

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF SEELYVILLE

VIGO COUNTY, INDIANA

January 1, 2014 to December 31, 2017



FILED
01/26/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Connie Hinsenkamp	01-01-14 to 10-14-14
	(Vacant)	10-15-14 to 11-10-14
	Tracy Kiefling	11-11-14 to 01-26-15
	Tamara J. Caton (interim)	01-27-15 to 03-22-15
	Tamara J. Caton	03-23-15 to 12-31-15
President of the Town Council	Cynthia K. Jones-Eisman	01-01-16 to 12-31-18
	Jerry Jones	01-01-14 to 12-31-14
	John Wade	01-01-15 to 12-31-15
	John Eisman	01-01-16 to 12-31-16
Utility Office Manager	Jennifer Long	01-01-17 to 12-31-18
	Tamara J. Caton	01-01-14 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF SEELYVILLE, VIGO COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Seelyville (Town), for the period from January 1, 2014 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 13, 2018

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CLERK-TREASURER
TOWN OF SEELYVILLE

CLERK-TREASURER
TOWN OF SEELYVILLE
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORTS

The same comment also appeared in prior Report B44775.

The Annual Financial Report (AFR) for 2014 wasn't filed electronically until June 24, 2016, which was 481 days after the due date. The AFR for 2015 wasn't filed electronically until August 31, 2016, which was 183 days after the due date.

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](#)."

BANK ACCOUNT RECONCILIATIONS

The same comment also appeared in prior Report B44775.

Depository reconciliations of the fund balances to the bank account balances were not presented for audit for 45 of the 48 months in the audit period, as no depository reconciliations were prepared by the Clerk-Treasurer for these 45 months.

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."

COMPENSATION AND BENEFITS

The same comment also appeared in prior Report B44775.

Internal Revenue Service Wage and Tax Statements (Form W-2) were generated from the computerized accounting system, but the total gross wages shown on the employee's earning records did not match the amount reported on the Form W-2. In 2014, one employee's Form W-2 reported \$910 more than that employee's earnings record. In 2015, one employee's Form W-2 reported \$847 more than that employee's earnings record. In 2016, two employees' Form W-2 reported \$90 and \$893 more than these employee's respective earnings records.

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)

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

INTERNAL CONTROLS

A similar comment also appeared in prior Report B44774, entitled *FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING*.

There were deficiencies in the internal control system related to financial transactions and reporting. The Town had not separated incompatible activities related to cash and investments, receipts, disbursements, and financial close and reporting. Bank reconciliations were not performed for 45 of the 48 months audited, receipts were not posted for 2016 and 2017, and the ledger did not support the AFR, which was used to compile the financial statements.

The Town had not established monitoring processes over internal controls. Monitoring processes should be developed at various levels to reduce risks of error and/or fraud. The failure to establish these controls could enable material misstatements to exist and be 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. . . ."

"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. . . ."

PENALTIES, INTEREST, AND OTHER CHARGES

The same comment also appeared in prior Report B44775.

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

The Town paid penalties totaling \$730 to the Internal Revenue Service. Federal withholding tax payments were not made properly for the period October 10, 2014 through December 24, 2014.

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)

UTILITY BILLINGS - PENALTIES

Penalties for the late payment of utility bills were not consistently applied by the Clerk-Treasurer to the utility customer accounts of Town employees. The Town's water utility rate ordinance, as well as the Indiana Code, contained provisions for charging customers whose utility payments were not paid by the due date.

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 amount owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CONDITION OF RECORDS

The same comment also appeared in prior Report B44775.

Financial records presented for audit contained the following deficiencies:

1. Receipts were issued but not posted to the ledger in 2016 and 2017.

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

2. Fund report totals did not agree with the detailed revenue or disbursement reports generated from the same computerized accounting system in 2014 through 2017.

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)

3. Ledgers did not support the AFRs submitted for 2014 through 2017.

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)

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

APPROPRIATIONS

The same comment also appeared in prior Report B44775.

The annual budget for 2016 was not approved by the Department of Local Government Finance. Therefore, expenditures during 2016 were made without an approved appropriation.

Indiana Code 36-5-4-2 states in part: ". . . town monies may be disbursed only after an appropriation made by ordinance of the town legislative body and recorded in a book kept for that purpose by the legislative body. Each appropriation must be made from the fund against which the expenses arose."

OVERDRAWN CASH BALANCES

The financial statements presented for audit included the following funds with overdrawn cash balances as of December 31:

Fund	2014 Amount Overdrawn	2015 Amount Overdrawn	2016 Amount Overdrawn
Water Construction Fund	\$ 73,816	\$ 73,816	\$ 110,604

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)



Town of Seelyville

A Centennial Community



January 4, 2019

Response for the Audit period January 1, 2014 through December 31, 2017 ("AUDIT PERIOD").

The Town of Seelyville ("TOWN") had four (4) different Clerk-Treasurers during the AUDIT PERIOD. The Town was also involved in a lawsuit under the Cause Number 84D03-1203-CC-1455 during this same time, which did not help the Town's operation. The heavy rotation of clerk-treasurers and pending litigation during this AUDIT PERIOD created problems known and unknown.

The majority of the comments from this audit period can be tracked back to former Clerk-Treasurer Connie Hinsenkamp. During her term, it was later discovered that proper record keeping was not followed. She presented financial reports to the Town Council that were based on error-filled bookkeeping. Connie Hinsenkamp resigned her position as Clerk-Treasurer with no advance notice. Unfortunately, that didn't end the problems for the Town. Due to several bookkeeping errors in the accounting software, the software vendor was required to spend more than a year trying to figure out what had been done. This audit includes the final 9½ months that former Clerk-Treasurer Connie Hinsenkamp was in office. Unfortunately, many of the problems noted in the previous audit have carried forward to this audit.

The Town was unable to file timely Annual Financial Reports for 2014 and 2015; however, the Town was in communication with the State Board of Accounts to apprise them of the situation. The Town was working closely with H. J. Umbaugh & Associates to correct as many of the former Clerk-Treasurer Connie Hinsenkamp's financial errors as possible, and determine correct Fund balances. Although this audit shows that bank reconciliations were not presented for 45 months, this was primarily due to the fact that the Town was not able to depend on the balances shown in the accounting software. Fortunately, Umbaugh was maintaining financial records during that time on the Town's behalf. The Town has subsequently changed accounting software vendors and bank reconciliations are now done monthly in-house. This audit did not accept Umbaugh's records because they were not re-entered into the Town's accounting software, even though Umbaugh was maintaining the Town's ledgers at that time due to the amount of errors in the Town's software. This audit did not accept that the Town has a segregation of duties because those records being maintained by Umbaugh were not entered in the Town's software. The Town does practice dual-control of all funds received, and receipts are issued.

This audit showed that penalties were paid to the Internal Revenue Service. These fines were incurred immediately following former Clerk-Treasurer Connie Hinsenkamp's resignation. The IRS had received multiple 941 Forms filed by former Clerk-Treasurer Connie Hinsenkamp each quarter, rather than the one quarterly form that was required. The Town worked with the IRS to determine what tax was paid

and what was due, and file corrective forms. There were no penalties assessed for the remainder of the audit period.

This audit found that late payment penalties were not consistently imposed on employees who were utility customers; however, it fails to note that penalties are assessed to all customers at the same time. Employees who have not paid are penalized at the same time as any other customer who has not paid. Employees are not given preferential treatment.

The 2016 budget was not approved by the Department of Local Government Finance due to the delay in filing the Annual Financial Report; however, the Town was advised to operate as if the budget had been approved because the Town could not cease to operate, and request Additional Appropriations when dependable Fund balances were determined. The 2017 budget was approved, as were 2018 and 2019, and the Town is moving forward.

Jennifer J. Long
President,
Seelyville Town Council

Cynthia K. Jones-Eisman
Current Clerk-Treasurer

Tamara J. Caton
Former Clerk-Treasurer

CLERK-TREASURER
TOWN OF SEELYVILLE
EXIT CONFERENCE

The contents of this report were discussed on December 13, 2018, with Cynthia K. Jones-Eisman, Clerk-Treasurer; Jennifer Long, President of the Town Council; John Eisman, Town Council member; and Tamara J. Caton, former Clerk-Treasurer and current Utility Office Manager.

TOWN COUNCIL
TOWN OF SEELYVILLE

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INTERNAL CONTROLS

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APPROPRIATIONS

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The annual budget for 2016 was not approved by the Department of Local Government Finance. Therefore, expenditures during 2016 were made without an approved appropriation.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article.



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