

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

SPECIAL INVESTIGATION REPORT

OF

CITY OF NEW CASTLE

HENRY COUNTY, INDIANA

January 1, 2016 to December 31, 2016



**FILED**  
07/12/2017



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**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF NEW CASTLE, HENRY COUNTY, INDIANA

This is a special investigation report for the City of New Castle (City), for the period January 1, 2016 to December 31, 2016, and is in addition to any other report for the City as required under Indiana Code 5-11-1. All reports pertaining to the City may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

We performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts and were limited to records associated with the purchases made using store credit accounts and credit cards. The 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.

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

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

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

March 28, 2017

CITY OF NEW CASTLE  
RESULTS AND COMMENTS

**UNAUTHORIZED PURCHASES**

During the period September 20, 2016 through December 30, 2016, Candace Hill (Hill), former purchasing agent, used store charge accounts and credit cards belonging to the City to make purchases of personal items, including tracfone minutes, Visa gift cards, Visa gift card reloads, and grocery items, totaling \$816.97.

Hill did not submit the cash register receipts or claims for the personal charges to the Clerk-Treasurer's office to be processed and paid by the City. As a result, these charges remained unpaid and late fees and interest accrued totaling \$173.38. One store notified the Clerk-Treasurer and Mayor through correspondence dated December 20, 2016, that the City's charge account was delinquent. The City investigated the delinquency and discovered some personal charges made by Hill. Hill's position with the City was terminated on December 31, 2016, due to funding cuts.

The City requested that Hill reimburse the City for unauthorized personal expenses of \$953.04, the amount of the personal charges and late fees and interest that had been identified in the internal investigation conducted by the City. Hill agreed to a withholding which was made from her final check, dated February 7, 2017. An additional personal charge in the amount of \$37.31 was discovered during the course of our investigation. The City requested that Hill reimburse the City an additional \$37.31 for personal purchases, which had not been previously identified by the City. On March 10, 2017, the City received the additional reimbursement of \$37.31. (See Summary of Charges, page 8)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the unit. Any personal expenses 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)

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)

CITY OF NEW CASTLE  
RESULTS AND COMMENTS  
(Continued)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any official or employee may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

***INTERNAL CONTROL WEAKNESSES***

Internal control weaknesses existed that contributed to Hill's ability to make unauthorized purchases. These weaknesses and recommendations for modifying the necessary internal control policies and procedures to prevent a recurrence of the problem are addressed in a separate letter to Management.

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. . . ."

CITY OF NEW CASTLE  
EXIT CONFERENCE

The contents of this report were discussed on March 28, 2017, with Greg York, Mayor; Christy York, Clerk-Treasurer; Mark Koger, President of the Common Council; and David L. Copenhaver, City Attorney.

HAYES COPENHAVER CRIDER HARVEY, LLP  
(FORMERLY SCOTTEN & HINSHAW)

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E.G. SCOTTEN 1877-1957

J.R. HINSHAW 1883-1970

J.R. STANLEY 1910-1980

G.W. HAND 1919-1995

April 3, 2017

State Board of Accounts  
302 W. Washington Street, Room 418  
Indianapolis, Indiana 46204-2765  
Attn: Lisa David

Re: My client: City of New Castle, Indiana  
Subject: Official Response to Special Compliance  
Report - January 1, 2016 to December  
31, 2016

Dear Ms. David:

Please accept this letter as the official response to the Special Compliance Report of the City of New Castle for the period indicated above.

You should be advised that I am the New Castle City Attorney and you will note below that both the Mayor and Clerk-Treasurer have indicated their approval of this response.

The City of New Castle agrees with your findings. The City was pleased that its internal audit procedures discovered the illegal acts committed by its former employee, Candace Hill, shortly after her employment with the City ended. It should be noted that her discharge from the City on December 30, 2016 was due to budgetary reasons which forced the elimination of her position. As her employment with the City caused her to be involved in the purchasing process, her activities were routinely reviewed. Upon her leaving, a full audit was made by the City's Clerk-Treasurer's office. That resulted in the findings which were confirmed by your audit that the employee had allowed City accounts to become delinquent and discovered improper personal charges made by the employee. As pointed out by the audit findings, the improper expenditures were discovered

prior to the employee receiving her final payments from the City and she agreed to reimburse the City from those funds.

While the City is pleased that its internal controls worked effectively in this matter, it would agree that it should continue to take steps to improve those internal procedures as recommended by your audit. It will do so.

The City would also agree that public trust is a fragile commodity. Once broken, it taints all public employees and restoring that trust is extremely difficult. For this reason, the City promptly reported this matter to both your office and the Henry County Prosecutor's Office. Should further action be deemed necessary, the City will cooperate fully with any prosecution commenced in this matter. While the City was pleased that restitution has been made, it undoubtedly will incur additional administrative expenses as a result of the employee's improper and illegal conduct (i.e. billing by the SBOA for its services provided in conducting its audit). The City, on behalf of the taxpayers, should receive reimbursement of these administrative costs from the employee. The City of New Castle appreciates the prompt response it received from the Indiana State Board of Accounts in conducting its compliance review upon receipt of notice from the City of this matter.


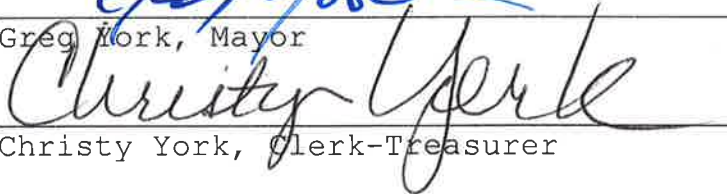
Respectfully,

CITY OF NEW CASTLE, INDIANA

By:   
David L. Copenhagen

DLC:kdm

The above official response of the City of New Castle was read by and approved by Greg York, Mayor, and Christy York, Clerk-Treasurer, for and on behalf of the City of New Castle this 3rd day of April, 2017.

  
\_\_\_\_\_  
Greg York, Mayor  
  
\_\_\_\_\_  
Christy York, Clerk-Treasurer

CITY OF NEW CASTLE, HENRY COUNTY  
SUMMARY OF CHARGES  
(Due to Malfeasance, Misfeasance, or Nonfeasance)

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Candace Hill, former Purchasing Agent: Unauthorized Purchases, pages 3 and 4	\$ 990.35	\$ 990.35	\$ -

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