

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

COMPLIANCE REPORT
OF
TOWN OF ELIZABETHTOWN
BARTHOLOMEW COUNTY, INDIANA
January 1, 2017 to December 31, 2018



FILED
04/27/2020

*Reissued October 14, 2020, to
change report type from Review to
Compliance and to add comment
titled Clerk-Treasurer Duties.*

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Judy L. Nichols	05-01-14 to 05-27-19
	Sandy Beatty (interim)	05-28-19 to 09-03-19
	Ashley Austerman	09-04-19 to 12-31-22
President of the Town Council	Fred Barnett	09-13-16 to 12-31-17
	Robert Tertocha	01-01-18 to 05-20-19
	(Vacant)	05-21-19 to 06-02-19
	Rick Mullins	06-03-19 to 01-05-20
	Shirley Nugent	01-06-20 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF ELIZABETHTOWN, BARTHOLOMEW COUNTY, INDIANA

As authorized under Indiana Code 5-11-1, we performed certain procedures to the accounting records and related documents of the Town of Elizabethtown (Town), Bartholomew County, for the period of January 1, 2017 to December 31, 2018, to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts.

The Results and Comments contained herein describe the identified reportable instances of non-compliance 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.

The Schedule of Cash and Investment Balances - Regulatory Basis, as listed in the Table of Contents, is presented as other information. It has not been subjected to any auditing procedures, and, accordingly, we do not express an opinion or provide any assurance on it.

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

April 7, 2020

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OTHER INFORMATION - UNAUDITED

The Town's Annual Financial Report information can be found on the Indiana Gateway for Government Units (Gateway) website: <https://gateway.ifionline.org/>. The schedule presented herein is presented as other information and is derived from the Town's Annual Financial Report information and has not been subjected to any audit procedures. No adjustments have been made to the information as reported in Gateway and, as such, balances may differ.

TOWN OF ELIZABETHTOWN
 SCHEDULE OF CASH AND
 INVESTMENT BALANCES -
 REGULATORY BASIS
 December 31, 2018

Fund	Cash and Investments 12-31-18
GENERAL FUND	\$ 55,815
MOTOR VEHICLE HIGHWAY	90,522
LOCAL ROAD & STREET	20,668
RAINY DAY	3,521
LEVY EXCESS FUND	626
CUM CAP IMP - CIG TAX	3,407
CHILDREN'S COMMUNITY FUND	2,541
STATE GRANT	(80)
CHILDRENS LIBRARY DNU	288
PAYROLL	412
NON REVERTING ORDINANCE VIOLATIONS	2,207
SEWAGE UTILITY OPERATING	59,084
STORMWATER MGMT FEES	<u>13,066</u>
Total	<u>\$ 252,077</u>

TOWN OF ELIZABETHTOWN
RESULTS AND COMMENTS

CLERK-TREASURER DUTIES

The Town Council adopted Resolution #2018-10 stating the following, in part: "Currently, the Clerk-Treasurer accepts responsibility for the oversight, reviewing, and signing of all town checks. Currently the Clerk-Treasurer subrogates all other duties of the office, outline by the State of Indiana, to the Deputy Clerk-Treasurer." Our audit position is, while a Clerk-Treasurer can delegate certain duties to deputies and employees under their supervision, we are not aware of any provisions for a Clerk-Treasurer to subrogate their statutorily defined duties to others. Furthermore, we are not aware of any authority for a town council to require, acknowledge, or approve such subrogation.

Indiana Code 36-1-3-6(a) states: "If there is a constitutional or statutory provision requiring a specific manner for exercising a power, a unit wanting to exercise the power must do so in that manner."

Indiana Code 36-5-6-2 states: "The clerk-treasurer elected under this chapter is both the town clerk and the town fiscal officer."

Indiana Code 36-5-6-6 states:

"(a) The clerk-treasurer shall do the following:

- (1) Receive and care for all town money and pay the money out only on order of the town legislative body.
- (2) Keep accounts showing when and from what sources the clerk-treasurer has received town money and when and to whom the clerk-treasurer has paid out town money.
- (3) Prescribe payroll and account forms for all town offices.
- (4) Prescribe the manner in which creditors, officers, and employees shall be paid.
- (5) Manage the finances and accounts of the town and make investments of town money.
- (6) Prepare for the legislative body the budget estimates of miscellaneous revenue, financial statements, and the proposed tax rate.
- (7) Maintain custody of the town seal and the records of the legislative body.
- (8) Issue all licenses authorized by statute and collect the fees fixed by ordinance.
- (9) Serve as clerk of the legislative body by attending its meetings and recording its proceedings.
- (10) Administer oaths, take depositions, and take acknowledgment of instruments that are required by statute to be acknowledged, without charging a fee.
- (11) Serve as clerk of the town court under [IC 33-35-3-2](#), if the judge of the court does not serve as clerk of the court or appoint a clerk of the court under [IC 33-35-3-1](#).
- (12) Perform all other duties prescribed by statute.

TOWN OF ELIZABETHTOWN
RESULTS AND COMMENTS
(Continued)

(b) A clerk-treasurer is not liable, in an individual capacity, for any act or omission occurring in connection with the performance of the requirements set forth in subsection (a), unless the act or omission constitutes gross negligence or an intentional disregard of the requirements."

Indiana Code 36-5-6-7 states:

"(a) The clerk-treasurer shall appoint the number of deputies and employees needed for the effective operation of the office, with the approval of the town legislative body. The clerk-treasurer's deputies and employees serve at the clerk-treasurer's pleasure.

(b) If a town owns a utility and the clerk-treasurer is directly responsible for the billing and collection of that utility's rates and charges, the clerk-treasurer shall appoint those employees who are also responsible for that billing and collection. These employees serve at the clerk-treasurer's pleasure."

BANK RECONCILIATIONS

Condition and Context

Depository reconciliations of the fund balances to the bank account balances included several outstanding transactions that could not be traced to subsequent bank statements. An outstanding check in the amount of \$11,363, cleared the bank in November 2017; however, it was still reported as outstanding on the bank reconciliation as of December 31, 2018. As a result, the bank balance exceeded the book balance for the Sewage Utility Operating and Stormwater Mgmt Fees funds by \$11,363. The bank reconciliations also included adjustments with no explanations provided.

Corrections were posted during 2018 for three checks that were never recorded to the financial ledger and carried as reconciling items on the bank reconciliations. The Town incorrectly recorded these as receipts. These checks should have been posted as disbursements. Additionally, other corrections did not have sufficient documentation including: the reason for the correction, the identification of the transaction that was being corrected, and a reference to the fund and account numbers. In addition, there were instances when the transaction was backdated. Consequently, the monthly bank reconciliations did not agree to the revised book balances.

Criteria

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

DEPOSIT OF ACCOUNTABLE ITEMS

Condition and Context

The Town contracted with a private water utility to bill and collect their wastewater and stormwater management fees. The May 2018 collections made by the private utility for wastewater and stormwater collections were not recorded in their respective funds.

TOWN OF ELIZABETHTOWN
RESULTS AND COMMENTS
(Continued)

Criteria

Tickets, goods for sale, billings, and other collections are considered accountable items for which a corresponding deposit must be made in the bank accounts of the unit. The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of the payers. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

INTERNAL CONTROLS

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 the activities listed below. The failure to establish and maintain internal controls could have enabled material misstatements or irregularities to remain undetected.

Town, Wastewater Utility, and Stormwater Management Funds

Town officials did not have internal controls, including segregation of duties, over bank reconciliations, receipts, adjustments, corrections, and the financial close and reporting process for the Annual Financial Report. There was no evidence of a review or approval process.

Wastewater Utility and Stormwater Utility Billings and Collections

The Town contracted with a private water utility for billing and payment services for their wastewater utility and stormwater management fees. Billing records from the private utility were not obtained, and only one month's Accounts Receivable Aging Report was available. There were no controls to ensure that the Town wastewater and stormwater customers, who were not water customers of the private utility, were being billed.

As a result, there was no evidence that Town officials had sufficient oversight to ensure that the customer accounts were properly billed and that penalties were applied to overdue balances.

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. . . .

TOWN OF ELIZABETHTOWN
RESULTS AND COMMENTS
(Continued)

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. . . ."

COMPENSATION AND BENEFITS

A similar comment appeared in prior Report B50006.

Condition and Context

The salary ordinances adopted by the Town Council stated an annual compensation; however, there was no record of the hours required for this compensation. In addition, the salary ordinance was not clear as to what fund the salaries were to be paid from.

The Town had not maintained time or attendance records for their employees. The Town had not used the Payroll Schedule and Voucher, General Form 99, for employee's payroll.

There were two instances where employee compensation was paid with a vendor check. There was no evidence to support that the amount paid was approved by the Town Council, nor whether this was appropriately reported on a Form W-2 or Form 1099.

Criteria

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)

PAYMENT OF CLAIMS PRIOR TO TOWN COUNCIL ALLOWANCE

The same comment appeared in prior Report B50006.

Condition and Context

There were multiple instances where the payment of claims was made prior to allowance by the Town Council.

Criteria

Indiana Code 36-5-4-12 states:

"(a) The legislative body of a town may adopt an ordinance allowing money to be disbursed under this section for lawful town purposes.

(b) Notwithstanding [IC 5-11-10](#), with the prior written approval of the board having jurisdiction over allowance of the claim, a town fiscal officer may make claim payments in advance of a board allowance for the following types of expenses if the town legislative body has adopted an ordinance under subsection (a):

TOWN OF ELIZABETHTOWN
RESULTS AND COMMENTS
(Continued)

- (1) Property or services purchased or leased from:
 - (A) the United States government; or
 - (B) an agency or a political subdivision of the United States government.
 - (2) License fees or permit fees.
 - (3) Insurance premiums.
 - (4) Utility payments or utility connection charges.
 - (5) Federal grant programs if:
 - (A) advance funding is not prohibited; and
 - (B) the contracting party provides sufficient security for the amount advanced.
 - (6) Grants of state funds authorized by statute.
 - (7) Maintenance agreements or service agreements.
 - (8) Lease agreements or rental agreements.
 - (9) Principal and interest payments on bonds.
 - (10) Payroll.
 - (11) State, federal, or county taxes.
 - (12) Expenses that must be paid because of emergency circumstances.
 - (13) Expenses described in an ordinance.
- (c) Each payment of expenses under this section must be supported by a fully itemized invoice or bill and certification by the fiscal officer.
- (d) The town legislative body or the board having jurisdiction over the allowance of the claim shall review and allow the claim at the body's or board's next regular or special meeting following the preapproved payment of the expense."

PUBLIC RECORDS RETENTION

A similar comment appeared in prior Report B50006.

Condition and Context

The Payroll Schedule and Voucher, General Form 99, was not retained or made available for review.

TOWN OF ELIZABETHTOWN
RESULTS AND COMMENTS
(Continued)

Criteria

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TOWN OF ELIZABETHTOWN
EXIT CONFERENCE

The contents of this report were discussed on October 9, 2020, with Shirley Nugent, President of the Town Council, and Ashley Austerman, Clerk-Treasurer.

The contents of this report were also discussed on October 9, 2020, with Judy L. Nichols, former Clerk-Treasurer.