



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B44690

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

January 15, 2015

TO: THE OFFICIALS OF TOWN OF BUNKER HILL, MIAMI COUNTY, INDIANA

As authorized under Indiana Code 5-11-1, we performed certain procedures to the accounting records and related documents of the Town of Bunker Hill (Town) for the period of January 1, 2011 to December 31, 2013, to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts.

Our procedures were designed solely to satisfy the requirements of Indiana Code 5-11-1. Because our procedures were not designed to opine on the Town's financial statements, we did not follow *generally accepted auditing standards*. Accordingly, we do not express an opinion on any basic financial statement of the Town.

Management is responsible for preparing and maintaining its accounting records and related documents, as well as compliance with applicable state laws and uniform compliance guidelines established by the Indiana State Board of Accounts.

The Annual Financial Reports filed by the Town can be found on the Gateway website: <https://gateway.ifionline.org/>.

The Current Comments accompanying this letter describe the identified reportable instances of non-compliance found as a result of the procedures we performed. Our procedures were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

This letter is intended for the information and use of the governing body and management of the Town. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

The contents of this letter, including the accompanying Current Comments and Summary of Charges, were discussed on August 14, 2014, with Sarah Betzner, former Clerk-Treasurer. Robert Cox, President of the Town Council, was out of the country and unavailable. Any Official Response attached to this letter was not verified for accuracy.

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

TOWN OF BUNKER HILL
CURRENT COMMENTS

PENALTIES, INTEREST, AND OTHER CHARGES

The Town did not remit federal withholding taxes or file quarterly payroll tax returns on a timely basis. As a result, the Town paid penalties, interest, and other charges to the Internal Revenue Service in the amount of \$8,800.61. The Town and the Water Utility also paid the Indiana Department of Revenue \$47,230.25 in excess of their liabilities for state and local withholding taxes and sales tax. The Town received refunds totaling \$37,974.21 from the Indiana Department of Revenue as a result of overpayments. The difference of \$9,256.04 is attributable to penalties, interest, and other charges. The Water Utility also did not remit utility receipts taxes or file annual utility receipts tax returns on a timely basis. As a result, the Water Utility paid \$1,023.52 in penalties and interest to the Indiana Department of Revenue.

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 governmental 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 governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Sarah Betzner, former Clerk-Treasurer, has been requested to reimburse the Town and the Water Utility a total of \$19,080.17 for the amount of penalties, interest, and other charges incurred as a result of late payments and late filings. (See Summary of Charges)

OVERPAYMENT COLLECTIONS

The Town made 43 payroll advances to six different employees totaling \$6,790. Of this amount, only \$5,020 was subsequently deducted from the employees' normal paychecks. As a result, three employees were overpaid by a total of \$1,770 as follows:

<u>Employee</u>	<u>Amount</u>
Shane Books	\$ 870
Rodney Deckard	800
Christine Waisner	100

The employees have been requested to reimburse the Town for the overpayments. Christine Waisner repaid the Town \$100 on her last day of employment. Rodney Deckard is still employed by the Town, and has agreed to repay the Town through payroll withholding at \$50 per pay over 16 pay periods. Shane Books, former employee, has been requested to reimburse the Town \$870 of overpaid salary, and has entered into a payment arrangement with the Town. (See Summary of Charges)

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF BUNKER HILL
CURRENT COMMENTS
(Continued)

UNIDENTIFIED AND UNDOCUMENTED BANK ACCOUNT WITHDRAWALS

During our review, we noted nineteen undocumented withdrawals from the Town's bank accounts totaling \$74,891.09. As evidenced by his signature on the withdrawal slips, withdrawals of \$7,000 and \$4,524.04 from the Town's bank account were made in 2013 on March 11 and April 17, respectively, by Robert Cox, President of the Town Council. Two of the withdrawals totaling \$22,603.50, as evidenced by her signature on the withdrawal slip were made by Sarah Betzner, former Clerk-Treasurer. One withdrawal for \$6,233.78 was a levy against the account by the Indiana Department of Revenue, and no documentation could be found to indicate who initiated the remaining \$34,529.77 of withdrawals.

Through loan histories and other documents obtained from the bank, we were able to determine that eighteen of the withdrawals totaling \$69,287.09 as legitimate obligations of the Town, leaving one \$5,604.00 unidentified undocumented withdrawal from the Town bank accounts. Sarah Betzner, former Clerk-Treasurer, has been determined to be directly responsible for this withdrawal and has been requested to reimburse the Town \$5,604.00. (See Summary of Charges)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit 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 7)

Indiana Code 36-5-6-2 states: "The clerk-treasurer elected under this chapter is both the town clerk and the town fiscal officer."

Indiana Code 36-5-6-6(a)(1) states that the clerk-treasurer shall: "Receive and care for all town money and pay the money out only on order of the town legislative body."

Indiana Code 36-5-4-3 states:

"(a) The town legislative body or a board of the town may order the issuance of warrants for payment of money by the town only at a meeting of the legislative body or board.

(b) A town officer who violates this section forfeits his office."

ADDITIONAL AUDIT COSTS

The State of Indiana incurred additional costs of \$12,926.66 related to the investigation of charges totaling \$26,454.17. The result is total charges of \$39,380.83.

Audit costs incurred because of theft or shortage may be the personal obligation of the responsible official or employee.

Audit costs or other costs incurred because of poor records, nonexistent records or other inadequate bookkeeping practices may be the personal obligation of the responsible official or employee of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF BUNKER HILL
CURRENT COMMENTS
(Continued)

Based on our review, we are requesting Sarah Betzner, former Clerk-Treasurer, reimburse the State of Indiana \$12,926.66 for additional costs incurred as a result of this investigation. (See Summary of Charges)

PUBLIC OFFICIAL BOND

A copy of an official bond binding Sarah Betzner, former Clerk-Treasurer, as Principal and Auto-Owners Insurance Company as Surety to the State of Indiana was obtained by contacting the insurance agency. The bond covers the faithful performance of duties as Clerk-Treasurer, Town of Bunker Hill, in the amount of \$30,000 for the term beginning January 12, 2011 and ending January 12, 2012.

A copy of an official bond binding Sarah Betzner, former Clerk-Treasurer, as Principal and Auto-Owners Insurance Company as Surety to the State of Indiana was obtained by contacting the insurance agency. The bond covers the faithful performance of duties as Clerk-Treasurer, Town of Bunker Hill, in the amount of \$30,000 for the term beginning January 12, 2012 and ending January 12, 2013.

A copy of an official bond binding Sarah Betzner, former Clerk-Treasurer, as Principal and Auto-Owners Insurance Company as Surety to the State of Indiana was obtained by contacting the insurance agency. The bond covers the faithful performance of duties as Clerk-Treasurer, Town of Bunker Hill, in the amount of \$30,000 for the term beginning January 12, 2013 and ending January 12, 2014.

ANNUAL REPORT

The Annual Reports for the years 2011, 2012, and 2013 contained a number of errors and did not properly reflect the financial activity of the Town of Bunker Hill. Total cash and investments at December 31, 2011, were overstated by \$114,615. The construction and bond redemption funds on deposit at Bank of New York Mellon were not included on the 2012 and 2013 reports. Total cash and investments for the remaining funds at December 31, 2012 and 2013, were overstated by \$336,991 and \$362,119, respectively.

The 2011 and 2012 Annual Reports were filed late by 71 days and 134 days, respectively.

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."

CONDITION OF RECORDS

Financial records presented for review were incomplete and not reflective of the activity of the Town funds. The records presented did not provide sufficient information to review or establish beginning balances, receipts, disbursements, ending balances, or the accuracy or correctness of the transactions. Some of the deficiencies included:

1. Checks and receipts were posted to improper funds or not posted at all.
2. Receipts were not always used to record amounts received.

TOWN OF BUNKER HILL
CURRENT COMMENTS
(Continued)

3. Vendor payments by direct withdrawal from the Town's bank accounts were not recorded.
4. Checks and receipts were not used consecutively and were not always dated correctly.
5. Claims appeared to be randomly filed and were in such disorder that a claim for a particular disbursement, if it existed, was next to impossible to find.
6. Bank statements after March of 2012 did not include either the canceled checks or optical images of canceled checks.
7. Payroll records maintained by Sarah Betzner, former Clerk-Treasurer, were incomplete, and records had to be obtained from a local accountant who served as the Town's payroll service provider.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

BANK ACCOUNT RECONCILIATIONS

Completed depository reconciliations of the fund balances to the bank account balances were not presented for review for any of the 36 months included in the review period.

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."

DEPOSITS

Our review of state distributions, local tax distributions, and distributions from the Town Court indicated that deposits occurred as much as 160 days after the funds were received and on average were deposited 25 days after receipt.

Indiana Code 5-13-6-1(c) states in part:

". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

ERRORS ON CLAIMS

It was not possible to review claims based on a sample of checks due to the way claims were filed as noted in the previous comment titled "Condition of Records." We reviewed a stack of claims that were available and noted the following errors:

1. There were many claims prepared and signed by the Town Council members for which no checks were ever written.

TOWN OF BUNKER HILL
CURRENT COMMENTS
(Continued)

2. We noted claims for which the only supporting documentation was a statement of outstanding invoices; however, no itemized invoices were attached.
3. We noted instances of claims with both a statement and invoices attached where the invoices did not match those listed on the statement.
4. We noted instances of claims with an attached combination invoice/statement that included a beginning balance due with no invoice or other documentation to support that amount.

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
- (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."

SALES TAX PAID ON PURCHASES

Claims and invoices reviewed revealed that sales tax was paid on purchases from several vendors. We reviewed 22 claims and invoices for \$15,496.22 out of 199 payments totaling \$201,428 made to these vendors. Total sales tax paid on the claims reviewed was \$183.86.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PAYMENT BY ELECTRONIC FUNDS TRANSFER

During the review period, the Town made numerous payments by electronic funds transfer (EFT). The Town Council has not adopted a resolution to authorize payments by EFT.

TOWN OF BUNKER HILL
CURRENT COMMENTS
(Continued)

Indiana Code 36-1-8-11.5 states:

"Sec. 11.5. (a) As used in this section, 'electronic funds transfer' means any transfer of funds, other than a transaction originated by check, draft, or similar paper instrument, that is initiated through an electronic terminal, telephone, or computer or magnetic tape for the purpose of ordering, instructing, or authorizing a financial institution to debit or credit an account.

(b) The fiscal body of a political subdivision or the board of a municipally owned utility may adopt a resolution to authorize an electronic funds transfer method of payment of claims. If a proper body adopts a resolution under this subsection, the political subdivision or municipally owned utility may pay money from its funds by electronic funds transfer.

(c) A political subdivision or municipally owned utility that pays a claim by electronic funds transfer shall comply with all other requirements for the payment of claims by political subdivisions or municipal utilities."

INTERNAL CONTROLS

Internal controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient:

1. The Town has not separated incompatible activities related to receipts (utility billings and collections), disbursements, payroll and related liabilities, and cash and investment balances.
2. The deficiencies noted in the comment above entitled "Condition of Records" indicate that proper internal controls were not effectively implemented.
3. As noted in the comment above entitled "Bank Account Reconciliations," internal controls prescribed by statute, such as performing monthly bank reconciliations, were not implemented.
4. Approval of claims by the Town Council is an important internal control. We noted numerous accounts payable vouchers that were approved and signed by Town Council members even though the vouchers were not properly completed; did not have proper supporting documentation; or the supporting documentation indicated old unpaid balances or late charges. We did not find any evidence in the Town Council minutes to indicate that any of these deficiencies were noted or questioned.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF BUNKER HILL
CURRENT COMMENTS
(Continued)

PAYROLL TRANSFERS

The Town was not sufficiently reimbursed from the Water and Wastewater Utilities in 2011, 2012, and 2013 for utility wages paid from the Town Payroll fund. At December 31, 2013, amounts due to the Town Payroll fund from the Water Utility and the Wastewater Utility were \$43,847 and \$107,924, respectively.

Payments or transfers which are not authorized by statute, ordinance, resolution, or court order must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OVERDRAWN CASH BALANCES

The following funds had overdrawn cash balances at December 31, 2013:

<u>Fund</u>	<u>Amount Overdrawn</u>
General	\$ 72,291
Unsafe Building	1,348
Fire Protection	9,316
Water Operating	1,323
Payroll	145,129

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 governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROPRIATIONS

The records presented for review indicated the Town did not have a certified budget for the years 2012 and 2013. All expenditures from the Town funds were made without appropriation.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

CUSTOMER DEPOSIT REGISTER

The detailed customer deposit register did not reconcile with the customer deposit amount recorded in the simplified cash journal. None of the customer deposit receipts and not all of the customer deposit disbursements were posted to the customer deposit fund columns in the simplified cash journal. Month-end balances for the customer deposit fund in the simplified cash journal were not carried forward as beginning balances for the succeeding months.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF BUNKER HILL
CURRENT COMMENTS
(Continued)

FUND CASH BALANCES

The record conditions and errors and omissions discussed in this report resulted in records that were in such disarray that cash balances by fund could not be determined. Additional procedures were performed and as a result the current Clerk-Treasurer was given the following fund balances to start with as of January 1, 2014:

Fund	Balance
General	\$ (72,291)
Motor Vehicle Highway	112,614
Local Road and Street	1,391
Park and Recreation	695
LECF	-
Riverboat	26,582
Rainy Day	5,628
Clerk's Record Perpetuation	14,554
Cumulative Capital Improvement	10,068
Economic Development Income Tax	66,227
Unsafe Building	(1,348)
Fire Protection	(9,316)
Equipment Replacement	2,477
User Fee	13,222
Public Safety	77,790
Proprietary funds:	
Water Utility - Operating	(1,323)
Water Utility - Customer Deposit	11,180
Wastewater Utility - Operating	14,243
Wastewater Utility - Customer Deposit	10,079
Wastewater Utility - Cash with Fiscal Agent	334,196
Fiduciary fund:	
Payroll	(145,129)
Total	\$ 471,539

TOWN OF BUNKER HILL
SUMMARY OF CHARGES

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Sarah Betzner, former Clerk-Treasurer:			
Penalties, Interest, and Other Charges	\$ 19,080.17	\$ -	\$ 19,080.17
Unidentified and Undocumented Bank			
Account Withdrawals	5,604.00	-	5,604.00
Additional Audit Costs	<u>12,926.66</u>	<u>-</u>	<u>12,926.66</u>
Totals for Sarah Betzner, former Clerk-Treasurer	<u>37,610.83</u>	<u>-</u>	<u>37,610.83</u>
 Christine Waisner, former Utility Clerk:			
Overpayment Collections	100.00		
Paid by cash, receipt no. 513		<u>100.00</u>	<u>-</u>
Totals for Christine Waisner, former Utility Clerk	<u>100.00</u>	<u>100.00</u>	<u>-</u>
 Rodney Deckard, Town Foreman:			
Overpayment Collections	800.00		
Paid in full by agreement to withhold from future wages at \$50 per pay period		<u>800.00</u>	<u>-</u>
Total - Rodney Deckard, Town Foreman	<u>800.00</u>	<u>800.00</u>	<u>-</u>
 Shane Books, former Town Laborer:			
Overpayment Collections	870.00		
Payments received per agreement with Town as of 01-13-15		<u>100.00</u>	<u>770.00</u>
 Totals	<u>\$ 39,380.83</u>	<u>\$ 1,000.00</u>	<u>\$ 38,380.83</u>

This report was forwarded to the Office of the Indiana Attorney General and the local prosecuting attorney.

AFFIDAVIT

STATE OF INDIANA)
Whitley COUNTY)

I, Stanley W. Willmert, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the Town of Bunker Hill, Miami County, Indiana, for the period from January 1, 2011 to December 31, 2013, is true and correct to the best of my knowledge and belief.

Stanley W. Willmert
Field Examiner

Subscribed and sworn to before me this 1 day of October, 2014.

Cathy J. Gardner
Notary Public

My Commission Expires: June 27, 2017
County of Residence: Whitley