

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF HOLLAND

DUBOIS COUNTY, INDIANA

January 1, 2015 to December 31, 2017



FILED
02/27/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Raymond O. Schuetter	01-01-15 to 12-31-19
President of the Town Council	Thomas W. Thacker	01-01-15 to 12-31-19
Superintendent of Water Utility	Kevin Head (Vacant) Dean Moore	01-01-15 to 04-30-15 05-01-15 to 05-31-15 06-01-15 to 12-31-19
Superintendent of Wastewater	Ron Groeschen	01-01-15 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF HOLLAND, DUBOIS COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Holland (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 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

February 19, 2019

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CLERK-TREASURER
TOWN OF HOLLAND

CLERK-TREASURER
TOWN OF HOLLAND
AUDIT RESULTS AND COMMENTS

CAPITAL ASSETS

The same comment also appeared in prior Reports B28959, B30796, B39487, and B45907.

The Town, including the Water and Wastewater Utilities, did not properly maintain a complete inventory of capital assets owned. The capital asset records had not been updated for over 20 years and an annual inventory was not taken.

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

The Clerk-Treasurer improperly certified on the 2016 and 2017 Annual Financial Reports (AFR) that minimum internal control standards had been adopted by the Town Council and that training had been provided to personnel. Internal control standards had not been adopted and training had not been provided to personnel as of December 31, 2017. Therefore, the AFRs were incorrect as submitted.

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](#)."

PAYROLL DEFICIENCIES

A similar comment also appeared in prior Reports B28959 and B30796, entitled *PAYROLL*; B39487, entitled *PAYROLL DEFICIENCIES*; and B45907, entitled *PAYROLL EXCEPTIONS*.

The following exceptions regarding payroll were identified:

- (1) The Clerk-Treasurer was paid in advance. The Clerk-Treasurer received his entire annual salary by June 2015, June 2017, and July 2016.

Indiana Code 5-7-3-1(a) states: "Public officers may not draw or receive their salaries in advance."

- (2) Salaries of the Park Board and Town attorney were included in the salary ordinance adopted by the Town Council; however, their compensation was not paid through the payroll system. Also, their compensation was not reported in accordance with state and federal requirements, which would have included the issuance of Internal Revenue Service (IRS) Wage and Tax Statement, Form W-2 or IRS Miscellaneous Income Form 1099-MISC. In addition, a park employee served on the Park Board and the compensation he was paid as a Park Board member was not included in his IRS Wage and Tax Statement, Form W-2 wages.

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

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)

(3) The Town Council members were paid monthly in the first week of the month resulting in a prepayment of salaries.

Indiana Code 5-7-3-1(a) states: "Public officers may not draw or receive their salaries in advance."

(4) The Town paid the entire cost of health insurance provided to employees.

Indiana Code 5-10-8-2.6(c) states in part: "A public employer may pay a part of the cost of group insurance . . ."

BANK ACCOUNT RECONCILIATIONS

Bank account reconciliations were performed monthly for all Town bank accounts except for the utility collections account. Reconcilements were not performed for the utility collections account during the audit period.

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."

DELINQUENT WASTEWATER ACCOUNTS

The same comment also appeared in prior Reports B28959, B30796, B39487, and B45907.

A list of delinquent wastewater accounts was not prepared and recorded in the County Recorder's office for the years of 2015, 2016, and 2017 in accordance with Indiana Code 36-9-23-33.

Indiana Code 36-9-23-33 states in part:

". . . (c) Except as provided in subsection (m), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) the name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
 - (B) A description of the premises, as shown by the records of the county auditor.
 - (C) The amount of the delinquent fees, together with the penalty.

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

(2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

(d) The officer shall record a copy of each list or each individual instrument with the county recorder . . .

(f) . . . Using the lists and instruments prepared under subsection (c) and recorded under subsection (d), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (d), certify to the county auditor a list of the unpaid liens for collection with the next May installment of property taxes. . . ."

CUSTOMER DEPOSIT REGISTER

The same comment also appeared in prior Reports B28959, B30796, B39487, and B45907.

The Guarantee Deposit Register did not agree with the cash balance of the Water Utility-Customer Deposit fund maintained in the simplified cash journal. This is a result of errors and a loan made to the Water Utility-Operating fund in previous years, the unpaid portion of which totaled \$14,453. Monthly, the Water Utility-Customer Deposit fund cash balance is to be reconciled to the Guarantee Deposit Register and corrections made for any errors noted.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

HYDRANT RENTAL RECEIVABLE/PAYABLE

The same comment also appeared in prior Reports B28959, B30796, B39487, and B45907.

As of December 31, 2017, the Town owed the Water Utility hydrant rental fees of \$108,340 pursuant to current and prior rate ordinances adopted by the Town Council.

Also, the inventory of fire hydrants showed one private fire hydrant. Pursuant to current and prior rate ordinances, the annual charge for private hydrant rental was \$803. No documentation was presented for audit that reflected that the private hydrant rental was billed or collected.

Each governmental 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)

CONDITION OF RECORDS

The financial activity of the Utilities Collection Fund was not recorded in the Town's ledger for any year of the audit period. This fund was also not reported on the AFRs submitted for 2015, 2016, or 2017, and not presented on the Town's financial statements. The total activity for the Utilities Collection Fund for the audit period was a beginning cash and investment balance of \$40,960; receipts of \$1,513,330; disbursements of \$1,515,997; and an ending cash and investment balance of \$37,293. Audit adjustments were proposed, accepted by the Town, and made to the financial statements.

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

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)

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](#)."

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Deficiencies in the internal control system of the Town related to financial transactions and reporting were identified. There was a lack of segregation of duties related to cash and investments, receipts, and disbursements. One individual was responsible for recording all transactions in the ledger and preparing bank reconciliations for the Town. There was no evidence of an oversight or review process to ensure the accuracy of the information.

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 HOLLAND
EXIT CONFERENCE

The contents of this report were discussed on February 19, 2019, with Raymond O. Schuetter, Clerk-Treasurer; Thomas W. Thacker, President of the Town Council; and Melanie Barrett, Town Council member.

TOWN COUNCIL
TOWN OF HOLLAND

TOWN COUNCIL
TOWN OF HOLLAND
AUDIT RESULT AND COMMENT

INTERNAL CONTROL STANDARDS

Internal control standards and procedures had not been adopted by the Town Council as of December 31, 2017, nor had training on the internal control standards and procedures taken place.

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."

TOWN COUNCIL
TOWN OF HOLLAND
EXIT CONFERENCE

The contents of this report were discussed on February 19, 2019, with Raymond O. Schuetter, Clerk-Treasurer; Thomas W. Thacker, President of the Town Council; and Melanie Barrett, Town Council member.