

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, 2017 to December 31, 2017



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	Douglas E. Adams Eric E. Schoening	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, 2017 to December 31, 2017. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement Audit Report of the City, which provides our opinions on the City's financial statement. 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 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 Official Response to the Audit Results and Comments, incorporated within this report, was 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
AUDIT RESULT AND COMMENT

INTERNAL CONTROL DEFICIENCIES

The Clerk-Treasurer prepared and submitted the financial information into the Indiana Gateway for Government Units (Gateway) financial reporting system. The 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 the Gateway. The City, however, did not have documentable controls to verify the accuracy of the financial information prior to submission.

The failure to establish these controls could enable material misstatements to go undetected.

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. . . ."

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.

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CITY COURT
CITY OF WABASH

CITY COURT
CITY OF WABASH
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

A similar comment also appeared in prior Reports B40965, B43050, B44207, B45602 and B50401, entitled *BANK ACCOUNT RECONCILIATIONS*.

Depository reconciliations of the City Court fund balance to the bank account balance were not prepared for ten months in 2017. The reconciliations prepared did not balance to the ledger. Unidentified variances noted during the last six years have resulted in an unidentified cash long of \$4,969 at December 31, 2017.

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 in prior Reports B40965, B43050, B44207, B45602 and B50401, 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.

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

1. The total on the Register of Trust Funds subsidiary account balances could not be verified.
2. Old outstanding checks had not been addressed for several years and were still presented on the Cash Book.
3. 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.

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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 RESULTS AND COMMENTS

COLLECTIONS NOT DEPOSITED

This comment also appeared in our Special Investigation Report B49093 of the City of Wabash 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, \$16,756 was from January 1, 2017 to December 31, 2017. 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. 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 indicate 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
AUDIT RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROL DEFICIENCIES

The City had not separated incompatible activities related to financial transactions and reporting.

The Wastewater Billing Department (Department) had two employees who 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 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:

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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.