

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF ADVANCE

BOONE COUNTY, INDIANA

January 1, 2012 to December 31, 2016



FILED
05/18/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Heather Greenlee	01-01-10 to 05-31-12
	(Vacant)	06-01-12 to 06-25-12
	Deanna Howard	06-26-12 to 08-11-14
	Nicole Jones	08-12-14 to 01-31-15
	Lisette Pittman	02-01-15 to 11-08-15
President of the Town Council	Shari Johnson	11-09-15 to 12-31-18
	Randy Hill	01-01-12 to 12-31-15
	Matt Johnson	01-01-16 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF ADVANCE, BOONE COUNTY, INDIANA

This report is supplemental to our examination report of the Town of Advance (Town), for the period from January 1, 2012 to December 31, 2016. 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 2, 2018

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CLERK-TREASURER
TOWN OF ADVANCE

CLERK-TREASURER
TOWN OF ADVANCE
EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS

The following errors were noted during our examination:

1. There were numerous transactions not posted or posted incorrectly.
2. Beginning fund ledger balances for 2015 were \$525,700 less than the ending fund ledger balances for 2014. The difference approximates the bank reconciliation adjustments; however, the adjustments could not be verified.
3. Of the 82 disbursements tested, 19 did not have Accounts Payable Vouchers and 6 additional claims had no supporting documentation.
4. Bank reconciliation adjustments related to payroll could not be verified, because the payroll records presented for examination were incomplete.
5. Timecards were not properly kept to show the breakdown of time spent working on various tasks. For example, utility employees plowed snow and were properly paid from the Motor Vehicle Highway fund, but their time cards did not show the time separately.
6. It could not be verified whether receipts were deposited in the same form in which they were received because the payment type was not indicated on the receipts in 70 percent of receipts tested.

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, 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 made without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 5-11-9-4(b) states in part:

"The state board of accounts shall require that records be maintained showing which hours were worked each day by officers and employees: . . .

- (2) employed by more than one (1) public agency or in more than one (1) position by the same public agency described in section 1 or 2 of this chapter."

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

CLERK-TREASURER
TOWN OF ADVANCE
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

BANK ACCOUNT RECONCILIATIONS

Bank reconciliations were not performed during the years 2012, 2013, and 2014. A consultant was hired in 2015 to reconcile the account. The bank reconciliation at December 31, 2014, included 169 adjustments. Many of these adjustments could not be verified. The effects of these adjustments were made to the beginning balances in the Town's ledger as of January 1, 2015. Reconciliations were presented for examination for the years 2015 and 2016.

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."

RECEIPT ISSUANCE

Deposits were noted in the Town's bank account which were not posted to the Town's ledger, nor were they supported by a receipt. The following amounts were noted as being deposited during the course of each respective year, but were not posted to the Town's ledger:

<u>Fund</u>	<u>Years</u>	<u>Understated Amount</u>
General	2012	\$ 711
General	2013	6,147
Local Road and Street	2014	842
Motor Vehicle Highway	2014	2,886
General	2014	6,348

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

ANNUAL FINANCIAL REPORT

A similar comment also appeared in prior Report B40865, entitled *ANNUAL REPORT*.

CLERK-TREASURER
TOWN OF ADVANCE
EXAMINATION RESULTS AND COMMENTS
(Continued)

The Town had not separated incompatible activities related to all areas of the Annual Financial Report (AFR). The failure to establish these controls did not allow misstatements to be prevented, or detected and corrected.

The following errors were noted in the submission of the AFRs for the Town during the examination period:

1. Funds were omitted for each year of the examination period.
2. Incorrect amounts were posted for receipts and disbursements, resulting in a misstatement of beginning and ending cash balances for 2012, 2013, and 2014.
3. Capital Assets and Debt were not reported for December 31, 2013.
4. No receipts or disbursements were originally entered into the Indiana Gateway for Government Units for 2013. The current Clerk-Treasurer entered the information during the examination.

In addition, the AFRs for 2012, 2013, and 2014 were filed on July 19, 2013, April 23, 2014, and June 18, 2015, which were 140, 53, and 109 days late, respectively.

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. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

CLERK-TREASURER
TOWN OF ADVANCE
EXAMINATION RESULTS AND COMMENTS
(Continued)

PENALTIES, INTEREST, AND OTHER CHARGES

A similar comment also appeared in prior Report B40865, entitled *PENALTIES AND INTEREST*.

On March 6, 2017, the Town paid \$2,714.66 in penalties and interest for the late filing and improper payments related to the Employers Federal Quarterly Tax Returns, Form 941, for several periods from 2012 through 2014.

In addition, the Town paid \$419.75 in December of 2015 and January 2016 in penalties, interest, collection, and other fees associated with the late payment of sales tax for the month of December of 2014.

Withholding and Utility Receipt Taxes were not paid in a timely manner.

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)

OVERDRAWN CASH BALANCES

A similar comment also appeared in prior Report B40865, entitled *OVERDRAWN FUND BALANCES*.

The following funds were overdrawn during the examination period:

Fund	Years	Amount Overdrawn
Park Fund	2013	\$ 331
Motor Vehicle Highway	2014	3,123
Electric Customer Deposit Savings	2014	175
Park Fund	2014	15,000
Payroll	2014	329,091
Park Fund	2015	15,661
Water Utility Operating	2015	109,852
Sewer Utility Operating & Maintenance	2015	72,893
Electric Customer Deposit Savings	2015	175
Payroll	2016	322,698
Electric Customer Deposit Savings	2016	175
Water Utility Operating	2016	55,134
Sewer Utility Operating & Maintenance	2016	32,049

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF ADVANCE
EXAMINATION RESULTS AND COMMENTS
(Continued)

ORDINANCES AND RESOLUTIONS

Several instances were noted where the Town did not comply with the salary ordinance. Throughout the audit period, there were employees for whom the distribution of pay did not match the approved salary ordinance; although the total amount paid to each employee was correct. In 2013, Park Board members were not included on the salary ordinance and Town Council members were not paid in accordance with the salary ordinance.

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Town of Advance
Office of Clerk - Treasurer
(765) 676-6611
Fax (765) 676-6696

April 10, 2018

Clerk-Treasurer Responses to Audit Comments

Annual Financial Report: Reports not filed timely were prior to Clerk-Treasurer Johnson taking office. Clerk-Treasurer Johnson re-created records for prior year's missing information to assist auditors. Reports for years 2015, 2016 and 2017 were filed timely.

Penalties, Interest and Other Charges: Three weeks after being appointed and taking office in 2015, an IRS agent was in the Clerk's office and gave Clerk-Treasurer Johnson 10 days to create 941 returns dating from 2012 – 2014. Reports were created and faxed to the IRS agent's office. Subsequently, notices began coming into the Clerk's office of taxes, penalties and interest that needed to be paid, totaling over \$70,000. After diligence and persistence, Clerk-Treasurer Johnson was finally assigned a Revenue Office (RO), to help clean up the tax issue(s).

All IRS requests were completed. Once the RO applied payments that were actually made to pending balances and abated penalties and interest, it was found the outstanding penalties and interest due, was \$2714.66. If penalties and interest had not been paid, then a daily accrual would have continued until this total was paid. The Council approved this payment to stop the bleeding from accrual of penalties and interest. In addition, this final payment completed closure to this issue. The Town was advised that the IRS is forgiving once. Should the Town be negligent in the future on paying the IRS taxes due or not filing 941s properly, the forgiveness may not be as forthcoming.

In addition it was found that Water and Electric URT had not been paid in 2014 or 2015 and returns had not been filed since 2001. Prior to the tax being called the Utility Receipt Tax, it was named Corporate Income Tax, and research had to be done to find these returns to file. Taxes were paid and all reports were completed.

W-2s from prior years that had not been filed, Clerk-Treasurer, Lisette Pittman had rectified prior to Clerk-Treasurer Johnson's coming into office.

PERF payments; CT Johnson found, had not been properly paid to Town employees and these items were correct as well.

CT Johnson also found that under and overpayments had been made to INDOR. An erroneous account had been set up and improperly paid into by prior clerks. Collections were threatening to freeze the Town's assets if this payment was not made. Again, a payment was made to stop additional penalties and interest from accruing. The account was then closed and proper requests for refunds were made.

Overdrawn Cash Balances: Water, Sewer and Park Funds were in a negative cash balances prior to Clerk-Treasurer Johnson and the current Council coming into office. The Council closed the library which was utilizing Park Funds and ran a lean budget in 2016 to improve the Park Fund balance. The Park Fund is now functioning in a positive cash balance.

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The Council took several measures to recover the Funds in utilities. The Council had to cut costs and raise rates to improve cash flows for Water and Sewer Utilities. Employees were let go and Contractors were hired. Most equipment was liquidated. Lastly, a Rate Study was completed in 2017. The Water Fund has steadily been improving on cash flow; however, the Sewer Fund is not making the progress the Council had hoped. Another Rate Study has been recommended and cutting costs are being reviewed to improve the Sewer cash balance.

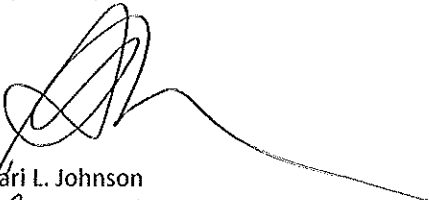
Bank Account Reconciliations: Prior to coming into office, Clerk-Treasurer, Lisette Pittman hired HR Unlimited to assist with Bank Reconciliations from 2012-2015. After being in office, Clerk-Treasurer Johnson, from December 2105 to present, has completed all Bank Reconcilements to date.

Ordinances and Resolutions: Hydrant Rentals were not made prior to Clerk-Treasurer Johnson coming into office. Hydrant rentals were paid in 2016 and 2017 of CT Johnson's term.

There was no history or direction in paying the street light rental. Help was elicited from by CT Johnson in 2016 to no avail. In 2017, the street light rentals were paid, by CT Johnson physically driving and performing a street light count to pay the electric utility.

Condition of Records: Disbursements not posted occurred prior to Clerk-Treasurer Johnson taking office. Since taking office in November of 2015, all disbursements have been recorded.

Respectfully,



Shari L. Johnson
Clerk Treasurer
Town of Advance

CLERK-TREASURER
TOWN OF ADVANCE
EXIT CONFERENCE

The contents of this report were discussed on April 2, 2018, with Shari Johnson, Clerk-Treasurer; Matt Johnson, President of the Town Council; Jim Caldwell, Town Council member; and Melody Fry, Town Council member.

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LIGHT UTILITY
TOWN OF ADVANCE

LIGHT UTILITY
TOWN OF ADVANCE
EXAMINATION RESULT AND COMMENT

ORDINANCES AND RESOLUTIONS

The same comment also appeared in prior Report B40865.

The Town has an ordinance concerning the billing street light rental; however, the Electric Utility did not bill the Town for the rental during the examination period. As a result, the Town owes the Electric Utility \$11,000 for street light rental.

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

LIGHT UTILITY
TOWN OF ADVANCE
EXIT CONFERENCE

The contents of this report were discussed on April 2, 2018, with Shari Johnson, Clerk-Treasurer; Matt Johnson, President of the Town Council; Jim Caldwell, Town Council member; and Melody Fry, Town Council member.

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WATER UTILITY
TOWN OF ADVANCE

WATER UTILITY
TOWN OF ADVANCE
EXAMINATION RESULT AND COMMENT

ORDINANCES AND RESOLUTIONS

The same comment also appeared in prior Report B40865.

The Town has an ordinance concerning the billing of hydrant rental; however, the Water Utility did not bill the Town for the rental for 2012, 2013, 2014, and 2015. A payment of \$2,123.76 was made in December of 2016 from the Town to the Water Utility for hydrant rental. As a result, the Town owes the Water Utility \$20,883.64 for hydrant rental.

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

WATER UTILITY
TOWN OF ADVANCE
EXIT CONFERENCE

The contents of this report were discussed on April 2, 2018, with Shari Johnson, Clerk-Treasurer; Matt Johnson, President of the Town Council; Jim Caldwell, Town Council member; and Melody Fry, Town Council member.