

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF HOLLAND

DUBOIS COUNTY, INDIANA

January 1, 2018 to December 31, 2019



FILED
12/03/2020

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Capital Assets	6
Delinquent Wastewater Accounts	6-7
Payroll Deficiencies	7
Certification on Internal Control Standards	7-8
Monthly and Annual Engagement Uploads	8-9
Customer Deposit Register	9
MVH Restricted	9-10
Hydrant Rental Receivable/Payable	10
Internal Controls Over Financial Transactions and Reporting	11-12
Exit Conference	13
Town Council:	
Audit Result and Comment:	
Adoption of and Training on Internal Control Standards	16
Exit Conference	17

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Raymond O. Schuetter	01-01-18 to 12-31-20
President of the Town Council	Thomas W. Thacker	01-01-18 to 12-31-20
Utility Office Manager	Janet Fenwick	01-01-18 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF HOLLAND, DUBOIS COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Holland (Town), for the period from January 1, 2018 to December 31, 2019. 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 Statement Audit Report of the Town, which provides our opinions 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

November 19, 2020

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CLERK-TREASURER
TOWN OF HOLLAND

CLERK-TREASURER
TOWN OF HOLLAND
AUDIT RESULTS AND COMMENTS

CAPITAL ASSETS

The same comment also appeared in prior Reports B28959, B30796, B39487, B45907, and B52232.

Condition and Context

The Town, including the Water and Wastewater Utilities, has not adopted a capital asset policy. Also, the Town did not maintain a complete detailed listing of all capital assets owned, which reflects their acquisition value, nor was a physical inventory taken during the audit period.

Criteria

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)

DELINQUENT WASTEWATER ACCOUNTS

The same comment also appeared in prior Reports B28959, B30796, B39487, B45907, and B52232.

Condition and Context

A list of delinquent wastewater accounts was not prepared and recorded in the County Recorder's office for the years 2018 and 2019 in accordance with Indiana Code 36-9-23-33.

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.

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

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

(d) The officer shall record a copy of each list or each individual instrument with the county recorder . . .

(f) . . . 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 unpaid liens for collection with the next May installment of property taxes. . . ."

PAYROLL DEFICIENCIES

A similar comment also appeared in prior Reports B28959 and B30796, entitled *PAYROLL*; B39487 and B52232, entitled *PAYROLL DEFICIENCIES*; and B45907, entitled *PAYROLL EXCEPTIONS*.

Condition and Context

1. The Clerk-Treasurer was paid in advance. The Clerk-Treasurer received his entire annual salary by July 2018 and August 2019.
2. The Town Council members were paid monthly in the first week of the month resulting in a prepayment of salaries in 2018.

Criteria

Compensation and any other payments for goods and services must not be paid in advance of receipt of the goods or services unless specifically authorized by law. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Towns, Chapter 1)

Indiana Code 5-7-3-1(a) states: "Public officers may not draw or receive their salaries in advance."

CERTIFICATION ON INTERNAL CONTROL STANDARDS

The same comment also appeared in prior Report B52232.

Condition and Context

The Clerk-Treasurer improperly certified on the 2019 Annual Financial Report that minimum internal control standards had been adopted by the Town Council and that training had been provided to personnel. Internal control standards had not been adopted and training had not been provided to personnel as of December 31, 2019.

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

Criteria

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](#)."

MONTHLY AND ANNUAL ENGAGEMENT UPLOADS

Condition and Context

As of October 31, 2020, the Town had not uploaded any of the files required for the monthly and annual engagement uploads into the Indiana Gateway for Government Units financial reporting system for the years 2018 and 2019.

Criteria

A user guide for the Engagement Uploads is available and located at: <https://gateway.ifonline.org/userguides/engagementguide>. It is pertinent that this user guide be used in conjunction with this Directive. It provides critical information to you that will help guide you to uploading the correct documents.

The following files and governmental unit information are required to be uploaded monthly by all units except as noted:

- Bank Reconcilements, Bank Statements, and Outstanding Check Lists
- Approved Board Minutes, please see the user guide for more information and examples
- Funds Ledger, summarizing total receipts, disbursements, and beginning and ending balances by fund . . .

The following files and governmental unit information are required to be uploaded annually (for Counties, these apply to County Auditors unless otherwise noted):

- Year-end Investment Statements (for Counties - County Treasurer)
- Detail of Receipts for the year
- Detail of Disbursements for the year
- Current year Salary Ordinance (or Schedule) and Amendments (except Schools)
- Annual Vendor History Report

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

- Annual Payroll History Report, without social security numbers
- Annual Funds Ledger, summarizing year-to-date total receipts, year-to-date disbursements, and beginning and ending balances by fund
- Additionally, for Schools only: School Lunch Prepaid Account Balance Report as of June 30
- Approved Salary Schedule for Noncertified Employees and Amendments
- Additionally, for County Sheriff only: Inmate Trust Fund Subsidiary Detail as of December 31
- Additionally, for County Clerk and Cities/Towns with courts: Court Trust Fund Subsidiary Detail as of December 31.
- Optional: Excel Data Capture/Data Dump (in lieu of Detail of Receipts and Disbursements)

In addition to the monthly and annual files, additional records, known as "Direct Request Uploads," must be uploaded when required by the SBOA. This process is discussed in the user guide described below. . . . (State Examiner Directive 2018-1)

CUSTOMER DEPOSIT REGISTER

The same comment also appeared in prior Reports B28959, B30796, B39487, B45907, and B52232.

Condition and Context

The Guarantee Deposit Register did not agree with the cash balance of the Water Utility-Customer Deposit fund maintained in the simplified cash journal. This is a result of errors and a loan made to the Water Utility-Operating fund in previous years. Monthly, the Water Utility-Customer Deposit fund cash balance is to be reconciled to the Guarantee Deposit Register and corrections made for any errors noted.

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)

MVH RESTRICTED

Condition and Context

In 2019, the Town failed to create and report the MVH Restricted sub-fund as directed by the State Examiner. Therefore, the Town failed to allocate or deposit at least 50 percent of the distributions from the State Motor Vehicle Highway Account at the time of receipt into a MVH Restricted sub-fund. Because the MVH Restricted sub-fund had not been created, we were not able to determine if the Town used at least 50 percent for the purposes specified in Indiana Code 8-14-1-5(c).

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

Criteria

The purpose of this Directive is to authorize and require . . . cities, and towns that receive distributions from the State Motor Vehicle Highway Account to **create a new sub-fund within the MVH Fund** to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018. . . .

On the chart of accounts, the MVH Fund and MVH Restricted sub-fund shall be shown as follows:

. . .

Cities and Towns

Fund 201	MVH
Fund 203	MVH Restricted

Together, MVH and MVH Restricted shall constitute the total MVH Fund. MVH and MVH Restricted will be shown separately on the Annual Financial Report.

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted. (State Examiner Directive 2018-2)

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

HYDRANT RENTAL RECEIVABLE/PAYABLE

The same comment also appeared in prior Reports B28959, B30796, B39487, B45907, and B52232.

Condition and Context

As of December 31, 2019, the Town owed the Water Utility hydrant rental fees of \$117,970 pursuant to current and prior rate ordinances adopted by the Town Council.

Also, the inventory of fire hydrants showed one private fire hydrant. Pursuant to current and prior rate ordinances, the annual charge for private hydrant rental was \$803. No documentation was presented for audit that reflected that the private hydrant rental was billed or collected.

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)

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

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Report B52232, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

There were several deficiencies in the internal control system for the Town related to financial transactions and reporting. The Town had not separated incompatible activities related to cash and investments, receipts, disbursements, and financial close and reporting. There were no controls in place such as an oversight, review, or approval process to ensure the accuracy of the financial transactions and reports. One individual was responsible for recording all transactions in the ledger and preparing the bank reconciliements for the Town.

A process was not in place to develop a complete system of internal controls taking into consideration the Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities. The failure to establish a proper system of internal controls enabled material misstatements or irregularities to occur and remain undetected. As a result, the following items were noted:

1. Utilities Collection Fund did not have receipts and claims prepared for transfers to utilities operating funds during 2018 and 2019. The Utilities Collection Fund ledger was not posted during 2018. The Town Council did not approve these transfers during the two years totaling \$1,112,181. These transactions were included in the Indiana Gateway for Government Units (Gateway) financial reporting system annual report submission.
2. Transfers from the Wastewater Utility-Operating fund to the Wastewater Util-Bond And Interest and Wastewater Utility-Debt Reserve funds were prepared by one individual without proper review to ensure they were made in accordance with bond ordinance 6-1997. The result was an over-transfer of operating funds totaling \$96,800 for 2018 and 2019.
3. Financial activity associated with the State Revolving Loan Fund (SRF) funds, held by the Bank of New York as a trustee for the funds that belonged to the Town, were not recorded to the ledger or included in the Gateway Annual Report system for 2019. There were no controls in place to review the bank statements, receipts and disbursements, and the Gateway report to ensure the SRF funds were recorded in the ledger and reported properly. As a result, the 2019 financial statement receipts were understated by \$457,373, disbursements understated by \$435,325, and the ending balance understated by \$22,048, for SRF funds not reported on the financial statement. Audit adjustments were proposed, accepted by the Town, and made to the financial statement to properly reflect the receipts, disbursements, and ending balances for the SRF funds as of December 31, 2019.

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:

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

"Control activities are the actions and tools established through policies and procedures that help 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 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. . . ."

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](#)."

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)

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF HOLLAND
EXIT CONFERENCE

The contents of this report were discussed on November 19, 2020, with Raymond O. Schuetter, Clerk-Treasurer, and Thomas W. Thacker, President of the Town Council.

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TOWN COUNCIL
TOWN OF HOLLAND

TOWN COUNCIL
TOWN OF HOLLAND
AUDIT RESULT AND COMMENT

ADOPTION OF AND TRAINING ON INTERNAL CONTROL STANDARDS

A similar comment also appeared in prior report B52232, entitled *INTERNAL CONTROL STANDARDS*.

Condition and Context

Internal control standards had not been adopted by the Town Council, nor had training on the standards taken place.

Criteria

Indiana Code 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

TOWN COUNCIL
TOWN OF HOLLAND
EXIT CONFERENCE

The contents of this report were discussed on November 19, 2020, with Raymond O. Schuetter, Clerk-Treasurer, and Thomas W. Thacker, President of the Town Council.