

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

COMPLIANCE REPORT

OF

LUCE TOWNSHIP

SPENCER COUNTY, INDIANA

January 1, 2012 to December 31, 2015



**FILED**  
10/10/2017



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Results and Comments:	
Overpayment of Compensation .....	4
Employee Share of Withholdings Paid by Township .....	4-5
Payments to Relatives .....	5-6
Payments to Township Clerk .....	6
Advanced Payments of Compensation .....	6
Contractual Services .....	6-7
Interest on Investments .....	7
Appropriations .....	7
Withholding Taxes .....	8
W-2s Not Issued to Employees .....	8
Incorrect W-2 Wages Reported .....	8
100-R Report Errors .....	8
Penalties, Interest, and Other Charges .....	9
Nepotism Policy .....	9
Contracting Policy .....	9
Internal Controls .....	9-10
Exit Conference .....	11
Official Response .....	12-14

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Trustee	Sarah L. Frederick	01-01-11 to 12-31-18
Chairman of the Township Board	Larry Blair Bonnie Young	01-01-12 to 12-31-14 01-01-15 to 12-31-17



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF LUCE TOWNSHIP, SPENCER COUNTY, INDIANA

As authorized under Indiana Code 5-11-1, we performed certain procedures to the accounting records and related documents of Luce Township (Township), Spencer County, for the period January 1, 2012 to December 31, 2015, to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts.

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.

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

The Annual Financial Reports filed by the Township can be found on the Gateway website: <https://gateway.ifionline.org/>.

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

April 28, 2017

LUCE TOWNSHIP, SPENCER COUNTY  
RESULTS AND COMMENTS

**OVERPAYMENT OF COMPENSATION**

Sarah L. Frederick, Trustee, received \$399.02 in excess of the compensation approved by the Township Board for the year 2013. A comparison of actual to approved compensation is detailed in the following schedule:

	2013
Township Trustee:	
Board Approved Compensation	\$ 10,375.00
Actual Compensation Paid	10,774.02
Overpayment of Compensation - Trustee	\$ (399.02)

Indiana Code 36-6-6-10(b) states:

"The township legislative body shall fix the:

- (1) salaries;
- (2) wages;
- (3) rates of hourly pay; and
- (4) remuneration other than statutory allowances;

of all officers and employees of the township."

On September 5, 2017, the Trustee entered into an agreement with the Township Board to reimburse the Township \$399.02 by December 31, 2017, for the Overpayment of Compensation.

**EMPLOYEE SHARE OF WITHHOLDINGS PAID BY TOWNSHIP**

The employee's share of Social Security and Medicare for 2012, 2013, 2014, and 2015 were calculated incorrectly. This was due to the computerized ledger system calculating 4.2 percent being withheld for the employee's share instead of the Internal Revenue Service (IRS) required 6.2 percent. The errors noted resulted in the Township paying \$415.76 and \$1,198.46 of withholdings due from Frederick and the Township Clerk, respectively.

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

On September 5, 2017, the Trustee entered into an agreement with the Township Board to reimburse the Township \$415.76 by December 31, 2017, for the employee's share of withholdings paid by the Township.

LUCE TOWNSHIP, SPENCER COUNTY  
RESULTS AND COMMENTS  
(Continued)

On September 5, 2017, the Township Clerk entered into an agreement with the Township Board to reimburse the Township \$1,198.46 by December 31, 2017, for the employee's share of withholdings paid by the Township.

**PAYMENTS TO RELATIVES**

Payments were made to relatives of the Trustee and Township Clerk for cemetery maintenance and repair, ball field maintenance, mowing, and cleaning services without supporting documentation or a contract for the services provided. The total payments to relatives for 2012, 2013, 2014, and 2015 totaled \$10,729.38, \$3,245, \$1,780, and \$800, respectively. The Trustee did not present written disclosure filed with Township that they were contracting with relative to perform services for the Township. Payments made to relatives were not properly reported on IRS Form 1099.

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

Indiana Code 36-1-21-5(b) states in part:

"A unit may enter into a contract or renew a contract with an individual or business entity described in subsection (a) if:

- (1) the elected official files with the unit a full disclosure, which must:
  - (A) be in writing;
  - (B) describe the contract or purchase to be made by the unit;
  - (C) describe the relationship that the elected official has to the individual or business entity that contracts or purchases;
  - (D) be affirmed under penalty of perjury;
  - (E) be submitted to the legislative body of the unit and be accepted by the legislative body in a public meeting of the unit prior to final action on the contract or purchase; and
  - (F) be filed, not later than fifteen (15) days after final action on the contract or purchase, with:
    - (i) the state board of accounts; and
    - (ii) the clerk of the circuit court in the county where the unit takes final action on the contract or purchase; . . ."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination 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 Townships, Chapter 1)

LUCE TOWNSHIP, SPENCER COUNTY  
RESULTS AND COMMENTS  
(Continued)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

***PAYMENTS TO TOWNSHIP CLERK***

Payments were made to the Township Clerk for cemetery maintenance and repair, ball field maintenance, mowing, and cleaning services without supporting documentation or a contract for services provided outside her normal Township and Fire Territory duties totaling \$17,716.49. The total payments to the Township Clerk for 2012, 2013, 2014, and 2015 for these services was \$4,310, \$3,181.49, \$2,650 and \$7,575, respectively. The payments to the Township Clerk were not reported on IRS Form W-2 or 1099.

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination 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 Townships, Chapter 1)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

***ADVANCED PAYMENTS OF COMPENSATION***

The Township paid compensation to the Township Clerk in advance of the actual date the services were provided. The Township Clerk's approved compensation was not calculated based on the number of pay's within the year, but consistently paid at a higher salary rate at the beginning of each year than at the end of each year.

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

***CONTRACTUAL SERVICES***

The Township paid \$7,584.80, \$3,540, \$1,950, and \$2,525 in 2012, 2013, 2014, and 2015, respectively, for cemetery maintenance and mowing, ball field maintenance, and cleaning services without supporting documentation or a contract. These services were not reported on IRS Form 1099.

LUCE TOWNSHIP, SPENCER COUNTY  
RESULTS AND COMMENTS  
(Continued)

In 2013, 2014, and 2015, contracts in the amount of \$1,140, \$7,600, and \$14,875, respectively, for cemetery maintenance and mowing and ball field maintenance were presented; however, the amounts paid were not reported on IRS Form 1099.

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination 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 Townships, Chapter 1)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

**INTEREST ON INVESTMENTS**

Interest earned on investments was automatically added to the principal and not recorded in the records. This caused underreporting of interest revenue and investments.

Interest on investments should not be added automatically to 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 Townships, Chapter 1)

**APPROPRIATIONS**

The records presented indicated the following expenditures in excess of budgeted appropriations:

Fund	Years	Excess Amount Expended
Township	2012	\$ 5,657.07
Recreation	2012	5,520.01
Township	2013	92.66

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

LUCE TOWNSHIP, SPENCER COUNTY  
RESULTS AND COMMENTS  
(Continued)

**WITHHOLDINGS TAXES**

Township Board members were paid without the Township withholding Social Security and Medicare taxes for 2012 and 2013.

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

**W-2s NOT ISSUED TO EMPLOYEES**

W-2s were not issued to Township Board members for 2012 and 2013. W-2s were not issued to part-time employees for 2012, 2013, 2014, and 2015.

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

**INCORRECT W-2 WAGES REPORTED**

Wages reported on W-2s for the Township Clerk did not agree with compensation paid from the ledger in 2012 and 2013. Wages were underreported by \$172.50 in 2012 and \$500 in 2013.

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

**100-R REPORT ERRORS**

The Certified Report of Names, Addresses, Duties and Compensation of Public Employees (Form 100-R) was incomplete. In 2012, Township Board members were excluded from the report and the Township Clerk's salary was underreported by \$172.50. In 2013, the Township Clerk's salary was underreported by \$500 and in 2014 one Township Board member was excluded.

Indiana Code 5-11-13-1(a) states in part:

"Every . . . township . . . 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 in their respective offices, departments, boards, commissions, and institutions, 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. . . ."

LUCE TOWNSHIP, SPENCER COUNTY  
RESULTS AND COMMENTS  
(Continued)

**PENALTIES, INTEREST, AND OTHER CHARGES**

The Township paid penalties, interest, and other charges to the IRS, Indiana Department of Revenue, and Indiana Department of Workforce Development in the amounts of \$241.59, \$112.53, and \$5, respectively, because the Township did not remit payments on a timely basis. These charges came from tax remissions dated in the years of 2011, 2012, 2013, and 2015.

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 Townships, Chapter 1)

**NEPOTISM POLICY**

The Township did not have a Nepotism Policy for 2012 and 2013.

Indiana Code 36-1-20.2-9(a) 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. . . ."

**CONTRACTING POLICY**

The Township did not have a Contracting Policy for 2012 and 2013.

Indiana Code 36-1-21-4(a) 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. . . ."

**INTERNAL CONTROLS**

The Trustee was responsible for all aspects of the Township's financial activity. However, the Township Clerk performed most of the financial duties which included: preparing checks; recording financial transactions in the financial ledger; and reporting payroll information and remitting payroll taxes.

Due to the lack of segregation of duties, overpayment of compensation and employee share of federal withholdings were paid by the Township and were able to occur and not be identified timely. The Trustee serves as the Township executive and Township Fiscal Officer and is responsible for ensuring all financial activity is properly performed. However, the Trustee or Advisory Board did not set up a system of internal controls to ensure these excess payments did not occur. As a result, there is no oversight of Township financial activity on an ongoing basis by another official.

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:

LUCE TOWNSHIP, SPENCER COUNTY  
RESULTS AND COMMENTS  
(Continued)

"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. . . ."

LUCE TOWNSHIP, SPENCER COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on April 28, 2017, with Sarah L. Frederick, Trustee; Angela F. Beier, Township Clerk; Bonnie Young, Chairman of the Township Board; Twila Kempf, Township Board member; and Ramona Beatty, Township Board member.

***BRUCE E. CISSNA***  
***Attorney at Law***  
***P. O. Box 296***  
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September 27, 2017

Indiana State Board of Accounts  
Ms. Karen Kelleher  
Special Investigations Coordinator  
3913 Coopers Ln.  
Sellersburg, IN 47172

Indiana State Board of Accounts  
Lisa David (electronically)  
[ldavid@sboa.in.gov](mailto:ldavid@sboa.in.gov)

**OFFICIAL RESPONSE**

Please accept this letter as an Official Response to the Financial Statement Examination Report of Luce Township, Spencer County, Indiana, January 1, 2012, to December 31, 2015.

1. Overpayment of Compensation.  
This has been resolved.
2. Employee Share of Withholdings Paid By Township. This was a result of a computerized ledger system error. This same computerized ledger system had been used for several prior years without any problem. There was no reason to suspect this problem existed. It has been corrected.
3. Payments to Relatives. All work for which payments were made was performed. The reporting problems have been corrected.

4. Payments to Clerk. The payments for cemetery maintenance and repair, ball field maintenance, mowing and cleaning services were performed and were outside the scope of the Clerk's duties as Clerk. The issue of reporting with the Internal Revenue Service is an issue for them to determine and they have not raised any issues concerning this matter. All corrective actions concerning anything else have been taken.
5. Advanced Payments of Compensation. Compensation was paid after the work was performed, rather than in equal monthly payments. No payments were made for services not performed..
6. Contractual Services. All work for which payments were made was performed. The issue of reporting with the Internal Revenue Service is an issue for them to determine and they have not raised any issues concerning this matter. All corrective actions concerning anything else have been taken.
7. Interest on Investments. Interest earned was reported on the annual report and to the Department of Local Government Finance. Allowing interest to accrue on the invested Certificates of Deposit resulted in a higher interest rate and thus more income for the Township. This practice has been done for years and was never criticized in prior audits.
8. Appropriation. Any monies expended over the annual budget was from encumbered appropriations from the prior years.
9. Withholding Taxes. Funds paid to Board Members were reported on a Form 1099. This is an issue to be determined with the IRS if the Form 1099 was inadequate. In any event, this resulted in a savings to the Township.
10. W-2 Form Not Issued To Employees. See explanation on "Withholding Taxes" response.
11. Incorrect W-2 Wages Reported. Any incorrect reporting was due to a computer programming error. This computer program had been pre-approved by the State Board of Accounts. This is an issue to be settled with the IRS and taxing authorities.

Indiana State Board of Accounts  
Karen Kelleher  
Lisa David  
September 27, 2017  
Page 3

12. 100-R Report Errors. This report was the result of errors in the computerized ledger system and has been corrected.
13. Penalties Interest and Other Charges. These penalties were from 2011 which is beyond the scope of this audit and the Statute of Limitations.
14. Nepotism Policy. This has been corrected.
15. Contracting Policy. This has been corrected.
16. Internal Controls. All feasible internal controls are in place. With only a two-person office, additional control steps are impossible.

Respectfully submitted,



Bruce E. Cissna,  
Attorney for Luce Township  
Trustee and Advisory Board

BEC/ao