

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF ORLEANS

ORANGE COUNTY, INDIANA

January 1, 2014 to December 31, 2017



FILED
02/07/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Robert F. Henderson, Jr.	01-01-12 to 12-31-19
President of the Town Council	Michael H. Fields	01-01-14 to 12-31-18
Town Superintendent	Mike Dixon Simon Sprigler	01-01-14 to 01-19-14 01-20-14 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF ORLEANS, ORANGE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Orleans (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 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 19, 2018

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CLERK-TREASURER
TOWN OF ORLEANS

CLERK-TREASURER
TOWN OF ORLEANS
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

A similar comment also appeared in prior Report B44734, entitled *FINDING 2013-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not established an effective internal control system that had separated incompatible activities related to cash and investments, receipts, vendor disbursements, and payroll disbursements.

Cash and Investments

The Deputy-Clerk Treasurer performed the monthly bank reconciliations; however, there was no evidence of an oversight, review, or approval process of the reconciliations.

Receipts

The Deputy Clerk-Treasurer ran an end of the day report, compared the total to the total receipts, and prepared the bank deposit. The Clerk-Treasurer stated that he verified the deposit totals and took the deposits to the bank; however, there was no evidence that this control existed or was performed.

Vendor Disbursements

Numerous claims were omitted from the claim docket that was used to document certification by the fiscal officer and approval by the governing board. There was no other evidence that these claims were reviewed or approved.

Payroll Disbursements

A review of employee attendance reports for the audit period revealed that compensatory time was not being calculated in accordance with the Town's policy. Effective internal controls were not in place to ensure that the calculation of compensatory time earned was accurate and in accordance with the Town's policy.

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
TOWN OF ORLEANS
AUDIT RESULTS AND COMMENTS
(Continued)

ERRORS ON CLAIMS

Of the 102 Accounts Payable Vouchers (claims) tested for compliance, 21 were not included on the claim docket used to document approval, resulting in the claims in question not being certified by the fiscal officer. The total of the 21 claims paid without evidence of certification by the fiscal officer totaled \$766,456.

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;
- (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. . . ."

BANK ACCOUNT RECONCILIATIONS

Bank reconcilements were performed during the audit period; however, they were not performed timely. Reconcilements were performed up to 326 days after month end. In addition, numerous miscellaneous adjustments were posted on the bank reconciliation. Several of these adjustments were carried for all four years of the audit period instead of working on the necessary corrections.

A total monies on deposit certificate of deposit in the amount of \$150,000 was reported as a fund on the Town's ledger. The reconciled bank balance was not in agreement with the Town's ledger and was not detected.

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)

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

BOARD MINUTES

The minutes of the meetings of the Town Council were not presented for all meetings held during the audit period. The meeting minutes presented for August 18, 2016, were actually a duplicate of the minutes from the August 17, 2017 meeting. Also, the meeting minutes presented for February 16, 2017, and December 21, 2017, consisted of tentative agendas with the Clerk-Treasurer's notes and/or copies of newspaper articles which discussed the meeting.

In addition, numerous minutes stated "accept the minutes with corrections"; however, no corrections were noted on the prior minutes. Therefore, it could not be verified that the corrections that were approved had been made.

Indiana Code 5-14-1.5-4 states in part:

". . . (b) As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes take, by individual members if there is a roll call.
- (5) Any additional information required under section 3.5 of 3.6 of this chapter or any other statute that authorizes a governing body to conduct a meeting using an electronic means of communication.

(c) The memoranda are to be available within a reasonable period of time after the meeting for the purpose of informing the public of the governing body's proceedings. The minutes, if any, are to be open for public inspection and copying."

TOWN COUNCIL
Michael H. Fields
Ernie Sluss
Mike McCracken

CLERK-TREASURER
Robert F. Henderson, Jr.



The Town of ORLEANS

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December 27, 2018

Re: Orleans Town Audit Official Response

State Board of Accounts
302 W. Washington St., Rm. E418
Indianapolis, IN 46204-2765

To Whom It May Concern,

The most recent State Board of Accounts audit of the Town of Orleans resulted in some results and comments in which I would like to endeavor to address in part at this time.

We continue to be grateful to the SBOA for all their invaluable assistance and help to especially both cities and towns along with other units of government.

I do believe that many of the items addressed in the report may have possibly been avoided or caught early on had the audit process for this unit been more timely as has been the case in the past instead of going a full 4-years plus. As one who has also previously served two decades working with state government, 12 years on both the municipal executive and legislative side, along with addition of my past 12 years of service as clerk-treasurer I have been somewhat encouraged by the recent efforts undertaken by the SBOA to provide what we can only hope will be a more timely and efficient audit process overall.

Previous audits provided the local unit with very little direction in regards to the just recently revised internal control system other than being asked to complete numerous previously unseen or used forms for their reporting purposes. The present training material(s) consisting of a single video in overall quality and effectiveness can only be described as being "poor" at best. One can only hope this will also be addressed in the very near future.

Smaller and rural units such as ours do not have the adequate resources as larger and more staffed units and were left with no option other than to seek outside vendors to assist them with the development of the required documentation and policy creation. In the case of the local unit this process took nearly an entire year or more to complete.

All of the items addressed related to the town's internal controls have been thoroughly reviewed by myself & staff along with the chief elected official and all but one of the

items have been corrected with the proper implementation of policy and prescribed method of accounting practice.

In the matter of the error of claims this was a simple result of the way the claim docket itself was being prepared during the audit period as it was being ran monthly using the date and not by batch. This resulted in some claims, largely the automatic USDA payments not appearing on the official docket. This has been addressed by having the accounts payable clerk process the claims docket by batch that along with careful hand review of the APV numbers from beginning to end should ensure that all claims appear on the said docket.

Bank reconcilements are now being performed monthly and in a more improved timely manner. The audit report noted that during the audit period "numerous misc. adjustments were posted on the bank reconciliation." These have been identified largely as being "bank" errors. Dep-Clerk has been directed to work out any necessary corrections. This problem was an on-going one with a local financial institution being utilized by the unit and as in result the town has recently opted to change its choice of local depositories.

Despite the fact that less than a handful of minutes reviewed in the audit period not being in the prescribed format I do believe that the supporting documentation provided represents a fair and accurate record of the meetings in question.

We sincerely hope that these brief explanations along with our renewed pledge to continue to be as diligent as possible in our daily prescribed duties will be received in the manner it was intended.

Sincerely,

A handwritten signature in cursive script that reads "Robert F. Henderson, Jr." The signature is written in black ink and is positioned above the typed name.

The Honorable Robert F. Henderson, Jr.
Clerk-Treasurer

CLERK-TREASURER
TOWN OF ORLEANS
EXIT CONFERENCE

The contents of this report were discussed on December 19, 2018, with Robert F. Henderson, Jr., Clerk-Treasurer; Michael H. Fields, President of the Town Council; Theresa Nevill, Deputy Clerk-Treasurer; and Janie Baker, Payroll/Accounts Payable Clerk.

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TOWN COUNCIL
TOWN OF ORLEANS

TOWN COUNCIL
TOWN OF ORLEANS
AUDIT RESULTS AND COMMENTS

TRAINING ON INTERNAL CONTROL STANDARDS

The Town passed Ordinance 2016-05, which stated in part: ". . . personnel as defined in I.C. § 5-11-1-27 shall receive training concerning Uniform Internal Control Standards for Indiana Political Subdivisions. . . ."

The Town failed to ensure that all applicable personnel received the required training.

Indiana Code 5-11-1-27(g) states in part:

". . . the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

ERRORS ON CLAIMS

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- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (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. . . ."

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TOWN OF ORLEANS
EXIT CONFERENCE

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