

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

SPECIAL INVESTIGATION REPORT
OF

CLERK-TREASURER
TOWN OF KENNARD
HENRY COUNTY, INDIANA

January 1, 2013 to October 28, 2015



FILED
03/28/2018

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STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE TOWN OF KENNARD, HENRY COUNTY, INDIANA

This is a special investigation report for the Town of Kennard (Town), for the period January 1, 2013 to October 28, 2015, and is in addition to any other report for the Town as required under Indiana Code 5-11-1. All reports pertaining to the Town may be found at 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 utility collections. 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.

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

November 13, 2017

CLERK-TREASURER
TOWN OF KENNARD
RESULTS AND COMMENTS

NONPAYMENT OF PERSONAL UTILITY BILLS

Amounts were posted as paid to the utility account of Karen Stanley (Stanley), former Clerk-Treasurer, from the period January 1, 2013 to October 28, 2015, that were not supported by actual payments.

The following schedule details the unpaid charges to the account of Stanley:

Years	Number of Months	Monthly Rate	Unpaid Sewer	Unpaid Penalty	Total Unpaid Charges
2012(a)	8	\$ 45.21	\$ 361.68	\$ 40.68	\$ 402.36
2013(b)	2	45.21	90.42	9.04	99.46
2013(c)	3	76.40	229.20	53.48	282.68
2014	12	76.40	916.80	91.68	1,008.48
2015	4	76.40	305.60	53.48	359.08
Totals			<u>\$ 1,903.70</u>	<u>\$ 248.36</u>	<u>\$ 2,152.06</u>

- (a) - These months were recorded as being paid in 2013.
- (b) - Old rate for January and February billings.
- (c) - New rate starting with March billing.

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

Documentation must exist for all efforts made by the unit to collect amounts owed prior to any write-offs or adjustments. 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 and Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

We requested that Stanley reimburse the Town for nonpayment of personal utility bills in the amount of \$2,152.06. (See Summary of Charges, page 9)

RECEIPTS NOT DEPOSITED

Stanley became Clerk-Treasurer on August 3, 2012. Her duties included collecting payments, issuing receipts, and recording the receipts in the Town's accounting records. During the period January 1, 2013 to October 28, 2015, receipts were issued from the prenumbered receipt book which were not deposited in the Town's bank accounts. The following schedule details these receipts by year:

CLERK-TREASURER
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RESULTS AND COMMENTS
(Continued)

<u>Years</u>	<u>Amount</u>
2013	\$ 1,193.50
2014	1,653.00
2015	<u>2,234.12</u>
Total	<u>\$ 5,080.62</u>

Indiana Code 5-13-6-1(d) states in part:

". . . a city . . . or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories:

- (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and
- (2) approved as depositories of state funds."

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the unit. The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of the payers. (Accounting and Uniform and Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform and Compliance Guidelines Manual for Cities and Towns, Chapter 1)

We requested that Stanley reimburse the Town for receipts not deposited in the amount of \$5,080.62. (See Summary of Charges, page 9)

INTERNAL CONTROLS

Internal control weaknesses existed that contributed to Stanley's ability to make unsupported entries to the accounts receivable records and to fail to deposit all payments received. Stanley, as the only employee in the accounting office, was responsible for billing wastewater customers, collecting payments from customers, preparing deposit slips, depositing payments, posting the funds ledger, reconciling bank accounts, and maintaining and reconciling accounts receivable records. Deposits were not made timely, in a manner consistent with state statute. The Town Council did not routinely compare the monthly activity to any ledgers or bank statements or review any accounts receivable records.

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:

CLERK-TREASURER
TOWN OF KENNARD
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. . . ."

SPECIAL INVESTIGATION COSTS

The State of Indiana incurred additional investigation costs in the special investigation of the accounts receivable billings and payments of the Town.

Audit costs incurred because of poor records, nonexistent records, or any other inadequate bookkeeping practices, or because of theft or a shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

We requested that Stanley reimburse the State of Indiana for special investigation costs in the amount of \$2,677.12. (See Summary of Charges, page 9)

OFFICIAL BOND

The following is information regarding official bonds obtained by the Town:

Period	Amount
08-03-12 to Indefinite	\$ 30,000
08-03-13 to Indefinite	30,000
08-03-14 to 08-03-15	30,000
08-03-15 to 08-03-16	30,000

CLERK-TREASURER
TOWN OF KENNARD
EXIT CONFERENCE

The contents of this report were discussed on January 10, 2018, with Jan Lockridge, Clerk-Treasurer; Jason Groce, President of the Town Council; and Holly Lee, Town Council member.

The contents of this report were discussed on February 2, 2018, with Karen Stanley, former Clerk-Treasurer.

**IN RE: RESPONSE OF THE TOWN
OF KENNARD, INDIANA
TO THE AUDIT OF THE INDIANA
STATE BOARD OF ACCOUNTS**

SUBJECT MATTER OF AUDIT: REVIEW OF UTILITY ACCOUNT, FORMER CLERK-TREASURER, KAREN S. STANLEY

PERIOD OF AUDIT: January 1, 2013 to October 28, 2015

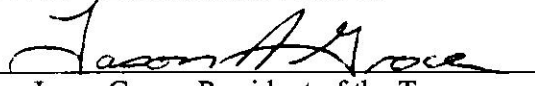
The Town of Kennard would respond to the preliminary audit report referred to above and reviewed by the Town Council at the Exit Conference held on Wednesday, January 10, 2018, in the Town Hall in Kennard, Indiana. Said response is as follows:


I. With regard to those allegations dealing with the former Clerk-Treasurer, Karen S. Stanley, the subject matter of which are the non-payment of personal utility bills and the failure to deposit receipts during the audit period. There is no justifiable excuse or reason for her conduct, malfeasance, misfeasance and nonfeasance. In short, the Town would agree that Ms. Stanley violated the terms of her oath, committed criminal acts, and violated the trust placed in her by her community. It would be the position of the Town that repayment of any funds improperly taken or the failure by her to pay any obligated fees or assessments, should be aggressively pursued by all parties. Whether it is a civil action, criminal restitution, or bond proceeds, the tax payers and utility rate payers of the Town of Kennard should be made whole. The Town will cooperate and assist with the Indiana State Board of Accounts, the Indiana Attorney General's Office, local and federal prosecuting authorities, and local and federal law enforcement agencies in order to accomplish this reimbursement. To date the Town has provided information to those agencies and will continue to assist those agencies in their investigation, prosecution and collection efforts.


II. With regard to the comments in the preliminary audit report regarding internal control deficiencies, the Town has instituted recommended internal controls and will continue to do so. This deficiency was suggested in a prior audit and actions were immediately commenced to address those issues. In 2016 the Town Council adopted a resolution mandating many internal controls and establishing a materiality threshold. In 2017 the Town created and filled the position of deputy clerk to allow for improved oversight, segregation of duties, and operations review. The Town will continue its efforts to institute the internal control standards and procedures adopted by the Indiana State Board of Accounts and mandated by I.C. 5-11-1-27. The Town will continue to explore methods within its budget to provide for a segregation of duties and the training of its employees and officials. In short, the Town will make certain that its fiscal personnel receive training as mandated by I.C. 5-11-1-27(g)2. The elected officials of the Town of Kennard will take the appropriate steps to make certain that procedures are instituted which will prevent occurrences such as the ones presented in this audit from reoccurring.

Respectfully submitted,

TOWN OF KENNARD, INDIANA

By: 
Jason Groce, President of the Town
Council of the Town of Kennard

By: 
Jan Lockridge, Clerk-Treasurer of the
Town of Kennard, Indiana

By: 
Susan Shelton, Deputy Clerk
of the Town of Kennard

CLERK-TREASURER
TOWN OF KENNARD
SUMMARY OF CHARGES
(Due to Malfeasance, Misfeasance, or Nonfeasance)

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Karen Stanley, former Clerk-Treasurer:			
Nonpayment of Personal Utility Bills, page 3	\$ 2,152.06	\$ -	\$ 2,152.06
Receipts Not Deposited, pages 3 and 4	<u>5,080.62</u>	<u>-</u>	<u>5,080.62</u>
Totals	7,232.68	-	7,232.68
Special Investigation Costs, page 5	<u>2,677.12</u>	<u>-</u>	<u>2,677.12</u>
Totals	<u>\$ 9,909.80</u>	<u>\$ -</u>	<u>\$ 9,909.80</u>

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

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AFFIDAVIT

STATE OF INDIANA)
)
 MARION COUNTY)

I, David Bixler, Field Examiner, being duly sworn on my oaths, state that the foregoing report based on the official records of the Town of Kennard, Henry County, Indiana, for the period from January 1, 2013 to October 28, 2015, is true and correct to the best of my knowledge and belief.

David Bixler
Field Examiner

Subscribed and sworn to before me this 19 day of MARCH, 2018.

Juanita M. Hendrickson
Notary Public

My Commission Expires: 10-19-23

County of Residence: HENDRICKS

