathan H. Bennington
Field Examiners

Subscribed and sworn to before me this 3 day of Oct, 2024.

Annette M. Streicher
Notary Public

My Commission Expires: 6-8-32
County of Residence: Dubois

