

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF SHELburn

SULLIVAN COUNTY, INDIANA

January 1, 2018 to December 31, 2021



FILED
12/22/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Noah J. Southwood	01-01-18 to 03-18-22
	(Vacant)	03-19-22 to 04-17-22
	Jane Landry (interim)	04-18-22 to 07-07-22
	Melissa J. Copeland	07-08-22 to 12-31-22
President of the Town Council	James Ward	01-01-18 to 12-31-19
	Jesse Kasinger	01-01-20 to 12-31-20
	Brad Cagle	01-01-21 to 12-31-21
	Jesse Kasinger	01-01-22 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF SHELburn, SULLIVAN COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Shelburn (Town), for the period from January 1, 2018 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 Statements 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.

Beth Kelley, CPA, CFE
Deputy State Examiner

December 14, 2022

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CLERK-TREASURER
TOWN OF SHELBURN

CLERK-TREASURER
TOWN OF SHELburn
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

Condition and Context

Supplementary information is required to be reported annually on the Indiana Gateway for Government Units (Gateway) financial reporting system. The Town was not in compliance as follows:

Schedule of Leases and Debt

The lease with the Town of Shelburn Redevelopment Authority was not properly classified as a lease, which resulted in an overstatement of the ending principal balance and principal and interest due within one year by \$2,475,000 and \$109,000, respectively, on the debt schedule. In addition, the loan for a backhoe was omitted from the debt schedule, which resulted in an understatement of the ending principal balance and principal and interest due within one year by \$78,400 and \$17,200, respectively.

Adjustments were proposed, approved by the Town, and made to the Schedule of Leases and Debt in the Financial Statement Audit Report.

Schedule of Capital Assets

Although the Town reported capital asset amounts in Gateway, errors were noted in the detailed listing, and the Town opted to remove the Schedule of Capital Assets from the Financial Statement Audit Report.

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](#)."

CAPITAL ASSETS

Condition and Context

The Town did not maintain a complete listing of capital assets owned which reflects its acquisition value. There was no evidence provided for audit that a physical inventory had been performed at least every two years.

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)

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

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Town's Indiana Gateway for Government Units (Gateway) financial reporting system certification regarding the training on internal control standards was made incorrectly. The Town incorrectly reported that training on internal control standards had been completed by applicable employees, but employees hired since 2016 had not completed training on internal control standards.

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](#)."

ERRORS ON CLAIMS

Condition and Context

There were several deficiencies noted in the testing of disbursements. Seventeen of the eighty-six claims tested lacked adequate supporting documentation to verify the purpose and validity of the disbursements. These claims were for items such as mileage reimbursement, transfers to employees' Health Savings Accounts, purchases of items for events, meal reimbursements, sales tax and payroll taxes, credit card payment without receipts, and fire protection payments.

In addition, numerous expenses were paid by employees and subsequently reimbursed by the Town, thereby, circumventing the claims process. The expenditures included an iPad reimbursement, paint, meals, concrete, supplies for events, and other miscellaneous items.

Criteria

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and

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

- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

FAILURE TO TURN OVER RECORDS TO SUCCESSOR

Condition and Context

Upon resignation, the former Clerk-Treasurer failed to deliver the official records of the Town to the successor Clerk-Treasurer. The Town subsequently contacted the software vendor to have the financial records restored so they could continue the daily operations of the Town. The former Clerk-Treasurer retained custody of the official records and presented them for audit directly to the audit team on November 14, 2022. The records presented were dated 2013-2022.

Criteria

Indiana Code 5-15-5.1-15(a) states:

"A public official who has the custody of any records, excluding personal records, shall at the expiration of the public official's term of office or appointment, deliver to the public official's successor, or to the administration if there is no successor, all materials defined as records by this chapter."

INTERNAL CONTROLS

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions. The Town had established a system of internal control that separated incompatible activities related to disbursements; however, the system of internal control was not effective. There were numerous errors on claims that were not detected during the review and 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:

CLERK-TREASURER
TOWN OF SHELburn
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. . . ."

CLERK-TREASURER
TOWN OF SHELburn
EXIT CONFERENCE

The contents of this report were discussed on December 14, 2022, with Melissa J. Copeland, Clerk-Treasurer; Noah J. Southwood, former Clerk-Treasurer; Jesse Kasinger, President of the Town Council; Alex Norris, Town Council member; and John Curtis, Town Council member.

TOWN COUNCIL
TOWN OF SHELBURN

TOWN COUNCIL
TOWN OF SHELburn
AUDIT RESULTS AND COMMENTS

CAPITAL ASSETS

Condition and Context

The Town did not have a capital asset policy that detailed the threshold at which an item is considered a capital asset.

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)

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

The Town did not provide training concerning internal control standards to applicable employees hired since 2016.

Criteria

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

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

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

EXPENDITURE OF UTILITY FUNDS FOR PAYROLL

Condition and Context

There were several employees that had shared responsibilities between the Town and the Utilities. A review of payroll expenditures, made in accordance with the salary ordinances adopted by the Town Council, revealed that an adequate share of the employees' compensation was not being paid from Town funds. The positions and percentages of wages paid from Town or Utilities' funds were as follows:

TOWN COUNCIL
TOWN OF SHELBURN
AUDIT RESULTS AND COMMENTS
(Continued)

Position	2018 Funds	2019 Funds	2020 Funds	2021 Funds
Clerk-Treasurer	80% Water 20% Sewer	80% Water 20% Sewer	80% Water 20% Sewer	80% Water 20% Sewer
Office Manager	98% Water 2% Sewer	98% Water 2% Sewer	98% Water 2% Sewer	98% Water 2% Sewer
Town Marshal	90% General 10% Water	72% General 10% Water 18% MVH	90% General 10% Water	90% General 10% Water

Criteria

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, utility funds should not be used to pay for personal items. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner.

Establishment of a Cash Reserve Fund permits transfer of surplus utility funds to the city or town general fund. After appropriation, such transferred funds may then be used for any legal general fund purpose. (The Cities and Towns Bulletin and Uniform Compliance Guidelines, June 2016 Part One)

Indiana Code 8-1.5-3-11(d) states in part: ". . . transfers may not be made from any utility funds to the general fund except from the cash reserve fund."

Indiana Code 36-9-23-25 states in part:

"(a) Subject to section 37 of this chapter, the municipal legislative body shall, by ordinance, establish just and equitable fees for the services rendered by the sewage works, and provide the dates on which the fees are due.

(b) Just and equitable fees are the fees required to maintain the sewage works in the sound physical and financial condition necessary to render adequate and efficient service. The fees must be sufficient to:

- (1) pay all expenses incidental to the operation of the works, including legal expenses, maintenance costs, operating charges, repairs, lease rentals, and interest charges on bonds or other obligations;
- (2) provide the sinking fund required by section 21 of this chapter;
- (3) provide adequate money to be used as working capital; and
- (4) provide adequate money for improving and replacing the works. . . ."

TOWN COUNCIL
TOWN OF SHELburn
EXIT CONFERENCE

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