

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF SHELBYVILLE

SHELBY COUNTY, INDIANA

January 1, 2017 to December 31, 2017



FILED

10/26/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Frank M. Zerr	01-01-16 to 12-31-19
Mayor	Thomas D. DeBaun	01-01-16 to 12-31-19
President of the Board of Public Works	Thomas D. DeBaun	01-01-16 to 12-31-19
President Pro Tempore of the Common Council	Robert Nolley	01-01-17 to 12-31-18
Superintendent of the Wastewater Utility	Bradley E. Fix	01-01-17 to 12-31-18
Superintendent of the Storm Water Utility	Derrick S. Byers	01-01-17 to 12-31-18
Utility Office Manager	Beth Corley	01-01-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE CITY OF SHELBYVILLE, SHELBY COUNTY, INDIANA

This report is supplemental to our audit report of the City of Shelbyville (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 opinion 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

September 24, 2018

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CLERK-TREASURER
CITY OF SHELBYVILLE

CLERK-TREASURER
CITY OF SHELBYVILLE
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS - FINANCIAL TRANSACTIONS AND REPORTING

The City did not have a proper system of internal controls in place related to financial transactions and reporting. The City had not separated incompatible activities related to receipts; electronic transactions; payroll disbursements; and receipts, disbursements, and cash and investment balances of Redevelopment funds. The failure to establish these controls could enable material misstatements to occur and remain undetected.

Receipts

Receipts were not written when the various City departments delivered their collections to the Clerk-Treasurer's office. Monies were collected throughout the day; they were later counted and deposited at the end of the day. Receipts were usually issued the next morning.

Electronic Transactions

Accounts Payable Vouchers (APV) were created for electronic adjustments, transfers between funds, and various other uses. These APVs were retained in numeric order in a reports binder; however, there was no supporting documentation attached, nor were these APVs signed by the person who prepared them. There was no evidence that these APVs were audited to ensure that they contained the necessary information.

Payroll Disbursements

One individual processed payroll activity and posted the payroll transactions to the budgetary accounts without oversight or review. Employee withholdings and employer benefits were usually paid by this same individual. No APV forms were used. All invoices and payroll reports used to determine the payment amounts were retained in the payroll employee's files. No documentation was presented indicating a review by another employee or another compensating control. The payroll employee indicated that the employee withholdings and the employer benefit payments were not included in the accounts payable docket reports for the Clerk-Treasurer and the Board of Public Works and Safety to review and approve.

Financial Reporting

The City did not have an effective internal control system over financial reporting. The Clerk-Treasurer was primarily responsible for entering financial activity into and submitting the City's Annual Financial Report (AFR) in the Indiana Gateway for Government Units financial system. There were no controls in place, such as oversight, review, or approval processes, to ensure the accuracy of the financial information prior to submission.

The Deputy Clerk-Treasurer recorded the Redevelopment Commission and Health Claim Account fund activity without any oversight, review, or approval by another person to ensure the accuracy of the entries being recorded.

Redevelopment Funds

There were weaknesses in the internal control system of the City related to financial transactions and reporting of several Redevelopment funds. The City's financial records did not include all financial transactions related to the Redevelopment Commission. The Clerk-Treasurer received the trustee bank account statements for all the Redevelopment Commission funds; however, there were no established internal controls over those financial

CLERK-TREASURER
CITY OF SHELBYVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

transactions. Of the 20 Redevelopment bank accounts, 16 were not recorded in the City's financial records and were not reported on the AFR or financial statement for 2017. The total 2017 activity not recorded or reported included: beginning cash and investment balances of \$2,010,726, receipts of \$12,737,829, disbursements of \$12,712,301, and an ending cash and investment balance of \$2,036,254.

In addition, monthly reconcilements were not performed on these funds' related bank trust accounts.

Audit adjustments to the financial statement were proposed, approved by the Clerk-Treasurer, and made to the City's financial statement.

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 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 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;

CLERK-TREASURER
CITY OF SHELBYVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Indiana Code 36-7-14-8(b) states in part:

"The fiscal officer of the unit establishing a redevelopment commission is the treasurer of the redevelopment commission. Notwithstanding any other provision of this chapter, the treasurer has charge over and is responsible for the administration, investment, and disbursement of all funds and accounts of the redevelopment commission in accordance with the requirements of state laws that apply to other funds and accounts administered by the fiscal officer. . . ."

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)

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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."

INTERNAL CONTROLS - WASTEWATER UTILITY

There were several deficiencies in the internal control system of the City related to the Wastewater Utility. There was not any oversight or review over the customer billings, adjustments, collections, and accounts receivable balances. There were no approved policies or procedures in place over these areas, including customer account adjustments.

The Wastewater Utility staff made daily deposits and then submitted the validated deposit slips and paperwork to the Clerk-Treasurer's office to be receipted to the City's financial ledger. No reconciliation was done between the Wastewater Utility and the Clerk-Treasurer to ensure that the collections remitted by the Wastewater Utility office were posted to the appropriate fund and revenue accounts.

Credit or debit card payments were electronically deposited to the Wastewater Utility bank account. These payments were accumulated for the month and receipted in total to the Sewage Operating Fund. The storm water and the surcharge amounts were later paid out of the Sewage Operating unappropriated account, and receipted into the appropriate fund. However, this practice caused the Sewage Operating Fund collections to be overstated. The actual amount of the overstatement was undeterminable, due to the unappropriated account not being segregated by type of collection.

CLERK-TREASURER
CITY OF SHELBYVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

In addition, Wastewater Utility officials did not have internal controls in place to ensure that wastewater and storm water customer payments were correctly identified as to their composition (cash, check, etc.). As a result, utility collections could not be tested to ensure that all collections were deposited intact.

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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Indiana Code 5-13-6-1(c) states in part: ". . . Public funds deposited . . . shall be deposited in the same form in which they were received.

CLERK-TREASURER
CITY OF SHELBYVILLE
EXIT CONFERENCE

The contents of this report were discussed on September 24, 2018, with Brenda Ogden, Deputy Clerk-Treasurer; Thomas D. DeBaun, Mayor; and Robert Nolley, President Pro Tempore of the Common Council.

WASTEWATER UTILITY
CITY OF SHELBYVILLE

WASTEWATER UTILITY
CITY OF SHELBYVILLE
AUDIT RESULTS AND COMMENTS

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WASTEWATER UTILITY
CITY OF SHELBYVILLE
AUDIT RESULTS AND COMMENTS
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PUBLIC RECORDS RETENTION

The Wastewater Utility officials were unable to retrieve all of their "Cash Entry Batch List" reports for wastewater and storm water collections for 2017. The electronic reports had been stored on a flash drive and were not retrievable for audit purposes. Officials did not have adequate software backup policies and procedures in place to ensure that all software reports and information was available for audit purposes.

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."

WASTEWATER UTILITY
CITY OF SHELBYVILLE
EXIT CONFERENCE

The contents of this report were discussed on September 24, 2018, with Beth Corley, Wastewater Utility Office Manager; Brenda Ogden, Deputy Clerk-Treasurer; Thomas D. DeBaun, Mayor; and Robert Nolley, President Pro Tempore of the Common Council.

COMMON COUNCIL
CITY OF SHELBYVILLE

COMMON COUNCIL
CITY OF SHELBYVILLE
AUDIT RESULT AND COMMENT

BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS POLICY

There was not any oversight or review over the wastewater and storm water customer billings, account adjustments, collections, and accounts receivable balances. There was not a policy presented for audit for handling account receivable bad debts and uncollectible accounts. Likewise, there was not any policy in place to describe procedures to be followed when customers made request for adjustments to their bill.

The governing body of a unit must have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balance. Documentation must exist for all efforts made by the unit to collect amounts owed prior to any write-offs. 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 Compliance Guidelines Manual for Cities and Towns, Chapter 1)

COMMON COUNCIL
CITY OF SHELBYVILLE
EXIT CONFERENCE

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