

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF FILLMORE

PUTNAM COUNTY, INDIANA

January 1, 2013 to December 31, 2014



**FILED**  
04/07/2016



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Wanda Seidler	01-01-08 to 04-04-15
	(Vacant)	04-05-15 to 04-13-15
	Paul Alleyn	04-14-15 to 08-08-15
	(Vacant)	08-09-15 to 09-30-15
	Thomas P. Gilson	10-01-15 to 12-31-15
President of the Town Council	James Wesley Terhune	01-01-11 to 12-31-11
	Alan F. Jones	01-01-12 to 12-31-15
Superintendent of Utilities	Joseph Cash	01-01-11 to 12-31-15



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

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

TO: THE OFFICIALS OF THE TOWN OF FILLMORE, PUTNAM COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Fillmore (Town), for the period from January 1, 2013 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Town, which provides our opinions on the Town's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

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 Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

December 17, 2015

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CLERK-TREASURER  
TOWN OF FILLMORE

CLERK-TREASURER  
TOWN OF FILLMORE  
FEDERAL FINDINGS

***FINDING 2014-001 - FINANCIAL REPORTING***

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

1. **Lack of Segregation of Duties:** The Town has not separated incompatible activities related to all areas of the financial statement. One person is responsible for all financial reporting activity. There was a lack of appropriate management oversight to reduce the risk of material misstatement to an acceptable level. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.
2. **Monitoring of Controls:** An evaluation of the Town's system of internal control has not been conducted. The failure to monitor the internal control system places the Town at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the Town to monitor and assess the quality of the system of internal 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.

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 Cities and Towns, Chapter 7)

***FINDING 2014-002 - ALLOWABLE COSTS***

Federal Agency: Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/State's Program and  
Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Number and Year (or Other Identifying Number): B\*13\*DC180001DR2-09-031,  
B15DC180001PF-13-101

Pass-Through Entity: Indiana Office of Community and Rural Affairs

Management of the Town has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and Allowable Costs compliance requirements.

The failure to establish an effective internal control system places the Town at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

CLERK-TREASURER  
TOWN OF FILLMORE  
FEDERAL FINDINGS  
(Continued)

After the funds for the program are received electronically into the grant bank account, the Clerk-Treasurer records the receipt in the ledger and then arranges for the reimbursement to be disbursed to the appropriate vendors. One reimbursement receipt and the corresponding payment to the vendor were not properly recorded in the ledger. In addition, the Clerk-Treasurer is solely responsible for reconciling the grant bank account to the ledger. There is no control to ensure that the amounts posted to the records or the reconciliations are accurate.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

24 CFR 85.20(b) states in part:

"The financial management systems of other grantees and subgrantees must meet the following standards: . . .

(2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. . . ."

The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the Town.

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above. We also recommended that the Town's management comply with the Allowable Costs compliance requirements.

Town of Fillmore

CORRECTIVE ACTION PLAN

**FINDING 2014-001**

Contact Person Responsible for Corrective Action: Thomas Gilson  
Contact Phone Number: 765-246-6711

Description of Corrective Action Plan: The Town of Fillmore is aware of the potential risk associated with limited staff and has determined at this time that it is not economically feasible to hire additional staff in order to have account functions performed by different employees. The Town of Fillmore has replaced the Clerk-Treasurer with an individual willing to work with and give the Board access to the Town records. The Board will request that this individual provide them with monthly financial reports and monthly bank reconciliation information.

Anticipated Completion Date: New Clerk hired October 1, 2015

**FINDING 2014-002**

Contact Person Responsible for Corrective Action: Thomas Gilson  
Contact Phone Number: 765-246-6711

Description of Corrective Action Plan: The Town of Fillmore attempted to assist the Clerk-Treasurer by hiring a consultant to assist her in correctly posting all receipts and disbursements. During the process one receipt and the corresponding disbursement was not posted to the grant fund. An adjustment was made to the total receipts and disbursements reported on the financial statement so that all receipts and disbursements of the grant fund were properly reported. When receiving federal grants in the future the Clerk-Treasurer will monitor the postings to the ledger to ensure that all reimbursements are recorded.

Anticipated Completion Date: Corrected on the financial statement for 2014.

  
\_\_\_\_\_  
(Signature)

*Clerk-Treasurer Coun. Pres*  
\_\_\_\_\_  
(Title)

*12/17/15*  
\_\_\_\_\_  
(Date)

CLERK-TREASURER  
TOWN OF FILLMORE  
AUDIT RESULTS AND COMMENTS

***BANK ACCOUNT RECONCILIATIONS***

Several monthly depository reconciliations of the fund balances to the bank account balances for the Water, Wastewater, and Stormwater Utilities were not available for audit. Two reconcilements for the Water Utility bank account; one reconcilement for the Wastewater Utility bank account; eleven reconcilements for the Water and Wastewater Security Deposits bank account; and twelve reconcilements each for the Storm Water Operating and Stormwater Grant bank accounts were not presented.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

***CONDITION OF RECORDS***

Financial records presented for audit were incomplete and not always reflective of the activity of the Fund Ledger.

Some of the deficiencies include:

1. Numerous posting errors were noted including: two state distributions were posted to the ledger one year after the receipt of the funds; two other state distributions and three local tax distributions were posted to incorrect funds; and one federal program receipt and disbursement were not posted to the ledger.
2. During the reconciling process, the Town recognized twenty-three posting errors during 2013 and six errors in 2014. At December 31, 2014, the errors remain uncorrected in the records. The errors included not posting nonsufficient funds checks received from customers, receipts posted to the wrong utility, and payroll payments made from the wrong fund.
3. Interest earned on checking accounts was not posted.

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 Cities and Towns, Chapter 7)

***DEPOSITS***

Receipts were deposited later than the next business day for 20 percent of the Water Utility receipts tested and 25 percent of the Wastewater Utility receipts tested.

Indiana Code 5-13-6-1(c) states in part:

". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

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

***ERRORS ON ACCOUNTS PAYABLE VOUCHERS***

A test of Accounts Payable Vouchers identified the following deficiencies:

1. Of the vouchers tested, 9 percent did not have adequate supporting documentation identifying the items or services purchased.
2. Of the vouchers tested, 99 percent did not have proper approval by the Clerk-Treasurer.

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 audit 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 7)

***ORDINANCES AND RESOLUTIONS***

The Town had debt ordinances requiring monthly transfers from the Water Operating and Wastewater Operating funds to the Water and Wastewater Utilities' Depreciation fund, Debt Service Reserve fund, and Bond and Interest fund. However, the Town did not make the required transfers for the years ended December 31, 2013 and 2014.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

***OVERDRAWN CASH BALANCES***

At December 31, 2013, the Water Operating fund had an overdrawn cash balance of \$381. At December 31, 2014, the Payroll fund had an overdrawn cash balance of \$7,048.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***UTILITY RECEIPTS TAX***

During the audit period, the Fillmore Water Utility did not pay Utility Receipts Tax to the Indiana Department of Revenue due for the years 2013 and 2014.

Generally, retail receipts from all utility services consumed within Indiana are subject to the utility receipts tax regardless of the point of generation or transmission across state lines. Receipts from the provision of mobile telecommunication service are subject to utility receipts tax to the extent that the receipts are sourced to Indiana pursuant to Indiana Code 6-8.1-15. However, gross receipts received by a political subdivision for sewage and sewage service are not subject to the tax.

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)

CLERK-TREASURER  
TOWN OF FILLMORE  
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2015, with Thomas P. Gilson, Clerk-Treasurer, and Alan F. Jones, President of the Town Council.

TOWN COUNCIL  
TOWN OF FILLMORE

TOWN COUNCIL  
TOWN OF FILLMORE  
FEDERAL FINDINGS

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TOWN COUNCIL  
TOWN OF FILLMORE  
FEDERAL FINDINGS  
(Continued)

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The failure to establish internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the Town.

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above. We also recommended that the Town's management comply with the Allowable Costs compliance requirements.

Town of Fillmore

CORRECTIVE ACTION PLAN

**FINDING 2014-001**

Contact Person Responsible for Corrective Action: Thomas Gilson  
Contact Phone Number: 765-246-6711

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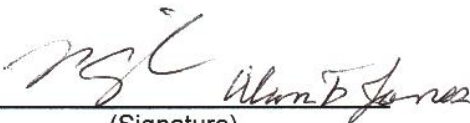
Anticipated Completion Date: New Clerk hired October 1, 2015

**FINDING 2014-002**

Contact Person Responsible for Corrective Action: Thomas Gilson  
Contact Phone Number: 765-246-6711

Description of Corrective Action Plan: The Town of Fillmore attempted to assist the Clerk-Treasurer by hiring a consultant to assist her in correctly posting all receipts and disbursements. During the process one receipt and the corresponding disbursement was not posted to the grant fund. An adjustment was made to the total receipts and disbursements reported on the financial statement so that all receipts and disbursements of the grant fund were properly reported. When receiving federal grants in the future the Clerk-Treasurer will monitor the postings to the ledger to ensure that all reimbursements are recorded.

Anticipated Completion Date: Corrected on the financial statement for 2014.

  
\_\_\_\_\_  
(Signature)

*Clerk-Treasurer Coun. Pres*  
\_\_\_\_\_  
(Title)

*12/17/15*  
\_\_\_\_\_  
(Date)

TOWN COUNCIL  
TOWN OF FILLMORE  
AUDIT RESULT AND COMMENT

***APPROVAL OF ACCOUNTS PAYABLE VOUCHERS***

A test of accounts payable vouchers identified 99 percent did not have proper approval by the town council.

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."

TOWN COUNCIL  
TOWN OF FILLMORE  
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2015, with Alan F. Jones, President of the Town Council, and Thomas P. Gilson, Clerk-Treasurer.