

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF SHELBYVILLE

SHELBY COUNTY, INDIANA

January 1, 2018 to December 31, 2018



FILED
09/16/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Errors on Claims	6
Internal Controls - Disbursements	6-7
Exit Conference	8

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Frank M. Zerr	01-01-16 to 12-31-19
Mayor	Thomas D. DeBaun	01-01-16 to 12-31-19
President of the Board of Public Works	Thomas D. DeBaun	01-01-16 to 12-31-19
President Pro Tempore of the Common Council	Robert Nolley	01-01-18 to 12-31-19
Superintendent of the Wastewater Utility	Bradley E. Fix	01-01-18 to 12-31-19
Superintendent of the Storm Water Utility	Derrick S. Byers	01-01-18 to 12-31-19
Utility Office Manager	Beth Corley	01-01-18 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF SHELBYVILLE, SHELBY COUNTY, INDIANA

This report is supplemental to our audit report of the City of Shelbyville (City), for the period from January 1, 2018 to December 31, 2018. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement Audit Report of the City, which provides our opinion on the City's financial statement. 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

July 31, 2019

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CLERK-TREASURER
CITY OF SHELBYVILLE

CLERK-TREASURER
CITY OF SHELBYVILLE
AUDIT RESULTS AND COMMENTS

ERRORS ON CLAIMS

Accounts Payable Vouchers (APV) created by the Deputy Clerk-Treasurer for electronic transactions were not consistently reviewed or approved by the fiscal officer or governing board. From a sample of 10 electronic transactions tested, 8 were not reviewed by the fiscal officer and 10 were not reviewed by the governing board.

In addition, payments for the Health Claim Account and Flex Account funds were paid by a third-party administrator. These payments were not approved by the fiscal officer or governing board during the audit period.

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. . . ."

INTERNAL CONTROLS - DISBURSEMENTS

A similar comment also appeared in prior Report B51159, entitled *INTERNAL CONTROLS - FINANCIAL TRANSACTIONS AND REPORTING*.

CLERK-TREASURER
CITY OF SHELBYVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

The City did not have a proper system of internal controls in place related to disbursements.

APVs were created for electronic adjustments, transfers between funds, payment of self-insurance claims, bond payments, and various other uses by the Deputy Clerk-Treasurer without any oversight or approval by the Board of Public Works (Board). In addition, claims for employee withholdings and the employer benefit payments were paid by the Payroll Clerk without any oversight or approval by the Board.

The City began to include the employee withholdings and the employer benefit payments in the accounts payable docket report for the Clerk-Treasurer and the Board to review and approve in October of 2018.

The failure to establish these controls could have enabled material misstatements to occur and remain 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. . . ."

CLERK-TREASURER
CITY OF SHELBYVILLE
EXIT CONFERENCE

The contents of this report were discussed on July 31, 2019, with Thomas DeBaun, Mayor; Robert Nolley, President Pro Tempore of the Common Council; Brenda Ogden, Deputy Clerk-Treasurer; and Frank Zerr, Clerk-Treasurer.