

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF HEBRON

PORTER COUNTY, INDIANA

January 1, 2015 to December 31, 2017



FILED
09/05/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Theresa Waywood	01-01-15 to 12-31-15
	Fred Siminski	01-01-16 to 05-20-17
	(Vacant)	05-21-17 to 05-22-17
	Alan Kirkpatrick	05-23-17 to 12-31-18
President of the Town Council	Donald Ensign	01-01-15 to 12-31-15
	Dave Peeler	01-01-16 to 12-31-16
	Pete Breukman	01-01-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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INDIANAPOLIS, INDIANA 46204-2769

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TO: THE OFFICIALS OF THE TOWN OF HEBRON, PORTER COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Hebron (Town), for the period from January 1, 2015 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 Town. It should be read in conjunction with our Financial Statements Audit Report of the Town, which provides our opinions 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 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

June 7, 2018

CLERK-TREASURER
TOWN OF HEBRON
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statement presented for audit included the Stormwtr Checking fund with an overdrawn cash balance of \$15,474 at December 31, 2017.

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)

FINANCIAL TRANSACTIONS AND REPORTING

There were deficiencies in the internal control system for the Town related to financial transactions and reporting. The Town had not separated incompatible activities related to cash and investments, payroll related disbursements, and financial reporting. The failure to establish these controls could enable material misstatements to occur and remain undetected.

Cash and Investments

The Town had not established controls to ensure that reconciled cash and investment balances agreed to the cash and investment balances reported in the financial statements. The Town did not perform bank reconciliations in a timely manner during 2017. Reconciliations were completed up to five months after month end. One of the bank accounts was not reconciled from June through December 2017.

Payroll Related Disbursements

The Town had not established controls to ensure that employees were paid the correct amount or paid from the proper fund.

The Town had also not established controls to ensure that payroll withholding disbursements were accurately recorded and timely remitted to the appropriate federal and state agencies.

Financial Reporting

A consultant worked with the Clerk-Treasurer to enter the Town's financial information into the Indiana Gateway for Government Units financial reporting system, which was the source for the Annual Financial Reports (AFR) and financial statements. However, the process and subsequent review was not effective in detecting errors in the AFR and financial statements.

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.

CLERK-TREASURER
TOWN OF HEBRON
AUDIT RESULTS AND COMMENTS
(Continued)

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."

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."

PENALTIES AND INTEREST

The Town had not established effective internal controls to ensure that payroll taxes withheld from employees and the Town's share of payroll and unemployment taxes were accurately and timely remitted to the appropriate federal and state agencies. The Town also had not established effective controls to ensure that disbursements were recorded when paid. Disbursements for FICA, Medicare, federal income taxes, and state income taxes were recorded each pay period, but were not actually disbursed until later in that year or in the subsequent year.

Alan Kirkpatrick (Kirkpatrick), Clerk-Treasurer, did not always file required forms or remit federal and state withholding taxes and state sales tax timely during 2017 and, subsequently, in 2018 to date. Due to late filing of forms and late payments of the related taxes, the Town paid the following penalties and interest:

Description	Penalty	Interest	Totals
Federal 941 - Second quarter 2017	\$ 4,578.47	\$ 443.07	\$ 5,021.54
State Withholding:			
May 2017	32.97	4.61	37.58
June 2017	294.38	3.63	298.01
August 2017	211.45	13.56	225.01
September 2017	235.17	9.28	244.45
October 2017	217.83	3.04	220.87
December 2017	67.83	2.34	70.17
January 2018	231.90	11.25	243.15
February 2018	242.25	6.17	248.42
Total State Withholding	<u>1,533.78</u>	<u>53.88</u>	<u>1,587.66</u>
State Sales Tax:			
November 2017	259.19	1.49	260.68
January 2018	300.84	0.25	301.09
Total State Sales Tax	<u>560.03</u>	<u>1.74</u>	<u>561.77</u>
Total Penalties and Interest paid	<u>\$ 6,672.28</u>	<u>\$ 498.69</u>	<u>\$ 7,170.97</u>

CLERK-TREASURER
TOWN OF HEBRON
AUDIT RESULTS AND COMMENTS
(Continued)

The Indiana Department of Revenue first notified the Town that state withholding taxes were not paid timely and that penalties and interest were assessed on November 7, 2017. Kirkpatrick continued to remit the withholding taxes late for the months of November and December 2017 and January and February 2018.

Kirkpatrick also did not file the quarterly form 941 or remit the required federal withholdings taxes timely for the 3rd quarter of 2017. The Town had accumulated \$11,415.37 in penalties and interest as computed from an Internal Revenue Service (IRS) notice as of February 26, 2018. According to that IRS notice, the penalties and interest were due by March 19, 2018. As of May 30, 2018, the Town had not paid those charges. Town officials were in contact with the IRS regarding this notice.

The Town was assessed an additional \$1,800.42 in penalties and interest for the 2nd quarter of 2017 for failure to make a proper federal tax deposit. According to the notice from the IRS dated June 4, 2018, the penalties and interest are due by June 25, 2018. The Town has not paid those charges as of the date of this report.

Kirkpatrick did not remit federal withholding taxes timely for the 4th quarter of 2017. The IRS notified the Town of penalties and interest due for late remittances for prior tax periods beginning February 19, 2018. Kirkpatrick, however, did not remit federal withholdings taxes timely for the first quarter of 2018. As of May 30, 2018, the Town had not received notices from the IRS regarding penalties and interest for these time periods.

Kirkpatrick did not remit the Quarterly Contribution Reports and the Quarterly Payroll Reports for the state unemployment taxes for 2017 or the first quarter of 2018. According to the Indiana Department of Workforce Development notice, the Town will be assessed penalties and interest once these reports are filed. Additionally, the Town received a notice requesting payment of a \$50 penalty.

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.

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)

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)

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 HEBRON
AUDIT 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. . . ."

We requested that Kirkpatrick reimburse the Town \$7,170.97 for penalties and interest paid due to late filing of reports and late payment of payroll related taxes. Additionally, Kirkpatrick was informed that he would be liable for any penalties and interest paid subsequent to this report which were incurred during his term in office. (See Summary of Charges, page 10)

Office of Clerk • Treasurer
219-996-4641
Fax 219-996-7494



P.O. Box 478
106 E. Sigler St.
Hebron, IN 46341

TOWN OF HEBRON
I N D I A N A

June 28, 2018

Mr. Paul Joyce
State Examiner
State Board of Accounts
302 West Washington St. Room E 418
Indianapolis Indiana 46202-2765

Re: SBOA audit of the Town of Hebron for 2015-2017

VIA: Electronic Mail

Dear Mr. Joyce:

I am doing what I can to address the comments contained in the Audit Results and Comments. I have been working with a retired Master Clerk Treasurer to address reporting and internal control issues contained within this letter, and I am contacting the Internal Revenue Service and the Indiana Department of Revenue in an effort to get them to abate penalties and interest on our late filings.

I am asking that you give me some additional time to address these matters. I walked into office with no knowledge of day to day operations, with no formal controls in place, and with little or no help from the former Clerk Treasurer or Deputy. I believe emails were deleted, and I was left with trying to hit the ground running, when I really did not know what I was doing or even what questions to ask. I should have asked for assistance in a timely manner and now realize my error in not doing so.

Respectfully yours,

Alan Kirkpatrick
Clerk Treasurer Town of Hebron

EC: Ted Fitzgerald, Town Attorney

CLERK-TREASURER
TOWN OF HEBRON
EXIT CONFERENCE

The contents of this report were discussed on June 7, 2018, with Alan Kirkpatrick, Clerk-Treasurer; Dave Peeler, Town Council member; Donald Ensign, Town Council member; and Kimberly Mouratides, Town Council member.

TOWN OF HEBRON
SUMMARY OF CHARGES
(Due to Malfeasance, Misfeasance, or Nonfeasance)

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Alan Kirkpatrick, Clerk-Treasurer: Penalties and Interest, pages 5 through 7	<u>\$ 7,170.97</u>	<u>\$ -</u>	<u>\$ 7,170.97</u>

This report was forwarded to the Office of the Indiana Attorney General.

AFFIDAVIT

STATE OF INDIANA)
Porter)
COUNTY)

We, Nicholas Canham and Carla Wenger, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the Town of Hebron, Porter County, Indiana, for the period from January 1, 2015 to December 31, 2017, is true and correct to the best of our knowledge and belief.

Carla Wenger
Nich Canham
Field Examiners

Subscribed and sworn to before me this 20 day of Aug, 2018

Judy A. Hittle
Notary Public

My Commission Expires: 06-26-2021
County of Residence: Jasper

