

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF MOUNT AYR

NEWTON COUNTY, INDIANA

January 1, 2013 to December 31, 2014



FILED
04/08/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Dudley D. Vaughn (Vacant) Karen S. Warne	01-01-12 to 03-07-15 03-08-15 to 04-05-15 04-06-15 to 12-31-19
President of the Town Council	Larry Berenda	01-01-13 to 12-31-15



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 THE TOWN OF MOUNT AYR, NEWTON COUNTY, INDIANA

This report is supplemental to our examination report of the Town of Mount Ayr (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 Examination Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statement Examination Report of the Town, which provides our opinion 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 Examination Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Examination Results and Comments, incorporated within this report, was not verified for accuracy.

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

November 9, 2015

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CLERK-TREASURER
TOWN OF MOUNT AYR

CLERK-TREASURER
TOWN OF MOUNT AYR
EXAMINATION RESULTS AND COMMENTS

PAYROLL

The following deficiencies were noted concerning payroll transactions:

1. Internal Revenue Service (IRS) Wage and Tax Statement - Form W-2 was not issued to employees.
2. Employees were paid without federal, state, or local taxes being withheld.
3. The Town did not issue IRS Miscellaneous Income Form 1099 - MISC to individual contractors who received over \$600 in compensation.
4. The Deputy Clerk-Treasurer did not maintain a record of hours worked.

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, Employees' 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 7)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DISBURSEMENTS

The following are deficiencies related to the disbursements:

1. Payments were made based on a proposal and not supported by a detailed invoice.
2. Some individual contractors did not provide a detailed itemized invoice. The invoice only included a "lump sum" amount to be paid.
3. Prescribed mileage claim forms were not being used for travel/mileage reimbursements. The accounts payable voucher used in lieu of the prescribed form only listed the total amount to be paid.
4. Payments were made for flag pole and repair to sanitary sewer but were not supported by a written contract.

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

Of the 33 claims tested, the following additional deficiencies were noted:

- 30 percent of the claims could not be located for examination to validate the disbursement.
- 39 percent of the claims did not have an invoice attached.
- 45 percent were not signed by Clerk-Treasurer

Indiana Code 5-11-10-1.6 (c) states:

"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."

A claim to be properly itemized should show the kind of service, where performed, date service rendered, by whom, rate per day, number of hours, rate per hour, price per foot, per yard, per hundred, per pound, per ton, etc. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Payments made or received for contractual services should be supported by a written contract. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

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)

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

RECEIPTS

The following deficiencies were noted concerning the recording of receipts:

1. Receipts were not posted to the ledgers on a timely basis.
2. After June 2011, the Clerk-Treasurer ceased issuing receipts for monies received.
3. State distributions were not posted to the correct fund.
4. State distributions were deposited up to 414 days after the check was issued.
5. Local tax distributions were deposited up to 603 days after the check was issued.
6. A total of \$392 of state distributions was not deposited to the Town funds. The check remains on the Auditor of State's outstanding checklist.
7. A total of \$1,772 of state distributions reverted back to the state on January 2, 2015, due to the checks being stale dated.

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payments. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

BANK RECONCILEMENTS

Bank reconcilements were not performed monthly.

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 balances statements provided by the respective depositories."

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

INVESTMENTS

The Town had investments in Certificate of Deposits (CD's). A Register of Investments, General Form No. 350, was not maintained to record the investment transactions nor were the investments included in the Town's ledgers. Interest earned on the CD's was automatically added to the principal.

Interest on investments should not be automatically added into the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Compliance Guidelines Manual for Cities and Towns, Chapter 7)

REQUIRED REPORTS

Annual Financial Report

The Town did not timely file the Annual Financial Report (AFR) with the Indiana State Board of Accounts for 2013 and 2014. The report was filed December 16, 2014, and September 8, 2015, respectively, which was 290 and 191 days past the due date.

The AFR was not published in accordance with Indiana Code 5-3-1-2.

The Town hired an independent consultant to reconstruct the accounting records of the Town to facilitate the preparation of the AFR for the years 2011 through 2014.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

The annual report is to be published one time in two newspapers unless there is only one newspaper in the city or town, in which case publication in the one newspaper is sufficient. If no newspaper is published in the city or town then publication in a newspaper published in the county that circulates in the city or town is acceptable. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Form 100-R

The Town did not timely file a Certified Report of Names, Addresses, Duties and Compensation of Public Employees (Form 100R) with the State Board of Accounts for 2013 and 2014. The report was filed on February 12, 2014, and July 2, 2015, respectively, which was 12 and 152 days past the due date.

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

Indiana Code 5-11-13-1 states in part:

"Every state, county, city, town, township, or school official . . . shall during the month of January of each year prepare, make, and sign a certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

NEPOTISM AND CONTRACTING CERTIFICATION

The Clerk-Treasurer did not certify in writing that the officer had not violated Indiana Code 36-1-20.2 or Indiana Code 36-1-21-4 concerning nepotism and contracting with a unit, respectively, by December 31, 2013 and 2014.

Indiana Code 36-20.2-16 states in part: "Each elected officer of the unit shall annually certify in writing, subject to the penalties for perjury, that the officer has not violated this chapter. An officer shall submit the certification to the executive of the unit not later than December 31 of each year."

Indiana Code 36-1-21-6 states in part: "Each elected officer of the unit shall annually certify in writing, subject to the penalties for perjury, that the officer is in compliance with this chapter. An officer shall submit the certification to the executive of the unit not later than December 31 of each year."

BUDGET

The Town has not had a budget approved by the Department of Local Government Finance since 2011.

The law requires the adoption of a balanced budget which shall include all anticipated revenues and expenses of every organizational unit with the exception of utilities. A budget is the record of a definite financial program for a given period of time and the means of carrying such program into effect. It shows the contemplated expenditures and their relation to the revenues received and expected. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Appropriations as stated in the budget, or as modified by additional appropriations, shall constitute the limitation of disbursements. No disbursement shall be made without an appropriation therefore unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

DONATIONS

The Town donated \$12,500 in 2013 and \$18,450 in 2014 to the Mount Ayr Projects Committee and \$5,000 to the Newton County Historical Society in 2013. These donations were made without a contract or an invoice for exchange of services rendered.

Governmental funds should not be donated or given to other organizations, individuals, or governmental units unless specifically authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

OPTICAL IMAGES OF WARRANTS

The Town's financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned only an optical image of the front side of the checks.

Indiana Code 5-15-6-3 concerning optical imaging of checks states in part:

"(a) . . . 'original records' . . . includes the optical image of a check or deposit document when: (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and (2) the drawer of the check receives an optical image of the check after the check is processed for payment"

TOWN OF MOUNT AYR

101 East Rensselaer Street, P. O. Box 216

Mount Ayr, Indiana 47964

Phone (219) 394-2460

Council President: Larry Berenda Council Member: Phyllis Smith
Clerk-Treasurer: Karen Warne Council Member: William Turner
BUILDING COMMISSIONER: JOHN SMITH

State Board of Accounts
302 West Washington Street
Room E 418
Indianapolis, Indiana 46204-2765

To Whom It May Concern:

I took over as Clerk/Treasurer this past April 2015. I would like to respond to examination results and comments. Right now this has all been a learning experience for me.

Payroll: Since I started in April 2015 all hours have been recorded and maintained, for the deputy clerk treasurer.

Federal, state, and local taxes will be withheld starting 1/1/2016 1099's will be issued to anyone receiving over \$600 in compensation. A form will be filled out by any employee that works, daily and weekly hours of work and the time of day and day of week.

Disbursements:

All payments will be paid by an itemized invoice.

Prescribed mileage claim forms are being used and filled out with all information.

A contract will be required for any work needed to be done or repairs needing to be made.

Claims are filled out for all disbursements, invoices are attached, and all are signed by clerk/treasurer.

Receipts:

Deposits made monthly, revenues reported to public, town council on a monthly basis.

Receipts are given to the person making payments at time of transaction.

All documents and entries are made when received.

Bank Reconcilements:

All are done monthly.

Investments

Recorded monthly on ledger sheets

Interest recorded monthly in general funds after receipt of bank statement.

Required reports

Annual Financial Report will be completed on time.

The annual report will be published in the newspaper.

Nepotism policy will be certified in writing each year.

Budget

Working on a budget for 2016, one was done in 2015 but not approved by SBOA, due to not going to Board for two different approvals.

Donations

Donations made by the town will have either an invoice or contract before said funds will be given.

To the best of my knowledge I will try to perform all tasks that are required of me.



**Karen Warne, Clerk Treasurer
Town of Mount Ayr, Newton County, Indiana**

CLERK-TREASURER
TOWN OF MOUNT AYR
EXIT CONFERENCE

The contents of this report were discussed on November 9, 2015, with Karen S. Warne, Clerk-Treasurer, and Larry Berenda, President of the Town Council.

The contents of this report were mailed on November 18, 2015, to Dudley D. Vaughn.

TOWN COUNCIL
TOWN OF MOUNT AYR

TOWN COUNCIL
TOWN OF MOUNT AYR
EXAMINATION RESULTS AND COMMENTS

DISBURSEMENTS - APPROVAL OF CLAIMS

The Town Council is responsible for approval of claims. Of the claims tested during our examination, 30 percent were not signed or approved 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: . . .

(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."

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.

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SALARY ORDINANCE

The Town Council did not adopt a salary ordinance establishing the salaries and pay rates for Town employees.

All compensation and benefits paid to officials and employees must be included in the salary ordinance adopted by the legislative body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

NEPOTISM AND CONTRACTING

The Town did not approve a nepotism policy or contracting policy for 2013 and 2014.

No Council members certified in writing that the officer had not violated Indiana Code 36-1-20.2 or Indiana Code 36-1-21-4 concerning nepotism and contracting with a unit, respectively, by December 31, 2013 and 2014.

Indiana Code 36-1-20.2-9 states in part: "This chapter establishes minimum requirements regarding employment of relatives. The legislative body of the unit shall adopt a policy that includes, at a minimum, the requirements set forth in this chapter."

TOWN COUNCIL
TOWN OF MOUNT AYR
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 36-20.2-16 states in part: "Each elected officer of the unit shall annually certify in writing, subject to the penalties for perjury, that the officer has not violated this chapter. An officer shall submit the certification to the executive of the unit not later than December 31 of each year."

Indiana Code 36-1-21-4 states in part: "This chapter establishes minimum requirements regarding contracting with a unit. The legislative body of the unit shall adopt a policy that includes, at a minimum, the requirements set forth in this chapter."

Indiana Code 36-1-21-6 states in part: "Each elected officer of the unit shall annually certify in writing, subject to the penalties for perjury, that the officer is in compliance with this chapter. An officer shall submit the certification to the executive of the unit not later than December 31 of each year."

BUDGET

The Town did not have an approved budget for 2013 or 2014.

The law requires the adoption of a balanced budget which shall include all anticipated revenues and expenses of every organizational unit with the exception of utilities. A budget is the record of a definite financial program for a given period of time and the means of carrying such program into effect. It shows the contemplated expenditures and their relation to the revenues received and expected. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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The Town Council approved donations of \$12,500 in 2013, and \$18,450 in 2014, to the Mount Ayr Projects Committee and \$5,000 to the Newton County Historical Society in 2013. These donations were made without a contract or an invoice for exchange of services rendered.

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TOWN COUNCIL
TOWN OF MOUNT AYR
EXIT CONFERENCE

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