

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

SPECIAL INVESTIGATION REPORT
OF

CLERK-TREASURER
TOWN OF WOLCOTTVILLE
LAGRANGE COUNTY, INDIANA

January 1, 2015 to March 31, 2018



FILED
03/05/2019

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STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF WOLCOTTVILLE, LAGRANGE COUNTY, INDIANA

This is a special investigation report for the Town of Wolcottville (Town), for the period January 1, 2015 to March 31, 2018, and is in addition to any other report for the Town as required under Indiana Code 5-11-1. All reports pertaining to the Town may be found at www.in.gov/sboa/.

We performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts and were limited to records associated with disbursements. The 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 Results and Comments, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

December 27, 2018

CLERK-TREASURER
TOWN OF WOLCOTTVILLE
RESULTS AND COMMENTS

PERSONAL AND UNDOCUMENTED EXPENSES

During the period reviewed, the Town made twelve payments totaling \$4,050.84 for expenses that were personal in nature for June Wood (Wood), Clerk-Treasurer. These included, but were not limited to, payment of unauthorized home office rent, unauthorized medical expense reimbursement, and personal cable/internet account payments. The Town also made forty-three payments totaling \$7,282.85 that were not supported by any documentation. Five of the personal and undocumented payments were made by check, and the remaining fifty payments were made by debit charges to the Town's bank accounts. Four of the five checks issued and all of the purchases by debit card were not presented to or approved by the Town Council. As Clerk-Treasurer of the Town, Wood was responsible for all disbursements made from Town funds.

On December 27, 2018, after the original exit conference held on November 28, 2018, Wood submitted additional information regarding some of the undocumented payments. The information provided adequate supporting documentation for twenty-five of the undocumented payments totaling \$4,374.47.

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. . . ."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit 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)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the unit. Any personal expenses 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)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any official or employee 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 WOLCOTTVILLE
RESULTS AND COMMENTS
(Continued)

We requested that Wood reimburse the Town \$6,959.22 for payments made for personal and undocumented expenses. On November 28, 2018, Wood presented Town receipt numbers 19372, dated June 13, 2018, and 19421, dated November 1, 2018, indicating she had repaid \$346.95 and \$3,295, respectively, of these charges. (See Summary of Charges, page 8)

PENALTIES, INTEREST, AND OTHER CHARGES

A similar comment also appeared in prior Report B46116, entitled *PENALTIES, INTEREST, AND OTHER CHARGES*.

The Town frequently received notices from the Internal Revenue Service (IRS) related to problems with payroll taxes. In 2018, the Town received 14 IRS notices due to errors in payment of withholdings and taxes for the following tax periods: March 31, 2016 (5); June 30, 2016 (2); September 30, 2016 (3); September 30, 2017 (1); and December 31, 2017 (3).

Based on Town records, Wood paid penalties, interest, and other charges assessed by the Internal Revenue Service of \$2,744.03 in 2015 for tax periods 2014 and 2015. In 2017 the Town received a partial refund of \$1,794.73 from the IRS for the penalties and interest paid in 2015. Net penalties, interest, and other charges related to 2014 and 2015 payroll taxes totaled \$949.30.

On December 27, 2018, after the original exit conference held on November 28, 2018, Wood provided IRS Account Transcripts for the Town for 2016 and 2017 tax periods. Based on the information provided by these transcripts, the Town paid a total of \$23,515.96 in interest and penalties for the 2016 and 2017 tax years. The transcripts also indicated an unpaid balance of penalties and interest totaling \$2,993.56. These amounts are detailed by reporting period in the following schedule:

	Tax Period							Totals	
	03-31-16	06-30-16	09-30-16	12-31-16	03-31-17	06-30-17	09-30-17		12-31-17
Penalties Charged	\$ 11,814.70	\$ 12,633.86	\$ 6,873.90	\$ 7,855.34	\$ 9,136.44	\$ 8,120.43	\$ 2,555.55	\$ 1,143.34	\$ 60,133.56
Penalties Reduced/Removed	(857.71)	(5,257.60)	(4,245.16)	(7,855.34)	(9,136.44)	(8,120.43)	(2,555.55)	-	(38,028.23)
Interest Charged	1,804.81	1,410.57	805.12	817.41	691.55	362.34	-	-	5,891.80
Interest Reduced/Removed	(30.71)	(566.73)	(416.30)	(172.68)	(190.53)	(110.66)	-	-	(1,487.61)
Total Penalties/Interest	12,731.09	8,220.10	3,017.56	644.73	501.02	251.68	-	1,143.34	26,509.52
Unpaid as of 12/17/18	(2,922.40)	-	-	-	-	(71.16)	-	-	(2,993.56)
Net Penalties/Interest Paid	<u>\$ 9,808.69</u>	<u>\$ 8,220.10</u>	<u>\$ 3,017.56</u>	<u>\$ 644.73</u>	<u>\$ 501.02</u>	<u>\$ 180.52</u>	<u>\$ -</u>	<u>\$ 1,143.34</u>	<u>\$ 23,515.96</u>

Officials and employees have a 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 governmental 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 governmental unit. Any penalties, interest or other charges paid by the governmental unit 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 WOLCOTTVILLE
RESULTS AND COMMENTS
(Continued)

We requested that Wood reimburse the Town \$24,465.26 for penalties, interest, and other charges paid. (See Summary of Charges, page 8)

SPECIAL INVESTIGATION COSTS

The State of Indiana incurred costs, in the amount of \$19,231.83 due to the special investigation of personal and undocumented expenses paid and penalties, interest, and other charges paid.

Audit costs or other costs incurred because of poor records, nonexistent records or other inadequate bookkeeping practices may be the personal obligation of the responsible official or employee of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

We requested that Wood reimburse the State of Indiana for special investigation costs in the amount of \$19,231.83. (See Summary of Charges, page 8)

INTERNAL CONTROL DEFICIENCIES

Internal control deficiencies existed that allowed for payments to be made for personal and undocumented expenses. Internal controls within the Clerk-Treasurer's office were insufficient to detect or prevent those irregularities. Because of the size of the Town and the structure of Town government in Indiana, it is important for the Town Council to take seriously their duties as enumerated in the Indiana Code. In particular, the Town Council members must diligently examine the claims that are presented for approval. It may also be necessary and desirable for the Town Council to institute their own procedures to ensure that all disbursements clearing the Town's bank accounts have been presented to the Council for approval.

There were also deficiencies noted in the internal controls regarding the timely payments of taxes collected and subsequently paid to the U.S. Department of the Treasury. Penalties and interest were paid by Wood as a result. There was no oversight to ensure that payments were made timely to the U.S. Department of the Treasury.

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 WOLCOTTVILLE
RESULTS AND COMMENTS
(Continued)

OFFICIAL BOND COVERAGE

The following is the official bond coverage for Wood:

<u>Period</u>	<u>Amount</u>
07-16-14 to 07-16-15	\$ 60,000
07-16-15 to 07-16-16	60,000
01-01-17 to 12-31-17	60,000
01-01-18 to 12-31-18	60,000

CLERK-TREASURER
TOWN OF WOLCOTTVILLE
EXIT CONFERENCE

The contents of this report were originally discussed on November 28, 2018, with June Wood, Clerk-Treasurer; Greg Ringler, President of the Town Council; and Kevin Bruns, Attorney.

The revised contents of this report were discussed on February 20, 2019, with June Wood, Clerk-Treasurer; Greg Ringler, former President of the Town Council; and Kevin Bruns, Attorney.

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

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
June Wood, Clerk-Treasurer:			
Personal and Undocumented Expenses, pages 3 and 4	\$ 6,959.22	\$ 3,641.95	\$ 3,317.27
Penalties, Interest, and Other Charges, pages 4 and 5	<u>24,465.26</u>	<u>-</u>	<u>24,465.26</u>
Subtotals	<u>31,424.48</u>	<u>3,641.95</u>	<u>27,782.53</u>
Special Investigation Costs, page 5	<u>19,231.83</u>	<u>-</u>	<u>19,231.83</u>
Totals	<u>\$ 50,656.31</u>	<u>\$ 3,641.95</u>	<u>\$ 47,014.36</u>

This report was forwarded to the Office of the Indiana Attorney General and the local prosecuting attorney.

AFFIDAVIT

STATE OF INDIANA)
HUNTINGTON)
COUNTY)

We, Jeffrey J. Paul and Stephen R. Poor, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the Town of Wolcottville, LaGrange County, Indiana, for the period from January 1, 2015 to March 31, 2018, is true and correct to the best of our knowledge and belief.

Jeffrey J. Paul

Stephen R. Poor
Field Examiners

Subscribed and sworn to before me this 4th day of MARCH, 2019

J. A. Sullon
Notary Public

My Commission Expires: 9/11/2022

County of Residence: HUNTINGTON