

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF WABASH

WABASH COUNTY, INDIANA

January 1, 2016 to December 31, 2016



**FILED**  
07/06/2018



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Wendy D. Frazier	01-01-16 to 12-31-19
Mayor	Scott A. Long	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Scott A. Long	01-01-16 to 12-31-19
President Pro Tempore of the Common Council	Bryan W. Dillon Douglas E. Adams Eric E. Schoening	01-01-16 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF WABASH, WABASH COUNTY, INDIANA

This report is supplemental to our audit report of the City of Wabash (City), for the period from January 1, 2016 to December 31, 2016. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

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 Audit 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 Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

May 24, 2018

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CLERK-TREASURER  
CITY OF WABASH

CLERK-TREASURER  
CITY OF WABASH  
FEDERAL FINDING

***FINDING 2016-001***

Subject: Financial Transactions and Reporting  
Audit Findings: Material Weakness, Noncompliance

*Condition*

There were deficiencies in the internal control system of the City related to financial transactions and reporting. The City had not separated incompatible activities related to receipts and reporting.

*Receipts*

The Wastewater Department (Department) had two employees. These employees had the same title, the same salary, and shared the same duties and responsibilities equally. Except for approving biweekly timesheets, there was no supervisory oversight and review of the activities of the Department. Due to the lack of segregation of duties and supervisory review, officials were not able to prevent or detect in a timely manner the failure to deposit collections for Wastewater receipts. The lack of necessary input controls allowed discrepancies between collections posted to customers' accounts and collections deposited to the bank to go undetected.

The Wastewater Billing Department (Billing Department) could not account for collections credited to customer accounts totaling \$152,128 from September 5, 2013 to May 9, 2017. Of this total, \$60,967 was from January 1, 2016 to December 31, 2016. These collections were entered in the Billing Department's computer system in 112 batches assigned to 94 different collection dates. None of the 112 batches were included in the Billing Department's daily Cash Entry Batch Lists, and none of the collections in those batches were remitted to the Office of the Clerk-Treasurer, recorded in the City's fund ledger, or deposited in the bank.

*Reporting*

The Clerk-Treasurer prepared and submitted the financial information into the Indiana Gateway for Government Units (Gateway) financial reporting system. Gateway is the collection platform for local units of government to submit required data to the State of Indiana. All cities are required to submit their Annual Financial Report via Gateway. The City, however, did not have documentable controls to verify the accuracy of the financial information prior to submission.

*Context*

This was a systemic problem, which occurred throughout the audit period.

*Criteria*

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  
CITY OF WABASH  
FEDERAL FINDING  
(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. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. . . .

Management remediates identified issues. . . ."

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

". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance. . . ."

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)

*Cause*

Management of the City had not established a proper system of internal control that segregated key functions related to the City's financial transactions and reporting.

*Effect*

The failure to establish controls enabled misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the City at risk that controls may not be designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements or irregularities in a timely manner.

*Recommendation*

We recommended that the City's management design and implement a proper system of internal controls, which would segregate key functions and also perform periodic monitoring of its system of internal control.

CLERK-TREASURER  
CITY OF WABASH  
FEDERAL FINDING  
(Continued)

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



# City of Wabash

WENDY FRAZIER  
CLERK-TREASURER

CITY HALL  
202 S. WABASH ST  
WABASH, IN 46992

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FAX: (260) 563-0876  
wfrazier@cityofwabash.com

May 24, 2018

Corrective Action Plan for the City of Wabash

## FINDING 2016-001

Contact persons Responsible for Corrective Action: Mayor Scott A. Long, Wendy D. Frazier, Robert Gray, Tracy Peterson-Bolan, Regina Sundheimer & Amber Krhin  
Contact Phone Number: (260) 563-4171

Views of Responsible Official:

As stated many times throughout the entire audit process, the Clerk-Treasurer and the Deputy Clerk-Treasurer work together in preparing the financial information. Once the year end annual report is complete the Clerk-Treasurer prints the report and the Deputy Clerk (Amber) goes line item by line item and proofs the document. Once the newspaper prints the annual report the Deputy Clerk (Amber) once again checks it for accuracy. Because Amber's initials did not appear on the document the State Board of Accounts cannot "verify" that Amber actually checked the document. The annual report was found to be in compliance and all figure were true and correct.

Description of Corrective Action Plan:

For the completion of the annual report for 2018 Deputy Clerk-Treasurer Amber Krhin will initial the report.

At the request of Mayor Scott A. Long and Clerk-Treasurer Wendy D. Frazier, an excel spreadsheet has been created for use by the Wastewater Billing Clerks and the Clerk-Treasurer's office. The spreadsheet has a starting Masterfile balance that cannot be changed. The Wastewater Billing office will provide the Clerk-Treasurer's office with daily documentation to all entries pertaining to the total of the Masterfile Balance. Tracy Peterson-Bolan or Robert Gray will initial and approve all adjustments. If at any time the Clerk-Treasurer's office and the Wastewater billing Masterfile balances do not match, all of the above listed contact persons will work together as needed to find the problem.

Anticipated completion Date: Immediately

CLERK-TREASURER  
CITY OF WABASH  
EXIT CONFERENCE

The contents of this report were discussed on May 24, 2018, with Wendy D. Frazier, Clerk-Treasurer; Scott A. Long, Mayor; Eric E. Schoening, President Pro Tempore of the Common Council; and Doug Adams, Common Council member.

CITY COURT  
CITY OF WABASH

CITY COURT  
CITY OF WABASH  
AUDIT RESULTS AND COMMENTS

***BANK ACCOUNT RECONCILIATIONS***

A similar comment also appeared prior Reports B40965, B43050, B44207, B45602, and B50372, entitled *BANK ACCOUNT RECONCILIATIONS*.

Depository reconciliations of the City Court fund balance to the bank account balance were not prepared for eight months in 2016. The reconciliations prepared did not balance to the ledger. Unidentified variances noted during the last five years have resulted in an unidentified cash long of \$5,246 at December 31, 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."

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 4)

***CONDITION OF RECORDS***

A similar comment also appeared prior Reports B40965, B43050, B44207, B45602, and B50372, entitled *CONDITION OF RECORDS*.

The City Court switched financial software in April 2016, but the following deficiencies related to the recordkeeping were again present during our period of audit.

1. Disbursements had to be totaled manually based on check registers provided due to the unavailability of the computerized accounting software.
2. Voided checks were not always accounted for properly; therefore, the check numbers shown on the check register did not always match the actual checks printed.

CITY COURT  
CITY OF WABASH  
AUDIT RESULTS AND COMMENTS  
(Continued)

3. All receipts were not processed through the City Court's computerized accounting software or listed on the manually prepared receipts ledger. A total of \$1,685 in monies received was not included on the manually prepared receipts ledger.
4. The total on the Register of Trust Funds subsidiary account balances could not be verified.
5. Old outstanding checks had not been addressed for several years and were still presented on the Cash Book.
6. Numerous receipts and disbursements were voided without supporting documentation or oversight approval. Previous requests had been made that these voided receipts be approved by the judge, and the reason for the void and a replacement number, if applicable, be documented.
7. There are several dormant cases without follow-up or activity.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 4)

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."

CITY COURT  
CITY OF WABASH  
EXIT CONFERENCE

The contents of this report were discussed on May 24, 2018, with Timothy A. Roberts, City Court Judge; Jennifer Thomas, City Court Clerk; Scott A. Long, Mayor; Eric E. Schoening, President Pro Tempore of the Common Council; and Doug Adams, Common Council member

WASTEWATER BILLING DEPARTMENT  
CITY OF WABASH

WASTEWATER BILLING DEPARTMENT  
CITY OF WABASH  
AUDIT RESULT AND COMMENT

***COLLECTIONS NOT DEPOSITED***

This comment also appeared in our Special Investigation Report B49093 of the City's Wastewater Billing Department.

The Wastewater Billing Department (Department) could not account for collections credited to customer accounts totaling \$152,128 from September 5, 2013 to May 9, 2017. Of this total, \$60,967 was from January 1, 2016 to December 31, 2016. These collections were entered in the Department's computer system in 112 batches assigned to 94 different collection dates. None of the 112 batches were included in the Department's daily Cash Entry Batch Lists, and none of the collections in those batches were ever remitted to the Office of the Clerk-Treasurer, recorded in the City's fund ledger, or deposited in the bank.

The Department's billing and customer accounting software recorded the operator who was logged in to enter these collections. For each of the 112 missing batches, the operator recorded by the software was a former Billing Clerk for the Department.

Of the 112 missing batches, 63 had an internally recorded input date. Of the 112 missing batches, 63 had an internally recorded input date. A comparison of the input dates with the collection dates posted to the customers' accounts revealed that all 63 batches were input anywhere from 1 to 22 days after the posted collection dates. Employee time records indicated that the former Billing Clerk was the only Department employee who worked on all 63 of the recorded input dates for missing batches.

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

" . . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance. . . ."

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)

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)

WASTEWATER BILLING DEPARTMENT  
CITY OF WABASH  
EXIT CONFERENCE

The contents of this report were discussed on May 24, 2018, with Scott A. Long, Mayor; Eric E. Schoening, President Pro Tempore of the Common Council; and Doug Adams, Common Council member.