

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF CLAY CITY

CLAY COUNTY, INDIANA

January 1, 2013 to December 31, 2017



FILED
01/24/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Melinda Sue Booe	01-01-12 to 12-31-19
President of the Town Council	Guy J. Dickerson Donnella Baumgartner	01-01-13 to 12-31-15 01-01-16 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE TOWN OF CLAY CITY, CLAY COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Clay City (Town), for the period from January 1, 2013 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 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 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

December 20, 2018

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TOWN COUNCIL
TOWN OF CLAY CITY

TOWN COUNCIL
TOWN OF CLAY CITY
AUDIT RESULTS AND COMMENTS

ADOPTION OF AND TRAINING ON INTERNAL CONTROL STANDARDS

The Town Council failed to adopt internal control standards as required by Indiana Code 5-11-1-27(g); therefore, Town personnel were not trained on internal controls.

Indiana 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

INTERNAL CONTROLS

The same comment also appeared in prior Report B42805.

There was no evidence that a proper internal control structure existed in the Town. A proper internal control structure would include adequate control activities, a control environment, performance of risk assessment procedures, information and communication, and monitoring of internal controls. The Town had not separated incompatible activities related to cash and investments, receipts, disbursements, and financial close and reporting. The failure to establish these controls could enable material misstatements to remain undetected.

The Clerk-Treasurer was the sole person responsible for all transactions related to cash and investments, receipts, disbursements, and financial close and reporting. There were no controls in place to monitor, review, or determine the accuracy of the financial transactions and reporting.

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. . . ."

"The control environment is the basic commonality for all and comprises the integrity and ethical values of the political subdivision established by the oversight body and management. The standards, processes, and structures which form the control environment pervasively impact the overall system of internal control. The oversight body and management convey leadership expectations, and overall tone which are reinforced by all officials and management

TOWN COUNCIL
TOWN OF CLAY CITY
AUDIT RESULTS AND COMMENTS
(Continued)

throughout the various offices and departments. The control environment also contains the overall accountability structure for all employees through performance and reward measures. Within this structure, leadership demonstrates commitment to the political subdivision by having a process for attracting, developing, and retaining competent individuals. This component is static in that its underpinnings do not generally change with a given objective."

"Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. Each identified risk is evaluated in terms of its impact and likelihood of occurrence. Overall, risk assessment is the basis for determining how risk will be managed. . . .

Management identifies risks to the achievement of the political subdivision's objectives across the unit as a whole and within each office or department. Analysis of risk through determination of objective measures and variance tolerance is the basis for determining how the risks should be managed. The response to risk is selected: acceptance, avoidance, reduction, or sharing. . . .

Internal control is a process, and part of that process is the responsibility for management to be continually aware of changes, both external and internal, that could affect the achievement of the political subdivision's objectives. Those changes should be analyzed for both their immediate effect and for any future impact. Management would then determine any modifications needed in the internal control process to adapt to these changes."

"Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information. Internal communication enables personnel to receive a clear message that control responsibilities are taken seriously by the organization. External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties."

"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. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

ORDINANCES AND RESOLUTIONS

The Town had an ordinance concerning the shut-off policy for delinquent customers. However, the Town did not comply with its existing ordinance, as delinquent customers continued to receive both water and wastewater services.

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)

TOWN COUNCIL
TOWN OF CLAY CITY
EXIT CONFERENCE

The contents of this report were discussed on December 20, 2018, with Donnella Baumgartner, President of the Town Council; Tim Rood, Town Council member; and Melinda Sue Booe, Clerk-Treasurer.

CLERK-TREASURER
TOWN OF CLAY CITY

CLERK-TREASURER
TOWN OF CLAY CITY
AUDIT RESULTS AND COMMENTS

CERTIFICATION ON INTERNAL CONTROL STANDARDS

The Clerk-Treasurer indicated on the 2017 Annual Financial Report (AFR), submitted through the Indiana Gateway for Government Units, that the minimum standards had been adopted and that personnel were provided training. However, the minimum standards had not been adopted and no training was received by personnel. Therefore, the AFR was incorrect.

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](#)."

DEPOSITS

Deposits were not being made timely during 2013. State distributions and County distributions were deposited 26 to 48 days after the check date.

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

"Except as provided in subsection (g), a city . . . shall deposit funds not later than the next business day following the receipt of the funds in depositories:

- (1) selected by the city . . . as provided in an ordinance adopted by the city . . . ; and
- (2) approved as depositories of state funds."

PAYROLL

The following deficiencies were noted in the test of payroll:

1. In 2013, an additional laborer was hired and paid a lesser amount than indicated in the salary ordinance. In 2015, a salary ordinance was not approved, but the laborers received a pay raise.
2. Town Council members and Clerk-Treasurer's quarterly payments were paid in advance.
3. The Clerk-Treasurer, who also was paid as the Assistant Utility Clerk, did not maintain documentation of the hours worked as Assistant Utility Clerk in 2014, 2015, and 2016.

The Clerk-Treasurer was paid as follows:

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

Years	Clerk-Treasurer Salary	Clerk Water/ Wastewater Salary	Water Assistant Hourly Wages	Clerk-Treasurer's Total Pay
2013	\$ 11,300	\$ 24,500	\$ -	\$ 35,800
2014	11,300	24,500	10,120	45,920
2015	11,300	24,500	10,400	46,200
2016	11,300	24,500	6,800	42,600
2017	11,300	24,500	-	35,800
Totals	<u>\$ 56,500</u>	<u>\$ 122,500</u>	<u>\$ 27,320</u>	<u>\$ 206,320</u>

4. The compensation fixed for all elected offices was not included in the ordinances. The compensation fixed for the Assistant Utility Clerk in 2014 was not clear if it was intended to be an hourly rate or a set amount. An individual who was not a Town employee performed duties on behalf of the Town and Utilities, but proper hiring procedures, including approval of the governing body, were not followed.

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)

Compensation and any other payments for good and services must not be paid in advance of the receipt of the goods or services unless specifically authorized by law. Payments made for good or services which are not received 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, cancelled 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 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)

UTILITY BILLS - PENALTIES

Late payment penalties were not imposed on any customer accounts during the audit period in accordance with Indiana Code and the Town's water and wastewater ordinances.

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)

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

CONDITION OF RECORDS

The financial records presented for audit contained the following issues:

1. The Town's Ledger of Receipts, Disbursements, and Balances was not properly footed.
2. The Town's ledger did not support the AFR submitted in Gateway.
3. The financial activity of the Bond and Interest and Debt Service Reserve Accounts for the water and wastewater utilities was not included on the ledger or the AFR.
4. State cigarette tax distributions in the amount of \$11,039.75 designated for Cumulative Capital Improvement were improperly recorded in the General fund.
5. Interest earned on investments was automatically added to the investment balance.

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)

Capital Projects type fund is used to account for receipts and disbursements of state cigarette tax distributions. The fund is established by IC 6-7-1-31.1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

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)

Interest on investments should not be added automatically to the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

PENALTIES, INTEREST, AND OTHER CHARGES

The same comment also appeared in prior Report B42805.

As Clerk-Treasurer, Melinda Sue Booe (Booe) was responsible for the correct and timely payment of Town bills during the audit period.

The Town of paid penalties and interest in the amount of \$1,400.09 to the Internal Revenue Service for late reporting and improper payments.

The Town, Water Utility, and Wastewater Utility paid penalties and late fees in the amount of \$42.22, \$168.99, and \$125.87, respectively, to Vectren due to late payments.

The total of all penalties, interest, and other charges identified was \$1,737.17.

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

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)

We requested that Booe reimburse the Town \$1,737.17 for penalties, interest, and other charges. On December 26, 2018, Booe reimbursed the Town with three checks totaling \$1,737.17. (See Summary of Charges, page 17)

INTERNAL CONTROLS

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

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

TIMELY RECORDING

State and County tax distributions were not posted timely during the audit period. Postings were as much as 48 days after receipt.

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)

BANK ACCOUNT RECONCILIATIONS

Accurate bank reconciliations were not presented for audit. The Clerk-Treasurer traced the cleared bank transactions to the ledger monthly, but outstanding items were not documented in order to reconcile to the ledger balance. The Clerk-Treasurer did provide outstanding check lists and deposits in transit as December 31 of each year during the audit period. The variance at December 31, 2017, was \$8,470.

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/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)

OFFICIAL BONDS

Booe was covered by the following official bonds:

<u>Bond Period</u>	<u>Coverage Amount</u>
01-01-13 to 01-01-14	\$ 45,000
01-01-14 to 01-01-15	45,000
01-01-15 to 12-31-15	45,000
01-01-16 to 12-31-16	45,000
01-01-17 to 12-31-17	45,000

CLERK-TREASURER
TOWN OF CLAY CITY
EXIT CONFERENCE

The contents of this report were discussed on December 20, 2018, with Donnella Baumgartner, President of the Town Council; Tim Rood, Town Council member; and Melinda Sue Booe, Clerk-Treasurer.

CLERK-TREASURER
TOWN OF CLAY CITY
SUMMARY OF CHARGES
(Due to Malfeasance, Misfeasance, or Nonfeasance)

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Melinda Sue Booe, Clerk-Treasurer: Penalties, Interest, and Other Charges, pages 12 and 13	<u>\$ 1,737.17</u>	<u>\$ 1,737.17</u>	<u>\$ -</u>