

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF BUNKER HILL

MIAMI COUNTY, INDIANA

January 1, 2014 to December 31, 2015



FILED
06/23/2017

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Examination Results and Comments:	
Annual Financial Report.....	6
Condition of Records.....	6
Bank Account Reconciliations.....	7
Overpayment Collections	7
Disbursements by Debit Card and Electronic Payment.....	7-8
Errors on Claims	8-9
Overdrawn Cash Balances	9
Utility Receipts Tax	9
Fund Sources and Uses.....	9
Sales Tax Paid on Purchases.....	10
Capital Assets	10
Official Response.....	11
Exit Conference	12
Town Council:	
Examination Results and Comments:	
Overpayment Collections.....	14
Disbursements by Debit Card and Electronic Payment.....	14
Errors on Claims	15
Fund Sources and Uses.....	15
Internal Controls.....	16
Exit Conference	17

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Lisa Wilson Andrea Newnum	01-01-14 to 11-13-15 11-14-15 to 12-31-19
President of the Town Council	Robert Cox Angela Scott Cala Crist Richie Newnum Brock Speer	01-01-14 to 12-31-14 01-01-15 to 10-13-15 10-14-15 to 04-10-16 04-11-16 to 08-07-16 08-08-16 to 12-31-17
Superintendent of Utilities	Stephen Whybrew Rodney Deckard	01-01-14 to 02-16-17 02-17-17 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF BUNKER HILL, MIAMI COUNTY, INDIANA

This report is supplemental to our examination report of the Town of Bunker Hill (Town), for the period from January 1, 2014 to December 31, 2015. 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 Statements Examination Report of the Town, which provides our opinion on the Town's financial statements. 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

May 15, 2017

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CLERK-TREASURER
TOWN OF BUNKER HILL

CLERK-TREASURER
TOWN OF BUNKER HILL
EXAMINATION RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

The Annual Financial Reports (AFR) for 2014 and 2015 contained a number of errors and did not properly reflect the financial activity of the Town. The beginning balances reported for January 1, 2015, did not agree with the ending balances reported for December 31, 2014. The Town Court funds were not included on the reports. Transfers made in 2014 from the SEWAGE CASH OPERATING fund to the SEWAGE BOND AND INTEREST fund were not reported. In addition, the records used to prepare the AFRs did not properly reflect the financial activity of the Town as noted below in the comment entitled "Condition of Records."

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."

CONDITION OF RECORDS

Financial records presented for audit were incomplete and did not reflect the activity of the Town. The records presented did not provide sufficient information to examine or establish receipts, disbursements, ending balances, or the accuracy or correctness of the transactions.

Some of the deficiencies included:

1. Payroll transactions were recorded inconsistently and the PAYROLL fund was not properly used.
2. No attempt was made to print final, clean, receipt or disbursement reports on an annual or monthly basis. Instead, such reports were printed at random intervals and commingled along with various other printouts in three-ring binders.
3. Disbursements were recorded in the wrong funds, which prevented the correct fund from having a deficit balance. No record was kept of these amounts for later reimbursement.
4. Unsupported adjustments were made to both receipts and disbursements, which allowed the records to reconcile to the bank balances.
5. The accounting data files for 2014 were not backed up and were not available for examination due to computer failure in 2015.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF BUNKER HILL
EXAMINATION RESULTS AND COMMENTS
(Continued)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliations contained errors. During 2015, the former Clerk-Treasurer made 11 undocumented adjustments to receipts totaling \$68,530 and 13 undocumented adjustments to disbursements totaling \$39,295. These undocumented adjustments were not identified by the former Clerk-Treasurer.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

OVERPAYMENT COLLECTIONS

The Town failed to withhold the employees' share of group health insurance for all of 2014. As the result of a computational error, too much was withheld in 2015 from all covered employees, except one. The net effect of these errors caused overpayment of salaries to one current and six former employees.

Units must collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

DISBURSEMENTS BY DEBIT CARD AND ELECTRONIC PAYMENT

Examination of bank statements identified payments by electronic checks and debit cards totaling \$19,877 and \$14,970, in 2014 and 2015, respectively. The Town did not have a policy authorizing these types of transactions as required by statute and prescribed accounting guidelines.

Indiana Code 36-1-8-11.5(b) states:

"The fiscal body of a political subdivision or the board of a municipally owned utility may adopt a resolution to authorize an electronic funds transfer method of payment of claims. If a proper body adopts a resolution under this subsection, the political subdivision or municipally owned utility may pay money from its funds by electronic funds transfer."

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

1. The governing body must authorize debit/procurement 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 debit/procurement card may be used must be specifically stated in the ordinance/resolution.

CLERK-TREASURER
TOWN OF BUNKER HILL
EXAMINATION RESULTS AND COMMENTS
(Continued)

4. When the purpose for which the debit/procurement 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. Debit/procurement 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.

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

ERRORS ON CLAIMS

During the course of our examination and a concurrent special investigation, there were the following errors related to claims.

1. The Clerk-Treasurer did not present claims to the Town Council for approval until after they were paid.
2. Some claims were not listed on the claims dockets presented to the Town Council.
3. Claims for which there was insufficient supporting documentation were listed on the docket, approved, and paid.
4. There were claims listed on the docket with a vendor name different from the payee on the check.
5. Claims dockets for 2014 consisted of multiple manually prepared pages with a separate signature page. We were unable to determine if the pages listing the claims were the same pages presented to the Town Council when the signature page was signed.

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;

CLERK-TREASURER
TOWN OF BUNKER HILL
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (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. . . ."

OVERDRAWN CASH BALANCES

The financial statement presented for examination included the following funds with overdrawn cash balances:

<u>Fund</u>	<u>2014</u>
GENERAL FUND	\$ 2,691
UNSAFE BUILDING	1,348
FIRE PROTECTION	27,654
PAYROLL	163,018
WATER CASH OPERATING	1,875

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

UTILITY RECEIPTS TAX

The Water Utility did not pay any Utility Receipts Tax or file Utility Receipts Tax returns with the Indiana Department of Revenue for the years 2014 and 2015 until May 4, 2016, which was 385 and 19 days, respectively, after the due dates. As of the date of this report, the Indiana Department of Revenue had not assessed any penalties and interest for the late payments and filings.

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)

FUND SOURCES AND USES

The Town recorded receipts and disbursements in the SANITATION and COIT funds. Neither of these funds were required or created by law, grant agreement, or local ordinance. The transactions recorded in these funds should have been recorded in the GENERAL FUND.

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)

CLERK-TREASURER
TOWN OF BUNKER HILL
EXAMINATION RESULTS AND COMMENTS
(Continued)

SALES TAX PAID ON PURCHASES

The Town paid sales tax totaling \$4,113 on goods and services from utility and telecommunication service providers and an office supply store. The Town had contacted the service providers asking them to cease billing for sales tax. The Town was also in the process of applying to the Indiana Department of Revenue (DOR), for refunds of taxes already paid.

Government funds are exempt from the payment of sales taxes on qualifying purchases. Units should reference Internal Revenue Service and/or Indiana Department of Revenue guidance to determine what are or are not qualifying purchases. DOR information bulletin #34 addresses this: <http://www.in.gov/dor/reference/files/sib34.pdf>.

Units should contact the Indiana Department of Revenue to obtain the exemption certificate. After obtaining the exemption certificate, it must be presented at the time a purchase is made. If sales tax is paid erroneously, a refund application may be obtained from the Sales Tax Division of the DOR.

Sales taxes that are paid on qualifying purchases 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)

CAPITAL ASSETS

The Town did not maintain any record of capital assets owned.

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 detail 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)

TOWN OF BUNKER HILL



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State Board of Accounts
302 West Washington St, Room E 418
Indianapolis, In. 46204-2765

This is a response to the 2017 Audit for the Town of Bunker Hill.

When I was appointed to the position of Clerk Treasurer in November of 2015, I had no idea what I was getting into. The person who was previously in office was appointed and held the position for the remainder of the term (2 years). I was at that time the Utility Clerk for the town, and due to a hostile work environment, decided to run for the position. I had one month of off and on training with the extremely distracted out-going clerk treasurer, showing me the basics of paying claims, typing minutes, and reconciling bank statements for which would not balance without a very large adjustment. After taking office I quickly realized the duties of Clerk Treasurer were much more than what was instructed by the previous clerk. I finished out the year 2015 with a lot of assistance from State Board of Accounts as well as Keystone. I could not get the then current program Key Budget to balance, and found that the system had not be reconciled completely since early 2014. I with Council approval purchased Key Fund and Key Payroll to begin 2016 with the most up to date balances we could gather as well as providing our own payroll instead of outsourcing. I quickly found the ILMCT and with their help guided me through all the duties and responsibilities of the CT. Since taking office I have attempted to correct the errors that have been found from previous clerks.

Andrea Newnum
Clerk Treasurer, Town of Bunker Hill

CLERK-TREASURER
TOWN OF BUNKER HILL
EXIT CONFERENCE

The contents of this report were discussed on April 24, 2017, with Andrea Newnum, Clerk-Treasurer; Brock Speer, President of the Town Council; Shanna Griffis, Rae Ann Panther, Carl Wade, and Luis Nino, Town Council members.

The contents of this report were discussed on May 15, 2017, with Lisa Wilson, former Clerk-Treasurer, and Jeffrey D. Stanton, the former Clerk-Treasurer's personal attorney.

TOWN COUNCIL
TOWN OF BUNKER HILL

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EXAMINATION RESULTS AND COMMENTS

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TOWN OF BUNKER HILL
EXAMINATION RESULTS AND COMMENTS
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TOWN COUNCIL
TOWN OF BUNKER HILL
EXAMINATION RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROLS

Internal controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient. Much of the noncompliance described in this report involved the actions of the elected former Clerk-Treasurer. Therefore, internal controls within the Clerk-Treasurer's office would have been insufficient to detect or prevent the noncompliance. Because of the size of the Town and the structure of Town government in Indiana, it is important for the Town Council to take seriously their duties as enumerated in the Indiana Code. In particular, the Town Council members must diligently examine the claims that are presented for approval to ensure that all claims are supported by sufficient documentation. It may also be necessary and desirable for the Council to institute their own procedures to ensure that all disbursements clearing the Town's bank accounts have been presented to the Council for approval prior to payment, and that the payees and amounts agree with those listed on claims dockets.

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. . . ."

TOWN COUNCIL
TOWN OF BUNKER HILL
EXIT CONFERENCE

The contents of this report were discussed on April 24, 2017, with Brock Speer, President of the Town Council; Shanna Griffis, Rae Ann Panther, Carl Wade, and Luis Nino, Town Council members; Robert Cox, former President of the Town Council; and James Panther, former Town Council member.