

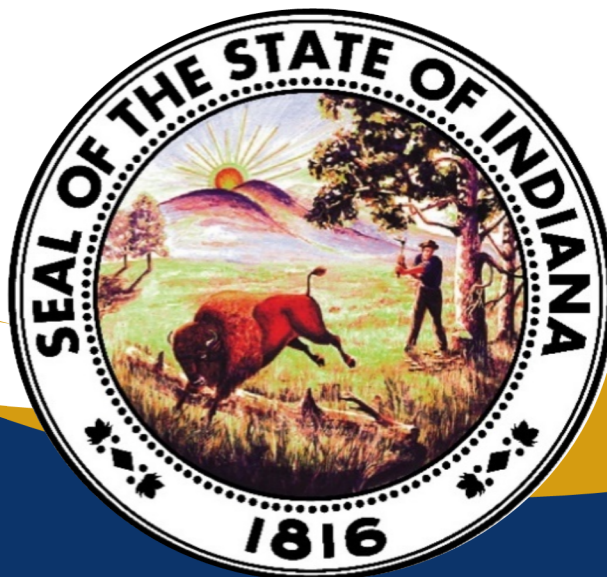
**STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769**

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

SPECIAL INVESTIGATION REPORT
OF

CLERK-TREASURER
TOWN OF CLAY CITY
CLAY COUNTY, INDIANA

January 1, 2020 to December 31, 2023



FILED
12/12/2024

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Transmittal Letter	2
Clerk-Treasurer:	
Results and Comments:	
Background	3
Unauthorized Credit Card Purchases	3-5
Unauthorized Overpayment of Compensation.....	5-6
Unauthorized Payment to Pipes	6
Penalties, Interest, and Other Charges.....	7
Special Investigation Costs	7
Internal Controls.....	7-8
Investigation by Law Enforcement Agency	8
Official Bond and Crime Insurance	8-9
Exit Conference.....	10
Summary of Charges	11
Affidavit.....	13



Paul D. Joyce, CPA
State Examiner

INDIANA STATE BOARD OF ACCOUNTS

302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769
Telephone: (317) 232-2513
Fax: (317) 232-4711
www.in.gov/sboa

TO: THE OFFICIALS OF THE TOWN OF CLAY CITY, CLAY COUNTY, INDIANA

This is a special investigation report for the Town of Clay City (Town), for the period January 1, 2020 to December 31, 2023, and is in addition to any other report for the Town as required under Indiana Code 5-11-1. All reports pertaining to the Town may be found at www.in.gov/sboa/.

We performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts and were limited to records associated with payroll, disbursements, and utility transactions. The 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.

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

November 22, 2024

CLERK-TREASURER
TOWN OF CLAY CITY
RESULTS AND COMMENTS

BACKGROUND

A member of the Town Council and Town officials reported questionable expenditures made by Karla Pipes (Pipes), former Clerk-Treasurer, to the Indiana State Board of Accounts (SBOA) in accordance with Indiana Code 5-11-1-27. Pipes served as Clerk-Treasurer from January 1, 2020 to December 31, 2023. The SBOA examined the Town's records and accounting for the period Pipes was Clerk-Treasurer. The following describes noncompliance with statutes or the *Accounting and Uniform Compliance Guidelines for Cities and Towns of Indiana*.

UNAUTHORIZED CREDIT CARD PURCHASES

Unauthorized Point of Sale Transactions - Square

Town officials became suspicious after a review of the Town's credit card statements. A significant number of transactions were made by Pipes with the Town's credit card wherein a point of sale company was utilized; Square. The vendor name associated with those Square transactions was similar to a vendor the Town does regular business with, but the name was not identical. The Town regularly does business with "Core & Main" but the name appearing on the Town's credit card statements was "Core." SBOA reviewed those transactions and determined that the monies associated with the similar vendor name, "Core," were ultimately traced to a financial account owned by Pipes.

The SBOA reviewed the transactions the Town had with the legitimate vendor, "Core & Main," during the period of this examination. In all of those transactions, the Town paid to "Core & Main" from a Town bank account and not from the Town's credit card.

In all, the SBOA determined that Pipes made 141 transactions to the illegitimate vendor, "Core," that was linked to a financial account owned by her. Those transactions totaled \$238,567.17, for which no receipts, invoices, contracts, or other public records were made available to the SBOA to determine the validity of any of the 141 transactions.

Pipes was interviewed by the SBOA in October 2024, but could not provide an explanation as to how \$238,567.17 of Town funding was traced to a financial account owned by her.

Other Unsupported Credit Card Transactions

The SBOA reviewed the rest of the credit card purchases for the period and discovered Pipes made an additional 248 purchases totaling \$41,509.75 that lacked any support. No receipts, invoices, contracts, or other public records were made available to determine the validity of these purchases. Due to the lack of proper supporting documentation, the SBOA could not substantiate the purchases were for Town purposes.

The SBOA determined that Pipes made 109 payments from the General Fund to pay the balance on the credit card over the period of this examination. The SBOA reviewed the accounts payable voucher registers presented and only 7 of the 109 payments were included on the registers presented to the Town Council for review and approval.

The Town did not have a credit card policy which had been approved by the Town Council.

CLERK-TREASURER
TOWN OF CLAY CITY
RESULTS AND COMMENTS
(Continued)

The following schedule summarizes the unauthorized credit card purchases by year:

Year	Point of Sale Purchases	Number of Transactions	Other Purchases	Number of Transactions	Total
2020	\$ 28,131.18	18	\$ 7,532.29	74	\$ 35,663.47
2021	101,681.23	41	7,539.64	50	109,220.87
2022	56,635.90	41	10,131.75	53	66,767.65
2023	52,118.86	41	16,306.07	71	68,424.93
	<u>\$ 238,567.17</u>	<u>141</u>	<u>\$ 41,509.75</u>	<u>248</u>	<u>\$ 280,076.92</u>

Pipes was interviewed by the SBOA in October 2024, but could not provide an explanation for the \$41,509.75 unsupported credit card transactions.

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the unit. Any personal expenses 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)

The SBOA will not take exception to the use of credit cards by a unit provided the following criteria are observed:

1. The governing body must authorize credit card use through an ordinance /resolution, which has been approved in a meeting and documented in the minutes.
2. Issuance and use must be handled by an official or employee designated by the governing body.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance/resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card must be returned to the custody of the responsible person.
5. The designated responsible official or employee must maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned.
6. Credit cards must not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing body and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment cannot be made on the basis of a statement or a credit card slip only. Procedures for payments must be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee may be the personal obligation of the responsible officer or employee.

CLERK-TREASURER
TOWN OF CLAY CITY
RESULTS AND COMMENTS
(Continued)

8. If authorized, an annual fee may be paid.

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

Funds misappropriated, diverted, or unaccounted for through malfeasance, misfeasance, or non-feasance 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 1)

We requested that Pipes reimburse the Town \$280,076.92 for the unauthorized and unsupported credit card transactions. (See Summary of Charges, page 11)

UNAUTHORIZED OVERPAYMENT OF COMPENSATION

The approved salary ordinances stated the Clerk-Treasurer was to be paid quarterly. In 2020 and 2022, Pipes paid herself an additional check in the amount of \$2,187.42 and \$2,411.73, respectively.

The approved salary ordinances stated the Clerk-Treasurer would serve as the utility clerk and was to be paid weekly. In 2021, Pipes paid herself fifty-seven utility clerk checks. Fifty-two checks were written for the correct amount of \$409.92. The five additional checks were handwritten for \$5,666.67 with memos stating:

- 12-31-20 "Dec 20 Clerk Pay"
- 01-31-21 "Jan 21 Clerk Pay"
- 02-28-21 "Feb 21 Clerk Pay"
- 03-31-21 "Mar 21 Clerk Pay"
- 04-23-21 "Apr 21 Clerk Pay"

All five additional checks cleared the Town's bank account in April 2021. None of the overpayment of compensation checks were included on the accounts payable voucher registers for the Town Council to approve and sign.

Pipes was interviewed by the SBOA in October 2024, but could not provide an explanation as to how \$32,932.50 of Town funding was deposited into her account.

Indiana Code 36-5-3-2 states in part:

"(a) 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. . . .

(b) The town legislative body shall, by ordinance, fix the compensation of . . . the town clerk-treasurer . . .

(c) The compensation of an elected town officer may not be changed in the year for which it is fixed . . .

CLERK-TREASURER
TOWN OF CLAY CITY
RESULTS AND COMMENTS
(Continued)

(d) The legislative body may provide that town officers and employees receive additional compensation for services that:

- (1) are performed for the town,
- (2) are not governmental in nature; and
- (3) are connected with the operation of a municipally owned utility or function. . . ."

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 law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Funds misappropriated, diverted, or unaccounted for through malfeasance, misfeasance, or non-feasance 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 1)

We requested that Pipes reimburse the Town \$32,932.50 for the unauthorized overpayment of compensation. (See Summary of Charges, page 11)

UNAUTHORIZED PAYMENT TO PIPES

Pipes wrote herself a check for \$33,000 on June 11, 2020. No receipts, invoices, contracts, or other public records were available to determine the validity of the check. The payment was not included on accounts payable vouchers presented to the Town Council for approval. In addition, the check was written in the ledger as a payment to a vendor, but the check cleared and was deposited in Pipes's personal bank account. Four days after the check was deposited, a large wire transfer was made from Pipes personal bank account to a title company.

Due to the lack of proper supporting documentation, the SBOA could not substantiate the payment was for Town purposes.

Pipes was interviewed by the SBOA in October 2024, but could not provide an explanation as to how \$33,000 of Town funding was deposited into her account.

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the unit. Any personal expenses 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)

Funds misappropriated, diverted, or unaccounted for through malfeasance, misfeasance, or non-feasance 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 1)

We requested that Pipes reimburse the Town \$33,000 for the unauthorized payment. (See Summary of Charges, page 11)

CLERK-TREASURER
TOWN OF CLAY CITY
RESULTS AND COMMENTS
(Continued)

PENALTIES, INTEREST, AND OTHER CHARGES

During the period of this examination, Pipes did not properly and timely remit payments to the Indiana Department of Revenue (IDOR), Indiana Department of Workforce Development (IDWD), a financial institution, and a vendor causing the Town to incur and pay penalties, interest, and other charges in the amount of \$2,582.31.

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)

Funds misappropriated, diverted, or unaccounted for through malfeasance, misfeasance, or non-feasance 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 1)

We requested that Pipes reimburse the Town \$2,582.31 for penalties, interest, and other charges. (See Summary of Charges, page 11)

SPECIAL INVESTIGATION COSTS

The State of Indiana incurred additional costs in the investigation of the Clerk-Treasurer.

Indiana Code 5-11-1-27(m) states in part:

"If the attorney general institutes civil proceedings related to this section or under [IC 5-11-5-1](#), the attorney general shall seek, in addition to the recovery of any funds misappropriated, diverted, or unaccounted for, restitution of:

- (1) costs incurred by the state board of accounts . . ."

Audit costs incurred because of theft and shortage may be the personal obligation of the responsible official or employee. Audit costs or other costs incurred because of poor records, nonexistent records or other inadequate bookkeeping practices may be the personal obligation of the responsible official or employee of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

We requested that Pipes reimburse the State of Indiana \$36,430.47 for special investigation costs. (See Summary of Charges, page 11)

INTERNAL CONTROLS

The Clerk-Treasurer was responsible for preparing claims and payroll, signing and recording checks, and reconciling the bank accounts for the Town. The lack of segregation of duties enabled the following to occur:

- Unauthorized compensation that was not in accordance with the approved Salary Ordinance.

CLERK-TREASURER
TOWN OF CLAY CITY
RESULTS AND COMMENTS
(Continued)

- An unauthorized payment that had no supporting documentation and could not be validated that it was for Town purposes.
- Unauthorized purchases on the credit card that had no supporting documentation and could not be validated that they were for Town purposes.
- Payments not remitted timely, resulting in penalties, interest, and other charges paid by the Town.
- Bank statements altered so unauthorized transactions would not be seen.
- Checks recorded incorrectly so unauthorized checks would not be discovered.
- Checks left off the account payable registers so the unauthorized checks would not be seen by the Town Council.

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. These 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. . . ."

INVESTIGATION BY LAW ENFORCEMENT AGENCY

It is our understanding that there is an ongoing investigation by the FBI. A copy of the filed report has been sent to the local county prosecutor, the Office of the United States Attorneys, and to the Office of the Indiana Attorney General.

OFFICIAL BOND AND CRIME INSURANCE

The Town had an official bonds and crime insurance as shown in the table below:

CLERK-TREASURER
TOWN OF CLAY CITY
RESULTS AND COMMENTS
(Continued)

<u>Bond Period</u>	<u>Coverage</u>
01-01-20 to 12-31-20	\$ 45,000
01-01-21 to 12-31-21	45,000
01-01-22 to 12-31-22	45,000
01-01-23 to 12-31-23	45,000

<u>Crime Insurance Period</u>	<u>Employee Theft</u>	<u>Forgery or Alteration</u>
03-01-19 to 03-01-20	\$ 2,500	\$ 2,500
03-01-20 to 03-01-21	2,500	2,500
03-01-21 to 03-01-22	2,500	2,500
03-01-22 to 03-01-23	2,500	2,500
03-01-23 to 03-01-24	2,500	2,500
03-01-24 to 03-01-25	2,500	2,500

CLERK-TREASURER
TOWN OF CLAY CITY
EXIT CONFERENCE

The contents of this report were discussed on November 22, 2024, with Lisa Lance, Clerk-Treasurer; Donnella Baumgartner; President of the Town Council; Donald Dayhuff, Town Council member; Timothy L. Rood, Town Council member; and Terry Silvers, Chief of Police.

CLERK-TREASURER
TOWN OF CLAY CITY
SUMMARY OF CHARGES
(Due to Malfeasance, Misfeasance, or Nonfeasance)

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Karla Pipes, former Clerk-Treasurer:			
Unauthorized Credit Card Purchases, pages 3 through 5	\$ 280,076.92	\$ -	\$ 280,076.92
Unauthorized Overpayment of Compensation, pages 5 and 6	32,932.50	-	32,932.50
Unauthorized Payment to Pipes, page 6	33,000.00	-	33,000.00
Penalties, Interest, and Other Charges, page 7	2,582.31	-	2,582.31
Special Investigation Costs, page 7	<u>36,430.47</u>	<u>-</u>	<u>36,430.47</u>
 Totals for Karla Pipes	 <u>\$ 385,022.20</u>	 <u>\$ -</u>	 <u>\$ 385,022.20</u>

This report was forwarded to the local prosecutor's office, the Office of the Indiana Attorney General, and the Office of the United States Attorneys.



AFFIDAVIT

STATE OF INDIANA)
Vigo)
COUNTY)

I, Gina Gambaiani, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the Town of Clay City, Clay County, Indiana, for the period from January 1, 2020 to December 31, 2023, is true and correct to the best of my knowledge and belief.

Gina Gambaiani
Field Examiner

Subscribed and sworn to before me this 1th day of December, 2024.

Matt Beckham
Notary Public

My Commission Expires: December 6, 2029
County of Residence: Vigo County, Indiana

