

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

SPECIAL INVESTIGATION REPORT

OF

MORGAN TOWNSHIP

OWEN COUNTY, INDIANA

January 1, 2017 to December 31, 2018



FILED
07/30/2019

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STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF MORGAN TOWNSHIP, OWEN COUNTY, INDIANA

This is a special investigation report for Morgan Township (Township), Owen County, for the period January 1, 2017 to December 31, 2018, and is in addition to any other report for the Township as required under Indiana Code 5-11-1. All reports pertaining to the Township 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 payroll. 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

March 8, 2019

MORGAN TOWNSHIP, OWEN COUNTY
RESULTS AND COMMENTS

PRIOR PERIOD OVERPAYMENT OF COMPENSATION

In prior Report B48894, we determined that Patricia Flowers (Flowers), prior Trustee, had received \$3,997.48 in excess of her approved salary. As of November 28, 2018, Flowers had a remaining unpaid balance of \$567.30 as shown in the schedule below:

Description	Date	Charges	Credits	Balance Due
Prior Period Overpayment		\$ 3,997.48	\$ -	\$ 3,997.48
Repayment from Flowers	10-19-17	-	406.80	3,590.68
Repayment from Flowers	10-19-17	-	144.54	3,446.14
Repayment from Flowers	10-19-17	-	144.54	3,301.60
Repayment from Flowers	10-27-17	-	529.20	2,772.40
Township Check Paid to Bonding Company	01-18-18	3,997.48	-	6,769.88
Repayment from Flowers	03-20-18	-	550.80	6,219.08
Repayment from Flowers	04-16-18	-	1,000.00	5,219.08
Bond Payment Received from the State of Indiana	04-23-18	-	3,997.48	1,221.60
Repayment from Flowers	05-23-18	-	600.00	621.60
Repayment from Flowers	07-09-18	-	26.00	595.60
Repayment from Flowers	08-24-18	-	28.30	567.30
Prior Period Overpayment of Compensation		<u>\$ 7,994.96</u>	<u>\$ 7,427.66</u>	<u>\$ 567.30</u>

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 Townships, Chapter 1)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance 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 Townships, Chapter 1)

During a meeting on November 28, 2018, Flowers was requested to reimburse the Township \$567.30 for the prior period overpayment of compensation. Flowers reimbursed the Township \$567.30 (Check Number 2293) on December 3, 2018. (See Summary of Charges, page 7)

OVERPAYMENT OF COMPENSATION

A similar comment appeared in prior Report B48894 entitled, *OVERPAYMENT OF COMPENSATION*.

The Township Board did not establish the salaries of Township officers and employees for 2017 and 2018. However, based on the amount appropriated by the Township Board, Flowers should have been paid a yearly salary of \$7,200 in 2017 and 2018. After withholding Social Security and Medicare taxes, the total of the checks Flowers should have received was \$6,649.20 each year. In 2017, the checks to Flowers for her salary totaled \$7,200, resulting in an overpayment of \$550.80. The Township paid Flowers's share of Social Security and Medicare taxes totaling \$550.80. In 2018, Flowers issued herself 13 checks totaling \$7,089.20, resulting in overpayment of \$440. A W-2 was issued to Flowers in 2017 and 2018; however, the reported income on the W-2s was different than the income we identified that Flowers received.

MORGAN TOWNSHIP, OWEN COUNTY
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 Townships, Chapter 1)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

Indiana Code 36-6-6-10(b) states:

"The township legislative body shall fix the:

- (1) salaries;
- (2) wages;
- (3) rates of hourly pay; and
- (4) remuneration other than statutory allowances;

of all officers and employees of the township."

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance 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 Townships, Chapter 1)

During a meeting on November 28, 2018, Flowers was requested to reimburse the Township \$550.80 for the 2017 overpayment of compensation. Flowers reimbursed the Township \$550.80 (Check Number 2293) on December 3, 2018. (See Summary of Charges, page 7)

Flowers paid the Owen County Clerk of the Circuit Court \$440 on March 20, 2019 for the 2018 overpayment of compensation. That money was forwarded to the Township on March 21, 2019 and deposited on March 25, 2019. (See Summary of Charges, page 7)

SPECIAL INVESTIGATION COSTS

The State of Indiana incurred additional costs in the investigation of the payroll records.

Audit costs incurred because of poor records, nonexistent records, or any other inadequate bookkeeping practices, or because of theft or a shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

During a meeting on November 28, 2018, Flowers was requested to reimburse the State of Indiana \$1,718.01 for special investigation costs. Flowers reimbursed the State of Indiana \$1,718.01 (Check Number 1765) on December 24, 2018. (See Summary of Charges, page 7)

MORGAN TOWNSHIP, OWEN COUNTY
RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROLS

The internal controls over payroll and disbursements were insufficient. Controls were in place for the Township Board to review and approve the Annual Financial Report, which includes disbursements for payroll; however, the controls in place were ineffective and did not properly prevent, or detect and correct (material) misstatements in a timely manner. Once internal controls are established, they should be monitored and assessed to ensure the quality and effectiveness.

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. . . ."

INVESTIGATION BY LAW ENFORCEMENT AGENCY

An investigation into Flowers has also been conducted by the Owen County Sheriff's Department. On December 14, 2018, Case 60C01-1812-F6-000768 was filed in Owen County Circuit Court. Flowers was charged with five counts of theft and five counts of official misconduct. On March 19, 2019, Flowers pled guilty to two charges of theft. Flowers was ordered to pay \$440 in restitution which was paid to the Owen County Clerk of the Circuit Court on March 20, 2019.

OFFICIAL BOND INFORMATION

The following is information regarding official bonds obtained by the Township:

<u>Bond Period</u>	<u>Amount</u>
01-01-16 to 01-01-17	\$ 15,000
01-01-17 to 01-01-18	15,000
01-01-18 to 12-31-20	30,000

In addition, Flowers has an errors and omissions policy for \$5,000 with the policy period ending October 12, 2022.

MORGAN TOWNSHIP, OWEN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on March 8, 2019, with Destanie P. Henderson, Trustee.

MORGAN TOWNSHIP, OWEN COUNTY
SUMMARY OF CHARGES
(Due to Malfeasance, Misfeasance, or Nonfeasance)

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Patricia Flowers, former Trustee			
Prior Period Overpayment of Compensation, page 3	\$ 567.30	\$ 567.30	\$ -
Overpayment of Compensation 2017, pages 3 and 4	550.80	550.80	-
Overpayment of Compensation 2018, pages 3 and 4	<u>440.00</u>	<u>440.00</u>	-
Totals	<u>990.80</u>	<u>990.80</u>	-
Special Investigation Costs, page 4	<u>1,718.01</u>	<u>1,718.01</u>	-
Totals	<u>\$ 2,708.81</u>	<u>\$ 2,708.81</u>	<u>\$ -</u>

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