

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

SPECIAL INVESTIGATION REPORT

OF

GERMAN TOWNSHIP

VANDERBURGH COUNTY, INDIANA

January 1, 2010 to December 31, 2014



FILED
03/23/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Trustee	Fred L. Happe	01-01-07 to 12-31-14
	Sherri Schlitt	01-01-15 to 12-31-18
Chairman of the Township Board	Tim Bishop	01-01-10 to 12-31-10
	Ray Schapker	01-01-11 to 12-31-11
	Ron Hartmann	01-01-12 to 12-31-12
	Tim Bishop	01-01-13 to 12-31-13
	Ron Hartmann	01-01-14 to 12-31-14
	John Bassemier	01-01-15 to 12-31-15
	Beverly White-Rowley	01-01-16 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF GERMAN TOWNSHIP, VANDERBURGH COUNTY

We have conducted a special investigation of the records of German Township, Vanderburgh County, for the period January 1, 2010 to December 31, 2014. Our investigation was limited to records related to payments for mileage reimbursement; salaries; penalties and interest; and bank withdrawals. The purpose of our investigation was to determine if the accountability for cash and other assets are satisfactory and that the transactions related thereto are in compliance with the laws and regulations of the State of Indiana. The results of our investigation are fully described in the Special Investigation Results and Comments and Summary of Charges listed in the Table of Contents.

This report was forwarded to the Office of the Indiana Attorney General and the local prosecuting attorney.

Any Official Response included herein this report has not been examined or verified for its accuracy.

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

February 3, 2016

GERMAN TOWNSHIP
VANDERBURGH COUNTY
SPECIAL INVESTIGATION RESULTS AND COMMENTS

REIMBURSEMENT FOR MILEAGE

Virginia Massey, former Township Clerk and Township Assistance Investigator, was paid a total of \$12,450.71 for mileage reimbursement for the period January 1, 2010 to December 31, 2014. Virginia Massey used excel spreadsheets to prepare the mileage logs to support payments for mileage reimbursement. Based on the following discrepancies, the mileage logs presented for investigation did not support the mileage reimbursements paid to Virginia Massey.

1. The prescribed method for claiming mileage was not used. Individual checks for mileage reimbursement did not correspond with any block of mileage entries recorded on the mileage logs. The total of checks written in a particular year did not correspond to the total on the annual mileage log. The total of checks written for mileage reimbursement was almost double the amount of mileage represented on the mileage logs.

Because Virginia Massey did not file the prescribed Mileage Claim (Form 101), the supporting documentation was not certified as required by Indiana Code 5-11-10-1(b).

2. The mileage log for the year 2010 contained a total of 104 entries. A comparison of the year 2013 mileage log with the year 2010 mileage log showed that every date, trip description, and number of miles traveled were exactly the same as the mileage entries recorded on the mileage log for the year 2013 except for two entries.

The 2010 mileage log showed trips to the bank and the city-county building on Sundays when the bank and City-County Building were closed.

3. The mileage logs for the years 2010, 2012, 2013, and 2014 showed a total of 312 entries for trips with odometer readings. For every entry, there was a 15 mile variance between the ending odometer reading on the previous trip and beginning odometer reading on the next trip.

The mileage log for the year 2011 contained a total of 144 entries for trips with odometer readings. For every entry, there was a 10 mile variance between the ending odometer reading on the previous trip and the beginning odometer reading on the next trip.

4. Check number 2345 payable to Virginia Massey was a combined check for salary and mileage. The check was dated December 1, 2014; however, the mileage log for the year 2014 showed two entries after this check was written.

5. A trip related to a township assistance investigation should fall between the date an application for township assistance is filed and the purchase order date for any assistance provided. The mileage logs for the period January 1, 2010 to December 31, 2014, recorded a total of 61 entries for investigations. However, a comparison of mileage entry dates with application and purchase order dates showed that only seven (7) mileage entries or 11 percent fell between the application date and the purchase order date for the same period.

In addition, the mileage log showed the trip description as "investigation." The log did not identify "to" and "from" destination points. As a result, no documentation was presented for investigation as to each trip's destination point.

GERMAN TOWNSHIP
VANDERBURGH COUNTY
SPECIAL INVESTIGATION RESULTS AND COMMENTS
(Continued)

6. The mileage logs showed 109 entries as trips to the local office supply store. However, only 21 checks were written to the office supply store for the same period. For the dates that invoices were presented for investigation, none of the invoice dates corresponded with the mileage entry dates reported on the mileage logs.
7. Beginning in March 2012, all tax distributions were electronically transferred to the Township. As a result, there was only one non-electronic deposit made from March 1, 2012 to December 31, 2014. However, Virginia Massey mileage logs show 64 trips to the bank.

No other explanation was provided to support the other 63 trips to the bank.

Fred L. Happe, former Trustee, as the disbursing officer, approved the payments for mileage reimbursement to Virginia Massey.

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 Townships, Chapter 13)

Indiana Code 5-11-10-1(b) states: "No warrant or check shall be drawn by a disbursing officer in payment of any claim unless the same has been fully itemized and its correctness properly certified to by the claimant or some authorized person in the claimant's behalf, and filed and allowed as provided by law."

Virginia Massey, former Township Clerk and Township Assistance Investigator, and Fred L. Happe, former Trustee, are jointly and severally liable for the misappropriated funds and were requested to reimburse \$12,450.71 to German Township. Virginia Massey and Fred L. Happe reimbursed the Township \$12,450.71 on March 8, 2016, and March 7, 2016, respectively. (See Summary of Charges, page 11)

EXCESS SALARY PAYMENTS

A comparison of gross pay for Virginia Massey, former Township Clerk and Township Assistance Investigator, to salaries approved by the Township Board for those positions showed that she was paid \$14,375.36 in excess of the salaries approved as shown in the following schedule:

<u>Years</u>	<u>Gross Pay</u>	<u>Approved Salary</u>	<u>Excess Paid</u>
2010	\$ 2,500.00	\$ 2,200.00	\$ 300.00
2011	17,082.26	13,521.00	3,561.26
2012	18,986.34	14,552.00	4,434.34
2013	18,123.35	15,192.00	2,931.35
2014	<u>20,198.41</u>	<u>17,050.00</u>	<u>3,148.41</u>
Totals	<u>\$76,890.36</u>	<u>\$62,515.00</u>	<u>\$14,375.36</u>

GERMAN TOWNSHIP
VANDERBURGH COUNTY
SPECIAL INVESTIGATION RESULTS AND COMMENTS
(Continued)

Virginia Massey was responsible for preparing payroll checks as Township Clerk. Fred L. Happe, former Trustee, was responsible for approving payroll checks.

Indiana Code 36-6-6-10(b) states in part:

"(b) The township legislative body shall fix the:

(1) salaries . . . of all officers and employees of the township."

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 Townships, Chapter 13)

Virginia Massey, former Township Clerk and Township Assistance Investigator, and Fred L. Happe, former Trustee, are jointly and severally responsible for refunding excess salary payments paid to Virginia Massey and were requested to reimburse \$14,375.36 to German Township. Virginia Massey and Fred L. Happe reimbursed the Township \$14,375.26 on March 8, 2016, and March 7, 2016, respectively. (See Summary of Charges, page 11)

WITHDRAWAL FROM BANK ACCOUNT

A withdrawal of \$1,175 was made from the Township bank account on December 8, 2010. The Township's bank account number was written on the withdrawal slip and the withdrawal slip was signed by Fred L. Happe, former Trustee. The withdrawal was posted in the financial ledger with no explanation of its purpose and there was no supporting documentation to support the bank withdrawal.

Indiana Code 5-11-10-1(b) states in part: "No warrant or check shall be drawn by a disbursing officer in payment of any claim unless the same has been fully itemized . . ."

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 Townships, Chapter 13)

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 Townships, Chapter 13)

Fred L. Happe, former Trustee, was requested to reimburse \$1,175 to German Township. He refunded the \$1,175 to the Township on February 6, 2015. (See Summary of Charges, page 11)

PENALTIES, INTEREST, AND OTHER CHARGES

The Township paid a total of \$1,417.78 for penalties and interest as shown in the following schedule:

GERMAN TOWNSHIP
VANDERBURGH COUNTY
SPECIAL INVESTIGATION RESULTS AND COMMENTS
(Continued)

<u>Years</u>	<u>Amount</u>
2010	\$ 18.68
2011	120.68
2012	793.73
2013	241.94
2014	<u>242.75</u>
Total	<u>\$ 1,417.78</u>

The Township penalties and interest were caused by untimely remittance of payroll taxes and by overdrawing bank accounts by Virginia Massey, former Township Clerk.

A similar comment appeared in prior Reports B29550 and B31915. Fred L. Happe, former Trustee, was also in office during periods covered by these reports.

Virginia Massey, former Township Clerk and Township Assistance Investigator, and Fred L. Happe, former Trustee, are jointly and severally responsible for the penalties, interest, and other charges paid and were requested to reimburse \$1,417.78 to German Township. Virginia Massey and Fred L. Happe reimbursed the Township \$1417.78 on March 8, 2016, and March 7, 2016, respectively. (See Summary of Charges, page 11)

INVESTIGATION COSTS

The State of Indiana incurred costs in the amount of \$25,661.18 for the investigation of financial losses described in the previous Results and Comments.

Audit costs incurred because of theft and shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

Virginia Massey, former Township Clerk and Township Assistance Investigator, and Fred L. Happe, former Trustee, are jointly and severally responsible for refunding investigation costs to the State of Indiana and were requested to reimburse \$25,661.18 to German Township. Virginia Massey and Fred L. Happe reimbursed the State of Indiana \$25,661.18. (See Summary of Charges, page 11)

OFFICIAL BONDS

The Township obtained official bond coverage for Fred L. Happe, for Trustee, as scheduled below:

<u>Period</u>	<u>Amount</u>
01-01-10 to 12-31-10	\$ 30,000
01-01-11 to 12-31-11	30,000
01-01-12 to 12-31-12	30,000
01-01-13 to 12-31-13	30,000
01-01-14 to 12-31-14	30,000

GERMAN TOWNSHIP
VANDERBURGH COUNTY
SPECIAL INVESTIGATION RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROL DEFICIENCIES

The following internal control deficiencies contributed to the loss of Township funds described in the previous Results and Comments:

Mileage Reimbursements

Numerous checks were issued to the former Township Clerk and Township Assistance Investigator for mileage reimbursements during period January 1, 2010 through December 31, 2014. The Trustee signed the checks signifying the Trustee's approval of the payments.

Based on information presented for investigation, no documentation was prepared at the time the checks for mileage reimbursement were signed by the former Trustee. Thus the checks for mileage reimbursements were approved by the Township Trustee without adequate supporting documentation.

The former Trustee, also did not require the former Township Clerk and Township Assistance Investigator to use the prescribed Mileage Claim (Form 101). This form has been prescribed to support each check written for reimbursement of mileage.

Excess Salary Payments

The Township Board approved salary amounts to be paid during the budget process. The Township did not have a sufficient set of internal controls over payroll. The Township used an excel spreadsheet as a financial ledger in lieu of the prescribed Financial and Appropriation Record. An excel spreadsheet presented for investigation did not have a section that showed appropriations approved by the Township Board. The Township did not have a sufficient set of internal controls over payroll and other disbursements.

Withdrawal from Bank Account

The former Trustee represented to us that the bank withdrawal was the result of a bank error. Bank errors should be identified and corrected at the time monthly bank reconciliations are performed.

A review of the bank reconciliations presented for investigation showed that proper bank reconciliations were not being performed.

Penalty, Interest, and Other Charges

Penalty, interest, and other charges were incurred because payroll withholdings were not remitted timely and because the Township overdrew the bank account.

The former Township Clerk was responsible for preparing reports for the remittance of payroll withholdings. The Township did not have controls in place to ensure that remittances for payroll withholdings were paid by the due date.

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.

GERMAN TOWNSHIP
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(Continued)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

GERMAN TOWNSHIP
VANDERBURGH COUNTY
EXIT CONFERENCE

The contents of this report were discussed on February 3, 2016, with Fred L. Happe, former Trustee; and in a separate discussion on February 3, 2016, with Sherri Schlitt, Trustee, and John Bassemier, Township Board member.

GERMAN TOWNSHIP
VANDERBURGH COUNTY
SUMMARY OF CHARGES

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Virginia Massey, former Township Clerk and Township Assistance Investigator, and Fred L. Happe, former Trustee (Jointly and Severally):			
Reimbursement for Mileage, pages 4 and 5	\$ 12,450.71	\$	\$
Excess Salary Payments, pages 5 and 6	14,375.36		
Penalties, Interest, and other Charges, pages 6 and 7	1,417.78		
Paid by Virginia Massey, March 8, 2016		14,121.93	
Paid by Fred L. Happe, March 7, 2016		14,121.92	-
 Fred L. Happe, former Trustee:			
Withdrawal from Bank Account, page 6	1,175.00	1,175.00	-
 Investigation Costs, page 7	25,661.18		
Paid by Virginia Massey, March 8, 2016		12,803.59	
Paid by Fred L. Happe, March 7, 2016		12,830.59	
Paid by Virginia Massey, March 22, 2016		<u>27.00</u>	-
 Totals	<u>\$ 55,080.03</u>	<u>\$ 55,080.03</u>	<u>\$ -</u>

This report was forwarded to the Office of the Indiana Attorney General and local prosecuting attorney.