

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

SPECIAL COMPLIANCE REPORT  
OF

CLERK-TREASURER  
CITY OF HARTFORD CITY  
BLACKFORD COUNTY, INDIANA

January 1, 2019 to March 31, 2020



**FILED**  
05/12/2021



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**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF HARTFORD CITY, BLACKFORD COUNTY, INDIANA

This is a special compliance report for the City of Hartford City (City), for the period January 1, 2019 to March 31, 2020, and is in addition to any other report for the City as required under Indiana Code 5-11-1. All reports pertaining to the City may be found at [www.in.gov/sboa/](http://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 the bank reconciliements of the Clerk-Treasurer and related fraudulent credit card charges on the bank account. 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

January 20, 2021

CLERK-TREASURER  
CITY OF HARTFORD CITY  
RESULTS AND COMMENTS

**BACKGROUND**

In February 2020, the City hired a consultant to review and reconcile the bank accounts of the City. While performing the reconciliations, the consultant noted several electronic bank withdrawals for credit card payments to two other banks during the month of December 2019. Furthermore, the consultant noted that these bank withdrawals were not recorded in the City's records, and they were not shown as reconciling items on the bank reconciliations for December. The Consultant, with the approval of City Officials, reported the incidents to the Indiana State Board of Accounts.

Three individuals were either elected or caucused to serve as the Clerk-Treasurer as follows:

Pam Smart (Smart)	01-01-16 to 12-31-19
Pam Fancher (Fancher)	01-01-20 to 05-22-20
Dana Whatley (Whatley)	06-10-20 to current

Per Indiana Code 5-13-6-1, the Clerk-Treasurer is responsible for reconciling the bank account to the City's records "at least monthly."

**UNAUTHORIZED BANK WITHDRAWALS**

Between December 13, 2019 and December 31, 2019, seven unauthorized bank transfers resulted in funds being withdrawn from the City's bank account totaling \$75,563.19. All of the withdrawals were associated with credit card accounts in the name of Calvin Cline in the State of Washington. Three of the bank withdrawals were made by Capital One in the amount of \$15,063.60. The remaining four withdrawals were made by Bank of America in the amount of \$60,499.59.

In February 2020, Bank of America returned all funds withdrawn except for \$16,000. Capital One did not return any of the funds.

Per the Federal Deposit Insurance Corporation (FDIC) 6(b)(3) regarding "Periodic Statement; Timely Notice Not Given" it states in part: "If, however, the consumer fails to report such unauthorized transfers within 60 calendar days of the financial institution's transmittal of the periodic statement, the consumer may be liable for any transfers occurring after the close of the 60 days and before notice is given to the institution. . . ." Also, similar language is noted on the bank statement.

Both Smart and Fancher stated that they reported the unauthorized withdrawals to the City's bank. Per handwritten notes on the bank statement, it was indicated that the City notified their bank on February 11 of the unauthorized transfers, which would have been within the 60 days. If that note is correct, it is unclear as to why all the money was not returned or refunded.

As of the date of this report, withdrawals to Capital One and Bank of America totaling \$31,063.60 have not been returned or refunded.

Furthermore, the December bank reconciliation that was printed on February 27, 2020, and noted as prepared by Smart, did address unauthorized transactions as reconciling items; however, they were not reported by Smart to either the Indiana State Board of Accounts or law enforcement in accordance with state statute.

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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 Cities and Towns, Chapter 1)

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

"A public officer who has actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds or assets of the public office, including:

- (1) information obtained as a result of a police report;
- (2) an internal audit finding; or
- (3) another source indicating that a misappropriation has occurred;

shall immediately send written notice of the misappropriation to the state board of accounts and the prosecuting attorney serving in the area governed by the political subdivision."

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)

### ***BANK ACCOUNT RECONCILIATIONS***

A similar comment appeared in prior Reports B44478 and B52199, entitled *BANK ACCOUNT RECONCILIATIONS*.

The Clerk-Treasurers have not been performing timely or accurate monthly reconciliations of the ledger balance to the depository balance; thus, errors and irregularities were not properly identified and reported.

The December 31, 2019 and the January 31, 2020 bank reconciliations prepared by Smart and Fancher, respectively, presented a reconciling item titled "unknown due to bank fraud" in the amount of \$12,156.51; however, the amount of the adjustment due to unauthorized electronic transfers or "unknown due to bank fraud" should have been identified as \$75,563.19.

The February 28, 2020 and March 31, 2020 bank reconciliations prepared by Fancher each presented a reconciling item titled "unknown due to bank fraud" in the amount of \$32,343.08; however, the amount of the adjustment due to credit card activity should have been \$31,063.60 (after Bank of America refunded some of the unauthorized transfers).

We were able to identify a transfer between funds made in December 2019 in the amount of \$63,496 that was not properly recorded in the records. The transfer was not identified and corrected due to not recognizing the full amount of the unauthorized electronic transfers in the bank reconciliations prepared by the City.

As of the date of this report, the most current bank reconciliation presented for investigation was for March 31, 2020.

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Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

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 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)

**COMPLIANCE RELATED TO INTERNAL CONTROLS OVER BANK RECONCILEMENTS**

Based upon the minutes of the City Council, members were not requesting the monthly bank reconciliements for a thorough review and approval as required by their Ordinance on internal control policies.

Per Ordinance 2016-03 approved on July 5, 2016, the City adopted the following internal control policies:

Regarding specific internal control policies for City Departments related to "Cash Activities," Ordinance 2016-03 states:

". . . A reconciliation between the recorded cash balance and the bank balance is completed monthly by an individual separate from the receipting and disbursing processes.  
. . .

The monthly reconciliation between the cash balance and the bank balance is thoroughly reviewed and approved by the governing body. . . ."

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)

**INTERNAL CONTROL DEFICIENCIES**

The City did not have internal controls in place to safeguard their bank accounts for changes due to technology. The State Examiner emailed information to local officials, per a memo dated April 29, 2016, regarding the need for governmental officials to have internal controls in place to safeguard their accounts. This information was also addressed in the Cities and Towns Bulletin and Uniform Compliance Guidelines from June 2016 as follows:

"With new technology where an individual can use their smartphone to remote deposit checks as well as the increase in remote capture by various vendors, this has become a more prevalent problem. Each unit should have controls in place to safeguard their accounts. Positive pay procedures for warrants, electronic funds transfers, or wire transfers, along with careful monitoring of the unit's daily bank transactions, would help to mitigate this risk. If you have any questions or concerns regarding this occurring with your bank account, we'd recommend you contact your bank and discuss what options are available."

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Furthermore, the City had internal controls for reconciling the bank account at least monthly and presenting the reconciliations to the City Council for review monthly; however, the City was not adhering to those internal controls.

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:

". . . A system of sufficient internal control . . . ensures accuracy and timeliness in reporting  
. . .

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 of the unauthorized bank withdrawals from the City's bank account is being conducted by the Federal Bureau of Investigations.

CLERK-TREASURER  
CITY OF HARTFORD CITY  
EXIT CONFERENCE

The contents of this report were discussed on March 31, 2021, with Dana Whatley, Clerk-Treasurer; Pam Fancher, former Clerk-Treasurer; Dan Eckstein, Mayor; Dustin George, President of the Common Council; Ron Dudelston, Common Council member; and Michael Wolfe, Common Council member.