

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, 2020 to December 31, 2021



FILED
10/06/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Raymond O. Schuetter	01-01-20 to 12-31-22
President of the Town Council	Thomas W. Thacker Melanie Barrett	01-01-20 to 12-31-21 01-01-22 to 12-31-22
Utility Office Manager	Janet Fenwick (Vacant) Katrina Sutt	01-01-20 to 03-31-22 04-01-22 to 04-17-22 04-18-22 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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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, 2020 to December 31, 2021. 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 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.

Beth Kelley, CPA, CFE
Deputy State Examiner

September 22, 2022

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CLERK-TREASURER
TOWN OF HOLLAND

CLERK-TREASURER
TOWN OF HOLLAND
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT - OTHER INFORMATION

Condition and Context

The Town did not enter any information for the following schedules in the Annual Financial Report for 2021: Schedule of Payables and Receivables and Schedule of Capital Assets. In addition, the Town incorrectly reported activity of the State Revolving Loan Funds held by the Bank of New York Mellon. The errors resulted in material misstatements of receipts and disbursements of the Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances (Combining Schedules).

Audit adjustments were proposed, approved by the Town, and made to the Combining Schedules.

Criteria

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity 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](#)."

BANK ACCOUNT RECONCILIATIONS

Condition and Context

The Utility Collections bank accounts were not reconciled for eleven months of the audit period, January through November, 2021.

The Bank of New York Mellon (BNYM) accounts were not reconciled during the entire audit period, resulting in the funds held in these accounts not being recorded in the Town's ledgers.

Criteria

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."

CAPITAL ASSETS

The same comment also appeared in prior Reports B28959, B30796, B39487, B45907, B52232, and B56110.

Condition and Context

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

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

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)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

The same comment also appeared in prior Reports B52232 and B56110.

Condition and Context

The Clerk-Treasurer improperly certified on the 2020 and 2021 Annual Financial Reports 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, 2021.

Context

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity 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](#)."

CUSTOMER DEPOSIT REGISTER

The same comment also appeared in prior Reports B28959, B30796, B39487, B45907, B52232, and B56110.

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)

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

DELINQUENT WASTEWATER ACCOUNTS

The same comment also appeared in prior Reports B28959, B30796, B39487, B45907, B52232, and B56110.

Condition and Context

A list of delinquent wastewater accounts was not prepared and recorded in the County Recorder's office for the years 2020 and 2021, in accordance with Indiana Code 38-9-23-33.

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.

(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. . . ."

HYDRANT RENTAL RECEIVABLE/PAYABLE

A similar comment also appeared in prior Reports B28959, B30796, B39487, B45907, B52232, and B56110.

Condition and Context

As of December 31, 2021, the Town owed the Water Utility hydrant rental fees of \$117,970 pursuant to prior rate ordinances adopted by the Town Council.

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

On May 5, 2021, the Town Council passed an ordinance repealing the annual charge per connection for hydrants (hydrant rental) from the Water Rates Schedule.

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)

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Reports B52232 and B56110.

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 internal 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 reconcilements 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.

Cash and Investments

The Town had not established a system of internal controls that would have ensured that cash and investment balances agreed to the ledgers and financial statement. The Clerk-Treasurer was properly performing monthly bank reconcilements for Town accounts without any documented oversight, review, or approval procedures in place to ensure their accuracy.

Receipts

The Town had not established a system of internal control or separated incompatible activities related to receipts that would have ensured that receipts were recorded accurately. The Clerk-Treasurer was solely responsible for recording all receipts without any documented oversight, review, or approval procedures in place to ensure their accuracy.

Town receipts were deposited by the Utility Clerk, without writing a receipt for each transaction, and the Clerk-Treasurer posted to the ledgers without documentation of a receipt or review of deposits that were made by the Utility Clerk. EFT deposits were not posted to the ledger until the bank statement was received.

Utility receipts were processed, posted to customer accounts, and deposited by the Utility Clerk daily to the Utility Collections bank account. The Clerk-Treasurer did not post to the appropriate water or wastewater ledgers until the end of month transfer of collections from the Utility Collections account was made, which was supported by an end of month daily receipts report. Transfers were made by the Clerk-Treasurer without reviewing daily deposits.

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

Disbursements

The Town had not established a system of internal control or separated incompatible activities related to disbursements that would have ensured that disbursements were recorded accurately. The Clerk-Treasurer was solely responsible for processing, recording, and signing checks for disbursements without any documented oversight, review, or approval procedures in place to ensure their accuracy.

Vendor disbursements were initiated by a number of employees without authorization. In addition, mail was opened by a number of Town employees or officials and bills due were placed on the Clerk-Treasurer's desk. The Clerk-Treasurer did not include transfers between funds or bank accounts on the claims register signed and approved by the Town Council.

The Clerk-Treasurer verified employee hours worked, calculated the employee pay, wrote and signed payroll checks, and posted transactions to the ledger without evidence of a review of the transactions or calculations. The Clerk-Treasurer was verifying employees' daily hours worked, but had a full-time job outside of the Town.

Financial Close and Reporting

The Clerk-Treasurer approved the prepared financial statement and notes by signing the Management Oversight of Non-audit Services. All ledgers used to produce the financial statement were posted by the Clerk-Treasurer, all bank reconciliations were prepared by the Clerk-Treasurer, and all entries on the Indiana Gateway for Government Units (Gateway) financial reporting system, which was used to produce the financial statement and notes, were entered by the Clerk-Treasurer without evidence of a review or approval by another individual.

Financial activity associated with the State Revolving Loan Fund (SRF) funds, held by the Bank of New York Mellon as a trustee for the funds that belonged to the Town, were not recorded in the Town ledger. There were no internal 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, receipts and disbursements in the 2020 financial statement were overstated by \$134,209 in the SRF Holland BAN Bond Proceeds fund and were understated by the same amount in the SRF Holland Loan Proceeds fund. For the remaining SRF funds, the 2020 financial statement receipts and ending cash and investments balance were overstated by \$6,382; and the 2021 financial statement receipts were understated by \$5,366, and disbursements were understated by \$20,364, resulting in an overstatement of the ending cash and investments balance of \$14,998.

Audit adjustments were proposed, accepted by the Town, and made to the financial statement to properly reflect the receipts, disbursements, and ending cash and investments balances for the SRF funds as of December 31, 2020 and 2021.

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 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. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity 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](#)."

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)

MONTHLY AND ANNUAL ENGAGEMENT UPLOADS

The same comment appeared in prior Report B56110.

Condition and Context

The Town did not comply with the State Examiner Directive and failed to upload any of the monthly and annual files on the Indiana Gateway for Government Units financial reporting system for 2020 and 2021.

Criteria

This amended directive is effective starting with December 2020 monthly files. The upload of December 2020 monthly files will be due February 15, 2021, and by the 15th of each month thereafter unless the State Board of Accounts (SBOA) establishes a different date. This is effective for 2020 annual files which will be due for upload March 1, 2021, for calendar year end units. . . . Thereafter, annual files must be uploaded no later than March 1st . . . for the prior year end unless the SBOA establishes a different date.

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients.

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

A user guide for the Engagement Uploads is available and located at: <https://gateway.ifionline.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
- 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 . . .
- 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. . . .

(Amended State Examiner Directive 2018-1)

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)

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

MVH RESTRICTED

The same comment appeared in prior Report B56110.

Condition and Context

In 2020 and 2021, an amount equal to 50 percent of the distributions from the State Motor Vehicle Highway (MVH) account was posted to the Motor Vehicle Highway Restricted fund in the Town ledger. However, the total distributions from the State MVH account were also posted to the Motor Vehicle Highway (MVH) fund and all expenditures were paid from the MVH fund. As of January 1, 2020, 2021, and 2022, the balance of the MVH Restricted fund was \$0. Therefore, we were not able to determine if the Town used at least 50 percent of the State Distributions for the purposes specified in Indiana Code 8-14-1-5(c).

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."

PAYROLL DEFICIENCIES

A similar comment also appeared in prior Reports B28959 and B30796, entitled *PAYROLL*; B39487, B52232, and B56110, entitled *PAYROLL DEFICIENCIES*; and B45907, entitled *PAYROLL EXCEPTIONS*.

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

Condition and Context

1. The Clerk-Treasurer was paid monthly during the audit period. Three months during 2020 and nine months during 2021, the Clerk-Treasurer was paid in advance by up to as much as 86 days before the end of the pay period. The Clerk-Treasurer received his entire annual salary for 2021 by October 2021.
2. The Town Council members were paid monthly during the audit period with one month being paid in advance by 12 days.

Criteria

Compensation and any other payments for goods and services must not be paid in advance of receipts 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 Cities and Towns, Chapter 1)

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

RECEIPT ISSUANCE

This same comment appeared in a Management Letter addressed to the Officials of the Town for the audit periods ending December 31, 2017 and 2019.

Condition and Context

Receipts were not issued for State Distributions received during the audit period.

Criteria

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Towns, Chapter 1)

CLERK-TREASURER
TOWN OF HOLLAND
EXIT CONFERENCE

The contents of this report were discussed on September 22, 2022, with Raymond O. Schuetter, Clerk-Treasurer; Melanie Barrett, President of the Town Council; and John Kaltenbacher, Town Council member.

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TOWN COUNCIL
TOWN OF HOLLAND

TOWN COUNCIL
TOWN OF HOLLAND
AUDIT RESULTS AND COMMENTS

ADOPTION OF, AND TRAINING ON, INTERNAL CONTROL STANDARDS

A similar comment also appeared in prior Reports B52232, entitled *INTERNAL CONTROL STANDARDS*; and B56110, entitled *ADOPTION OF AND TRAINING ON 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 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."

CAPITAL ASSET POLICY

The same comment also appeared in prior Reports B28959, B30796, B39487, B45907, B52232, and B56110.

Condition and Context

The Town had not adopted a capital asset policy detailing the threshold of capital asset items.

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)

TOWN COUNCIL
Melanie K. Barrett
Michael V. Ellis
Thomas W. Thacker

Town of Holland
P.O. Box 2 Holland, Indiana 47541
Phone: (812) 536-3640
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CLERK-TREASURER
Raymond O. Schuetter

OFFICIAL RESPONSE

Date: September 26, 2022

Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: The Town of Holland Council member's comments on the infractions found during the audit.

Internal Controls:

All council members will review budget information each month. Ask and review all changes throughout the month. Will be signed and attached to minutes.

Katrina and Ray can reconcile bank statements to have two eyes on the statements and anything misstated can be corrected.

Park budget is already reviewed and voted on monthly, and a signed copy can be attached to minutes.

All ordinance amendments and new ordinances will have signed copy attached to minutes.

Capitol Assets:

\$5,000 threshold will be set at the meeting, signed and attached to minutes.

An independent, trained, person will assess all vehicle and building assets. Documents will be copied and attached to minutes when done.

Melanie Barrett, President
John Kaltenbacher
Thomas Thacker

TOWN COUNCIL
TOWN OF HOLLAND
EXIT CONFERENCE

The contents of this report were discussed on September 22, 2022, with Raymond O. Schuetter, Clerk-Treasurer; Melanie Barrett, President of the Town Council; and John Kaltenbacher, Town Council member.