

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF HEBRON

PORTER COUNTY, INDIANA

January 1, 2018 to December 31, 2019



FILED
03/05/2021

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Alan Kirkpatrick Jamie Uzelac	01-01-18 to 12-31-19 01-01-20 to 12-31-21
President of the Town Council	Pete Breukman Dave Peeler	01-01-18 to 12-31-19 01-01-20 to 12-31-21



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF HEBRON, PORTER COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Hebron (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 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.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

January 21, 2021

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CLERK-TREASURER
TOWN OF HEBRON

CLERK-TREASURER
TOWN OF HEBRON
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

A similar comment also appeared in the immediately prior Report B50782, entitled *Financial Transactions and Reporting*.

Condition and Context

There were 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, payroll disbursements, and financial reporting and close.

Cash and Investments

Internal controls had not been properly designed or implemented related to reconciling and reporting of the Town's cash and investment activity. The Clerk-Treasurer indicated that an outside consulting firm assisted in the preparation of the monthly close and bank reconciliation processes. The bank reconciliations contained no signatures or approvals by the Clerk-Treasurer. E-mails that could have documented potential review and approval of bank reconciliations were requested, but could not be provided. There was no oversight or review of the bank reconciliations.

Payroll Disbursements

Internal controls had not been properly designed or implemented for payroll disbursements. While internal control activities were in place over parts of the payroll process, documented internal controls were not in place to ensure that proper salaries or wages were correctly entered into the software. In addition, documented internal controls were not in place to ensure that Town employees were paid from the proper fund. No documented review of any payroll distribution report by gross pay or by fund was completed by the Town.

Financial Reporting

The Town did not have a system of internal controls in place to prevent, or detect and correct, errors in the preparation of the financial statements. The Clerk-Treasurer entered the financial information into the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statement, without an oversight or review 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:

"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.

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

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. . . ."

BANK ACCOUNT RECONCILIATIONS

Condition and Context

The Town did not present any completed bank reconciliations for 2018 and 2019, except for the month of July 2018.

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."

CONDITION OF RECORDS

Condition and Context

The Clerk-Treasurer was responsible for maintaining ledgers and recording the activities of all Town funds into those ledgers. The Clerk-Treasurer was also responsible for reporting all the financial information for the Town in the Indiana Gateway for Government Units financial reporting system, which was the source of the Town's financial statement. In 2020, the Clerk-Treasurer hired a consultant to prepare proper reconciliations of the bank balances to the record balances for 2018 and 2019. The process identified numerous posting errors in the Town's financial records, which totaled \$1,555,213 for receipts and \$2,068,663 for disbursements.

In addition, there was state revolving fund loan activity that was not recorded in the Town's financial records. These transactions totaled \$513,576 for receipts and \$350,337 for disbursements.

Audit adjustments were proposed, accepted by the Clerk-Treasurer, and made to the financial statement.

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 HEBRON
AUDIT RESULTS AND COMMENTS
(Continued)

PENALTIES, INTEREST, AND OTHER CHARGES

A similar comment also appeared in the immediately prior Report B50782, entitled *Penalties and Interest*.

Condition and Context

The Town had not established effective internal controls to ensure that payroll taxes withheld from employees and the Town's share of payroll and unemployment taxes were accurately and timely remitted to the appropriate federal and state agencies.

Alan Kirkpatrick (Kirkpatrick), Clerk-Treasurer, did not always file required forms, or timely remit federal and state withholding taxes and state sales tax during 2017 and 2018. Due to late filing of forms and late payments of the related taxes, the Town paid the following penalties and interest:

Description	Penalties & Interest
State Sales Tax for period of 7/1/18 to 7/31/18	\$ 323.01
Federal Tax Penalties, late fees, and interest	
2nd quarter 2017	1,800.42
3rd quarter 2017	12,048.05
1st quarter 2018	4,203.76
2nd quarter 2018	2,941.00
3rd quarter 2018	911.62
Total Federal Tax Penalties, late fees, and interest	\$ 21,904.85
Total	\$ 22,227.86

Criteria

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (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 HEBRON
AUDIT RESULTS AND COMMENTS
(Continued)

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:

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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. . . ."

We requested that Kirkpatrick reimburse the Town \$22,227.86 for penalties and interest paid due to late filing of reports and late payment of payroll related taxes. (See Summary of Charges, page 13)

OVERDRAWN CASH BALANCES

A similar comment also appeared in the immediately prior Report B50782, entitled *Overdrawn Cash Balances*.

Condition and Context

The financial statement presented for audit included overdrawn cash balances for 2018 and 2019.

Fund	2018	Amount 2019
WW SEWER IMPROVEMENT FUND	\$ 9,501	\$ -
COM.CNTR OPERATING	61	61
MVH		58,098

Criteria

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

Condition and Context

The Town did not upload the required monthly and annually engagement files into the Indiana Gateway for Government Units financial reporting system for 2018 and 2019, which included board minutes, bank reconcilements, year-end bank statements, year-end outstanding check lists, salary ordinances, and revenue and disbursement history reports.

Criteria

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. . . .

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
- 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)
- . . .

(Amended State Examiner Directive 2018-1)

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

CAPITAL ASSETS

Condition and Context

The Town did not provide a complete detailed listing of all capital assets owned by the Town, nor has the Town conducted its yearly inventory counts per the Town's capital asset policy.

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 City/Town, Chapter 1)

CLERK-TREASURER
TOWN OF HEBRON
EXIT CONFERENCE

The contents of this report were discussed on January 21, 2021, with Jamie Uzelac, Clerk-Treasurer; Alan Kirkpatrick, former Clerk-Treasurer; and Dave Peeler, President of the Town Council.

CLERK-TREASURER
TOWN OF HEBRON
SUMMARY OF CHARGES
(Due to Malfeasance, Misfeasance, or Nonfeasance)

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Alan Kirkpatrick, Clerk-Treasurer:			
Penalties, Interest, and Other Charges, pages 8 and 9	\$ 22,227.86	\$ -	\$ 22,227.86
Totals	<u>\$ 22,227.86</u>	<u>\$ -</u>	<u>\$ 22,227.86</u>

This report was forwarded to the Office of the Indiana Attorney General.

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AFFIDAVIT

STATE OF INDIANA)
Kosciusko)
COUNTY)

We, Kristina Girtan and Michelle Hearn, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of Town of Hebron, Porter County, Indiana, for the period from January 1, 2018 to December 31, 2019, is true and correct to the best of our knowledge and belief.

Kristina Girtan

Michelle Hearn
Field Examiners

Subscribed and sworn to before me this 10th day of February, 2021



MICHAEL R SNELLING, Notary Public
Huntington County, State of Indiana
My Commission Expires June 1, 2023

[Signature]
Notary Public

My Commission Expires: _____

County of Residence: _____