

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

TOWN COUNCIL
TOWN OF SHIRLEY
HANCOCK COUNTY, INDIANA

January 1, 2012 to December 31, 2015



FILED
06/29/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Marla Kemerly Teresa Hester	01-01-12 to 12-31-15 01-01-16 to 12-31-19
President of the Town Council	A. Kyle Austin Dennis Denney	01-01-12 to 12-31-15 01-01-16 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF SHIRLEY, HANCOCK COUNTY, INDIANA

This report is supplemental to our examination report of the Town of Shirley (Town), for the period from January 1, 2012 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

April 12, 2017

TOWN COUNCIL
TOWN OF SHIRLEY
EXAMINATION RESULTS AND COMMENTS

INTERNAL CONTROLS

We noted deficiencies in the internal control system of the Town related to financial transactions and reporting. Internal controls over the preparation of the Annual Financial Report (AFR) were not adequate to prevent or detect errors on the financial statements. The Town prepared and submitted its financial information online through the Gateway system. The financial statements were compiled from the AFR information provided on the Gateway system. The Town did not have adequate controls in place to ensure the financial information reported was accurate.

The receipts and disbursements reported on the Town's Statement of Receipts, Disbursements, and Cash and Investment Balances did not agree to the Town's records in numerous instances resulting in the receipts, disbursements and balance being misstated on the Gateway system. Adjustments were proposed, accepted by the Town, and made to the Gateway system and related financial statements.

The failure to establish controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial recording and reporting.

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. . . ."

BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

Accounts receivable from Water and Wastewater billings totaling \$39,203 were written off the records in January 2016. A resolution approving the write-offs was passed by the Town Council in December 2015.

Additionally, collection policies had been previously approved by the governing board establishing procedures to collect past due utility balances. These procedures were not consistently followed prior to writing off these receivables.

TOWN COUNCIL
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EXAMINATION RESULTS AND COMMENTS
(Continued)

The governing body of a unit must have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balance. Documentation must exist for all efforts made by the unit to collect amounts owed prior to any write-offs. Write-offs or adjustments to records which are not documented or warranted may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CREDIT CARDS

The Town used credit cards to purchase items without an approved credit card policy.

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

1. The governing board 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.
8. If properly authorized, an annual fee may be paid.

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

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EXAMINATION RESULTS AND COMMENTS
(Continued)

CAPITAL ASSETS

The Town did not properly maintained a complete inventory of capital assets owned. All asset purchases and disposals were not recorded during the period.

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)

Assets purchased must be titled in the name of the unit. In instances where multiple units are purchasing an asset jointly, the asset must be titled in accordance with an interlocal agreement between the units. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CONFLICT OF INTEREST

The Town purchased a vehicle from a family member of a Town employee. A Uniform Conflict of Interest Disclosure Statement was not filed with the Indiana State Board of Accounts as required.

Indiana Code 35-44.1-1-4 states in part:

". . . (b) A public servant who knowingly or intentionally:

- (1) has a pecuniary interest in; or
- (2) derives a profit from;

a contract or purchase connected with an action by the governmental entity served by the public servant commits conflict of interest, a Level 6 felony.

(c) It is not an offense under this section if any of the following apply: . . .

(6) A public servant who makes a disclosure that meets the requirements of subsection (d) or (e) and is: . . .

- (B) appointed by an elected public servant;
- (C) employed by the governing body of a school corporation and the contract or purchase involves the employment of a dependent or the payment of fees to a dependent;
- (D) elected; or
- (E) a member of, or a person appointed by, the board of trustees of a state supported college or university. . . .

(d) A disclosure must:

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EXAMINATION RESULTS AND COMMENTS
(Continued)

- (1) be in writing;
- (2) describe the contract or purchase to be made by the governmental entity;
- (3) describe the pecuniary interest that the public servant has in the contract or purchase;
- (4) be affirmed under penalty of perjury;
- (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the governmental entity before final action on the contract or purchase;
- (6) be filed within fifteen (15) days after final action on the contract or purchase with:
 - (A) the state board of accounts; and
 - (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase . . ."

TOWN COUNCIL
TOWN OF SHIRLEY
EXIT CONFERENCE

The contents of this report were discussed on April 12, 2017, with Teresa Hester, Clerk-Treasurer; Dennis Denney, President of the Town Council; and Rebecca Perkins, Town Council member.