

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

COMPLIANCE REPORT

OF

HANOVER TOWNSHIP

SHELBY COUNTY, INDIANA

January 1, 2011 to December 31, 2016



FILED
10/24/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Trustee	Shirley Shepherdson	01-01-11 to 12-31-18
Chairman of the Township Board	Jerry Wilhelm	01-01-11 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF HANOVER TOWNSHIP, SHELBY COUNTY, INDIANA

As authorized under Indiana Code 5-11-1, we performed certain procedures to the accounting records and related documents of Hanover Township (Township), Shelby County, for the period January 1, 2011 to December 31, 2016, 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

June 21, 2017

HANOVER TOWNSHIP, SHELBY COUNTY
RESULTS AND COMMENTS

DEPOSITORY RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were not presented for January 1, 2011 through December 31, 2016. The reconcilments were not completed by the Trustee. Several posting errors were noted, such as a double posting, items not posted, and items not posted in the correct amounts. We identified \$1,862.77 in reconciling differences at December 31, 2016.

A similar comment appeared in prior Report B39978.

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 balance statements provided by the respective depositories."

ANNUAL FINANCIAL REPORTS

The Annual Financial Reports (AFR) filed on Gateway for 2011, 2012, 2013, 2014, and 2015 did not match the Township's records. The differences noted are shown below:

Years	Fund	Category	Amount per AFR	Amount per Township Ledger	Difference
2011	Township	Beginning Balance	\$ 36,561.03	\$ 35,561.03	\$ 1,000.00
2011	Township	Receipts	32,678.56	29,298.53	3,380.03
2011	Township	Disbursements	42,146.33	38,766.30	3,380.03
2011	Township	Ending Balance	27,093.26	26,093.26	1,000.00
2012	Township	Beginning Balance	27,093.26	26,093.26	1,000.00
2012	Township	Receipts	38,501.89	38,096.83	405.06
2012	Township	Disbursements	39,965.97	39,535.97	430.00
2012	Township	Ending Balance	25,629.18	24,610.12	1,019.06
2013	Township	Beginning Balance	25,629.18	24,610.12	1,019.06
2013	Township	Receipts	35,815.36	35,815.38	(0.02)
2013	Township	Ending Balance	20,166.60	19,147.56	1,019.04
2014	Township	Beginning Balance	20,166.60	19,147.56	1,019.04
2014	Township	Receipts	40,417.98	41,417.98	(1,000.00)
2014	Township	Disbursements	44,061.06	44,042.02	19.04
2015	Township	Receipts	42,769.17	42,919.57	(150.40)
2015	Township	Disbursements	44,949.68	45,100.08	(150.40)
2015	Township Assistance	Receipts	-	580.00	(580.00)
2015	Township Assistance	Disbursements	2,212.08	2,792.08	(580.00)
2015	Fire Fighting	Receipts	53,788.08	59,489.08	(5,701.00)
2015	Fire Fighting	Disbursements	50,000.00	55,701.00	(5,701.00)

Additionally, the Township Board minutes did not indicate the required meetings to review and adopt the Annual Reports in accordance with Indiana Code 36-6-6-9 for 2011, 2012, 2013, 2014, 2015, and 2016.

HANOVER TOWNSHIP, SHELBY 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)

Indiana Code 36-6-6-9(a) states: "The legislative body shall meet on or before the third Tuesday after the first Monday in February of each year. At this meeting it shall consider and approve, in whole or in part, the annual report of the executive presented under IC 36-6-4-12."

INTERNAL CONTROLS

Accounting duties were not adequately segregated. The Trustee was the only office employee. As such, the Trustee was responsible for all accounting functions, including the receiving and disbursing of funds, posting the ledger, reconciling, 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. . . ."

SUPPORTING DOCUMENTATION

Several payments, including those made by credit card, were observed which did not contain adequate supporting documentation such as receipts and invoices. Contracts for cemetery mowing and the approved rate of pay for employees were not always adequately documented. Due to the lack of supporting information, the validity and accountability for some monies disbursed could not be established.

A similar comment appeared in prior Report B39978.

Mileage reimbursements to the Trustee did not have adequate supporting documentation. The Trustee was paid lump sum amounts of \$600, \$700, and \$700 in 2011, 2012, and 2013, respectively, rather than basing the payments on actual miles driven. The Trustee did not use Mileage Claim, Form 101, to document the number of miles driven or the reimbursement rates for these years.

HANOVER TOWNSHIP, SHELBY COUNTY
RESULTS AND COMMENTS
(Continued)

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)

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

PERSONAL EXPENSES

Several payments were observed which did not appear to be for Township business purposes. These included payments for Christmas dinners for the Trustee, Township Board members and their spouses, magazine and newspaper subscriptions, purchases of holiday cards, and excessive toner purchases.

A membership to Sam's Club was purchased in 2011, 2012, and 2013 with Township funds. There were no purchases from Sam's Club during these years. In addition to the Trustee, a person who was not employed by the Township was included on the membership.

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 Townships, Chapter 1)

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 Townships, Chapter 1)

CONTRACTS

Payments made for fire protection in 2011 and 2012 were supported by a written interlocal agreement. During 2005, by way of the interlocal agreement, the Township and the Town of Morristown created a joint fire board called the Morristown-Hanover Township Fire and Emergency Medical Board. However, the agreement between the Township and the Town of Morristown did not contain specific funding amounts. Per the agreement, ". . . the board finances its operations by monetary contributions from the Township and Town in such amounts and upon such conditions as the payors may determine from time to time." The Township paid \$20,000 in 2011 and \$40,000 in 2012 for fire protection.

A similar comment appeared in prior Report B39978.

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 Township, Chapter 1)

HANOVER TOWNSHIP, SHELBY COUNTY
RESULTS AND COMMENTS
(Continued)

PREPAID CARDS AND GIFT CARDS

Over \$10,000 in prepaid cards and gift cards were purchased from Sam's Club and Home Depot with Township funds to facilitate the purchasing of furnishings for the new fire house. The cards were then used by Volunteer Fire Department personnel to purchase various items.

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Township, Chapter 1)

APPROVAL OF SALARIES

The Township Board minutes did not indicate that the Township Board fixed the salaries of Township officers and employees for 2011, 2012, 2013, 2014, 2015, and 2016.

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

"The township legislative body shall fix the:

(1) salaries;

(2) wages; . . .

of all officers and employees of the township."

CREDIT CARDS

The Township was using a credit card to make purchases without a credit card policy approved by the Township Board.

A similar comment appeared in prior Report B39978.

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

1. The governing body 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.

HANOVER TOWNSHIP, SHELBY COUNTY
RESULTS AND COMMENTS
(Continued)

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 authorized, an annual fee may be paid.

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

PURCHASING BONUSES

A benefit of the Township credit card is that bonus points are earned based on the amount of purchases made. The Township has not redeemed these points. Several thousand bonus points have expired and are no longer available for use by the Township.

Any compensation, premium, bonus, or product earned as a result of the purchase of goods or services by the unit becomes the property of the unit. Any amounts received by an official or employee may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

TRAVEL POLICY

The Township does not have a travel policy in place. There should be a travel policy in place regarding travel status, lodging, meals, and reimbursements.

Each unit must adopt a written travel policy in conformity with applicable laws. Reimbursement for lodging and meals must be based upon actual receipts for amounts paid unless otherwise authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

APPROPRIATIONS

The records presented indicated disbursements in excess of budgeted appropriations in the amount of \$280 for the Fire Fighting fund in 2013.

A similar comment appeared in prior Report B39978.

HANOVER TOWNSHIP, SHELBY COUNTY
RESULTS AND COMMENTS
(Continued)

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."

CAPITAL ASSETS

Information presented did not indicate an inventory or record of capital assets purchased.

A similar comment appeared in prior Report B39978.

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 Townships, Chapter 1)

OPTICAL IMAGES OF CHECKS

The financial institution did return optical images of the cancelled checks with the monthly bank statements. However, the original statements were not available for all months and the reprinted statements obtained did not include optical images of checks.

Indiana Code 5-15-5.1-10(a) states in part:

"Each . . . local government shall:

- (1) Make and preserve records containing adequate and proper documentation of . . . essential transactions of the . . . local government to protect the legal and financial rights of the government . . ."

Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference. . . .

(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a). . . ."

HANOVER TOWNSHIP, SHELBY COUNTY
EXIT CONFERENCE

The contents of this report were discussed on July 24, 2017, with Shirley Shepherdson, Trustee.



OFFICIAL RESPONSE TO 07/24/2017 EXIT CONFERENCE WITH DAVID BIXLER

1 message

Hanover Trustee <hanover.trustee@gmail.com>
To: Lisa David <ldavid@sboa.in.gov>

Sun, Jul 30, 2017 at 4:35 PM

"OFFICIAL RESPONSE"

I asked to write an "official response" to the topics addressed in my exit audit on July 24, 2017.

I will try to do just that with the following:

When our entire county was audited in (I believe 2014) I had a "preliminary exit conference" with David Bixler. I did address many of the problems pointed out to me at the time. I did not, however, ever receive a bill for my audit or a final conference, even though I contacted the state many times. I do not mean to sound so critical (I know you are very limited on people to do this work) but, how can I address the problems if my questions and requests are not completed in a timely manner. I was then told that before my audit would be done I needed to furnish 2014 and 2015 records. In no way fault Mr. Bixler for this as I feel he is sent from one place to another almost without notice. Before we finished he asked for 2016 information which I provided.

At this time I am going to address each of my results and comments from my exit this past week, to the best of my ability from the beginning.

1. DEPOSITORY RECONCILIATIONS

This has been a problem for quite some time and I have repeatedly asked for assistance to get my totals in line so I could keep an accurate reconciliation. I knew I always had more money than my records showed so I didn't panic because I knew it was an accounting error. I do hope and believe that with this exit information I can bring my records in compliance.

2. ANNUAL FINANCIAL RECORDS

I have always tried to do my annual reports as timely and accurately as possible. I believe that we can now address the records.

3. BOARD RECORDS

I have an all male board and always have. They are great. The one problem I have is that none of them want to be secretary or keep detailed minutes. We always discuss and approve every activity that is a part of trustee and board responsibilities. The problem is that not all information gets recorded that way. I will encourage that we work at more accurate record keeping.

4. INTERNAL CONTROLS

You are correct that I am the only one handling any of the duties. (I am Trustee, investigator, secretary, file clerk, receptionist, custodian, record keeper, mail opener, check depositor and any other duty that must be done in our office). I have been doing this since 1991 and I can assure that any mistake is a human error and not a deliberate covering of facts. That said, we have fully addressed the Internal Controls. We all went to a training in 2016 and set up our schedule for trying to make this work efficiently and quickly. My board chairman will do a monthly check of my records. I have patterned this after the class I helped Lyle Lepper (Moral Township) teach last year. This form should help to make it easy and fairly simple to check all records, deposits, twp. asst. and other township business. Hopefully SBOA will find our efforts to be well documented in our next audit.

5. SUPPORTING DOCUMENTS

I believe that I have answered most of these things in my emails to Mr. Bixler when we had the preliminary audit of 2010-2013 records. I am keeping documented travel records and to better manage my receipts.

6. PERSONAL EXPENSES

These items were already addressed in earlier correspondence. I no longer take my board to dinner during our reorganization meeting (even though I know some townships do), I do not buy township cards from what appear to SBOA as personal to avoid perception (this again is overly cumbersome since I can buy things after Christmas thru these vendors for up to 80% off of what a "business card vendor" charges me. I can't promise I will never do this because I feel that you are causing me to spend township funds that are not necessary. The Sam's Club Card was done for the Fire Dept to help furnish their new building and I no longer have a card to Sam's Club. No one

in our fire department or township office has used township money for personal gain!

7. CONTRACTS

This problem seems to be in a difference of opinion between SBOA and our Town and Township. In 2005 my township president, Stephen Cory and I contacted our attorney Phil Brown about a board made up of the town and township. This was after discussing the matter with the town. Our attorney worked with Charles Nemeth at SBOA at the time to see if this would be a possibility. We knew that there was many factors that were swirling about doing away with trustees and their boards (local government) and since we had purchased 7 pieces of fire equipment from the township and the town only one we wanted to be sure that if township government went away our equipment would be taken over by the town. After much work and many meeting an agreement was reached and we have that board still. At the organization there were 7 members on the board, and now there are nine (the town added 2 members to their council a few years ago. This works great for our community and keeps spending in control. Both entities contribute to the fund as their dollars allow.

8. GIFT CARDS

I don't know what you are talking about where the \$10,000 prepaid cards and gift cards are concerned. This was handled by our fire dept. and I was never aware of such a procedure. I will be checking into where this idea came from.

9. APPROVAL OF SALARIES

I have tried to always have a form 17 approved that shows all salaries. I was not aware that we were not recording this. I guess our board including myself has gotten lax on double checking that everything approved in meetings are written down in minutes.

10. CREDIT CARDS

Our township does have a credit card policy. One of our audits (I guess it was a last copy) the sheet was not returned in our paperwork from SBOA. I believe that if was in the last couple years that we did another one for the records. It should be with our thing transmitted through Gateway.

11. PURCHASING BONUSES

Our township has only received maybe one or two bonus cards years ago and they were used for township business. I will watch more carefully and be sure that we take advantage of these bonuses.

12. TRAVEL POLICY

My board will be putting together an updated travel policy and be more inclusive with what is covered.

13. CAPITAL ASSETS

Our fire department does give us a computer disc every year of all their equipment. I have just never thought to include this with my audit material. The township owns very little in my home office but we will make a spreadsheet with what we have and have it approved by the board and updated if we add anything.

14. OPTICAL IMAGES OF CHECKS

I have questioned the banks and they no longer keep the optical images for longer than 18 months where we can access them. We will have to pay to get them. Hopefully we can see that any printout we might need is done in that time period.

15. DISCUSSION OF BULLETED ITEMS 01/01/11 THROUGH 12/31/16

* I am not sure that I still understand this item. I have always listed withholdings in book. No one ever said that I was to list it in a separate way in the annual report. I will try to comply.

* This payroll item was already corrected earlier when it was found.

* I have always deducted late fees or paid them myself (if I felt it was my fault) Nine Star was the only company we had an ongoing dispute and I still do not feel that was a problem of the township. They waived a portion and still made us pay some. I did not pay this myself because it was not because of any negligence on my part.

* I have corrected the one Mr. Bixler showed me had the wrong code. I had used the ITA'S form as it was done and apparently it was the same as the employment one.

* I was told old checks should be receipted back into the book but they didn't think I had any. I'm not quite sure why this is an issue if this is the case. In years past I have receipted back old checks but not in this audit cycle because there was none.

* Because of our local paper not publishing on Saturday and Monday my attorney thought he should take care of this to be sure that it was timely. We had it ready for a timely publication. What the paper told him they would publish they did not. That is the only time since 1991 that I have ever had a publication published late.

* I'm not sure about this item on cemeteries. If it is as I read it there should not be a problem. If it means they were not always documented correctly then I will certainly try to fix this problem with the board.

Please make this a part of my exit audit for July 24, 2017. I have not responded before but I feel there are so many that I need to answer and hopefully correct anything that is really important. For the most part I already have. I still have a problem that these things are not enforced fairly across the board with various trustees. The ones who really do not care seem to get a pass and those of us trying to do the right thing seem to be a target.

Respectfully,

Shirley A. Shepherdson
Hanover Township Trustee
Fire Board Treasurer
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Morristown IN 46161
Ph.# 765-763-6415
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