

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF DUGGER

SULLIVAN COUNTY, INDIANA

January 1, 2016 to December 31, 2018



FILED
12/17/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Collection of Amounts Due	6
Capital Assets	6
Internal Controls over Financial Transactions and Reporting.....	7
Exit Conference	8
Town Council:	
Audit Result and Comment:	
Collection of Amounts Due	10
Exit Conference	11
Water Utility:	
Audit Results and Comments:	
Capital Assets	14
Utility Billing Procedures	14-15
Exit Conference	16
Wastewater Utility:	
Audit Results and Comments:	
Capital Assets	18
Delinquent Wastewater Accounts	18-19
Exit Conference	20

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Melinda Smith	01-01-16 to 12-31-19
President of the Town Council	Bill Pirtle	01-01-16 to 12-31-19



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 THE TOWN OF DUGGER, SULLIVAN COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Dugger (Town), for the period from January 1, 2016 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 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

October 30, 2019

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CLERK-TREASURER
TOWN OF DUGGER

CLERK-TREASURER
TOWN OF DUGGER
AUDIT RESULTS AND COMMENTS

COLLECTION OF AMOUNTS DUE

A similar comment also appeared in prior Report B49700, entitled *ORDINANCES AND RESOLUTIONS - RENTAL FEES*.

Condition and Context

The Town had an ordinance governing the rental and usage of the Dugger Community Center (Community Center); however, the Town did not comply with the ordinance because they did not charge all citizens according to the ordinance.

The Town allowed the continued usage of the Community Center building to an individual without receiving the total rent due. Collection efforts for rent due have not been pursued against the individual, which amounted to \$7,865 and \$1,920, respectively, for 2018 and 2019.

Criteria

Each 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)

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CAPITAL ASSETS

The same comment also appeared in prior Reports B37747, B40732, and B49700.

Condition and Context

The Town did not properly maintain a complete inventory of capital assets owned. No capital asset information for the Town was reported in the Annual Financial Report (AFR) in the Indiana Gateway for Government Units (Gateway) financial reporting system.

Context

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)

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](#)."

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

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not separated incompatible activities related to cash and investments, receipts, and financial close and reporting.

Cash and Investments

The bank account reconciliations were prepared by the Clerk-Treasurer; however, there was no documentation of an internal control structure in place, such as an oversight, review, or approval process.

Receipts

The Clerk-Treasurer collected, recorded, and deposited receipts. There was no documentation of an internal control structure in place, such as an oversight, review, or approval process.

Financial Close and Reporting

The Clerk-Treasurer completed and submitted the AFRs, which were the source of the financial statements and submitted through Gateway. There were no controls in place, such as an oversight, review, or approval process.

Criteria

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 DUGGER
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2019, with Melinda Smith, Clerk-Treasurer; Bill Pirtle, President of the Town Council; Larry Bedwell, Town Council member; and Sandra Stinson, Town Council member.

TOWN COUNCIL
TOWN OF DUGGER

TOWN COUNCIL
TOWN OF DUGGER
AUDIT RESULT AND COMMENT

COLLECTION OF AMOUNTS DUE

A similar comment also appeared in prior Report B49700, entitled *ORDINANCES AND RESOLUTIONS - RENTAL FEES*.

Condition and Context

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TOWN COUNCIL
TOWN OF DUGGER
EXIT CONFERENCE

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WATER UTILITY
TOWN OF DUGGER

WATER UTILITY
TOWN OF DUGGER
AUDIT RESULTS AND COMMENTS

CAPITAL ASSETS

The same comment also appeared in prior Reports B37747, B40732, and B49700.

Condition and Context

The Town did not properly maintain a complete inventory of capital assets owned. No capital asset information for the Water Utility was reported in the Annual Financial Report in the Indiana Gateway for Government Units financial reporting system.

Context

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)

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](#)."

UTILITY BILLING PROCEDURES

A similar comment also appeared in prior Report B49700, entitled *ORDINANCES AND RESOLUTIONS - WATER UTILITY*.

WATER UTILITY
TOWN OF DUGGER
AUDIT RESULTS AND COMMENTS
(Continued)

Condition and Context

The Town had an ordinance concerning water utility delinquencies; however, the Town did not disconnect service in accordance with the ordinance.

Water Utility employees did not communicate the accurate customer account status with the Utility Clerk, which caused errors in some customer accounts within the computer system. The following errors occurred:

- Customer accounts remained inactive in the computer system and were not subsequently billed for water consumption.
- Water service was reconnected without customers paying a reconnect fee.
- Customer accounts were allowed to accumulate delinquent balances. This included one Town employee with a delinquent balance of \$1,291.
- The collection of delinquent utility bills was not pursued. As of October 22, 2019, the total utility accounts receivable was \$45,902. Of that amount, \$34,495 was over 90 days old.

Criteria

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Manual for Cities and Towns, Chapter 1)

Each unit is responsible for complying with the ordinances, resolution, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Each City and Town that owns and operates municipal utilities should review the utilities' rates and charges to ensure sufficient revenues are generated to satisfy the requirements of the laws. (Cities and Town Bulletin, September 2008)

WATER UTILITY
TOWN OF DUGGER
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2019, with Melinda Smith, Clerk-Treasurer; Bill Pirtle, President of the Town Council; Larry Bedwell, Town Council member; and Sandra Stinson, Town Council member.

WASTEWATER UTILITY
TOWN OF DUGGER

WASTEWATER UTILITY
TOWN OF DUGGER
AUDIT RESULTS AND COMMENTS

CAPITAL ASSETS

The same comment also appeared in prior Reports B37747, B40732, and B49700.

Condition and Context

The Town did not properly maintain a complete inventory of capital assets owned. No capital asset information for the Wastewater Utility was reported Annual Financial Report in the Indiana Gateway for Government Units financial reporting system.

Context

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)

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](#)."

DELINQUENT WASTEWATER ACCOUNTS

The same comment also appeared in prior Report B49700.

Condition and Context

Delinquent wastewater fees and penalties had not been recorded with the County Recorder, nor were they certified to the County Auditor, which would result in a lien against the property.

WASTEWATER UTILITY
TOWN OF DUGGER
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

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.

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

(d) The officer shall record a copy of each list or each individual instrument with the county recorder who shall charge a fee for recording the list or each individual instrument in accordance with the fee schedule established in [IC 36-2-7-10](#). The officer shall then mail to each property owner on the list or on an individual instrument a notice stating that a lien against the owner's property has been recorded. Except for a county having a consolidated city, a service charge of five dollars (\$5), which is in addition to the recording fee charged under this subsection and under subsection (g), shall be added to each delinquent fee that is recorded.

(f) This subsection applies to a county not described in subsection (e). 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 of the unpaid liens for collection with the next May installment of property taxes. The county and its officers and employees are not liable for any material error in the information on this list. . . ."

WASTEWATER UTILITY
TOWN OF DUGGER
EXIT CONFERENCE

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