

Hartman and Williams, L.L.C.

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June 16, 2017

Town of Yorktown
9800 W. Smith St.
Yorktown, IN 47396

Town of Yorktown Officials:

We have performed the procedures previously agreed upon to reconcile the Town's fund report to the corresponding bank accounts for the period January 1, 2012 to December 31, 2015. As you will note in the attached findings, there were several errors on the Town's records that have been identified and should be corrected going forward.

We have also conducted a review of accounting procedures to ensure that proper cash reconciliations can be prepared in the future. During our review we have identified several procedures that need to be changed in order to successfully complete future reconciliations. A list of these is also included in the findings attached for your review.

We performed our work in accordance with guidelines established by the Indiana State Board of Accounts and standards established by the American Institute of Certified Public Accountants.

You are responsible for the adequacy of the procedures to meet your objectives and the guidelines established by the Indiana State Board of Accounts. The enclosure contains the Agreed Upon Procedures and our results.

We were not engaged to perform, and did not perform, an examination or audit, the objective of which would have been to express an opinion on the amounts of cash on hand. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that we would have reported to you. We completed our Agreed Upon Procedures on June 16, 2017.

This letter is intended solely for the use of the management of the Town of Yorktown and should not be used by those who have not agreed to the procedures or have not taken responsibility for the sufficiency of the procedures for their purposes. However, the report is a matter of public record and its distribution is not limited.

If you have any questions, please call Mike Williams, Partner at 812-227-8075.

Sincerely yours,

Michael E. Williams

Michael E. Williams, CPA
Partner

Enclosure

Finding 1:
Monthly Bank Reconciliations Not Completed

Required monthly bank reconciliations were not performed from January 2012 to the date of this report. This resulted in a failure to identify and correct numerous accounting errors in a timely manner. The additional findings in this report detail some, but not necessarily all, of the practices which contributed to patterns of errors which occurred.

Evidence was provided by the Clerk-Treasurer that revealed some work had been performed in an effort to identify differences between recorded transactions and bank activity. The Clerk-Treasurer created Excel spreadsheets listing monthly receipts and disbursements which were compared to bank statements. The spreadsheets contained numerous errors and were not effective for the purpose of reconciling with bank balances. Identified differences between bank and recorded transactions which were noted on the spreadsheets or bank statements (such as electronic deposits not receipted to the records; checks clearing for different amounts than posted; or voided checks clearing the bank) were not corrected on the records. While the spreadsheets comprised partial steps involved in the reconciling process, they did not result in a final comparison of record balances to bank account balances.

Extent of Errors:

The Town's records have not been reconciled to the bank balances since November 2011. This has resulted in a lack of timely corrections of errors and incorrect record balances maintained throughout the time period covered by the engagement and to the date of this report.

Recommendation:

The Key Fund accounting software in use by the Town includes a monthly bank reconciliation function. It is recommended that the Town contact the software vendor to discuss the steps needed to implement the use of this feature and to receive training in its use.

Status:

Bank reconciliations from January 2012 to December 2015 have been completed as a part of the Hartman and Williams engagement services. Net errors of \$346,640.82 requiring correction were identified for the period of January 2012 to December 2015, but corrections have not been made as of the date of this report. Upon posting corrections, an unidentified variance of \$263.55 cash long will remain at December 31, 2015. The Clerk-Treasurer's office has continued to work with Excel spreadsheets in an effort to complete 2016 and 2017 monthly reconciliations. As of the date of this report, the Key Fund bank reconciliation feature is not in use.

Finding 2:
State Board of Accounts 2011 Audit Adjustments not Recorded

A number of audit adjustments were provided to the Clerk-Treasurer at the conclusion of the 2011 audit of the Town conducted by the State Board of Accounts in the fall of 2012. The adjustments totaled \$57,752.92. \$ 41,562.27 of the total was corrected on the Town's records in December 2012, leaving \$16,190.65 which remains unadjusted to date.

Extent of Errors:

The December 2015 bank reconciliation reflects \$16,190.65 of errors which occurred in 2011 which have not been corrected on the Town's records.

Recommendation:

Identified posting errors should be recorded in a timely manner in order to ensure the Town's records correctly reflect the cash balances held in depository accounts.

Status:

Errors in the amount of \$16,190.65 occurring in 2011 have not been corrected on the Town's records as of the date of this report.

Finding 3:

Errors in Posting Payroll Transfers

For each weekly payroll period, amounts are disbursed as transfers from various town and utility funds to cover each fund's share of gross payroll costs. The transferred amounts are then receipted to the Payroll Fund (Fund 409) where they are eventually disbursed either as net pay amounts to employees or to various taxing agencies, INPRS, insurance, child support, and other entities authorized to receive amounts withheld from employees' pay. The amounts posted as disbursements from town and utility funds should, but did not always, agree to the amount receipted to the Payroll Fund. The majority of payroll transfers were made by checks which were then deposited back to the Town's bank account; however some transfers were recorded through adjustment disbursement transactions. The inconsistent handling of these transactions contributed to the payroll posting errors.

Extent of Errors:

Net posting errors relating to both the payroll transfers and employer share of taxes (Finding 4) amounted to \$10,939.83 in 2012; \$201.74 in 2013; \$943.12 in 2014; and \$907.89 in 2015.

Recommendation:

The Key Fund and Key Payroll used by the Town have features which will allow for an interface between the two systems. This interface can be used in a way which will automatically create both the disbursement and receipt postings needed to reflect payroll activity in the correct funds and accounts, thus reducing the risk of errors in making the needed transfers.

Status:

The interface feature of the Key Payroll and Key Fund systems continues not to be in use for payroll processing as of the date of this report. Errors relating to payroll transfers occurring from January 2012 to December 2015 have not been corrected on the Town's records as of the date of this report.

Finding 4:

Inconsistent Practices in Handling of Employer Share of Taxes

The employer share of federal taxes for the Water and Wastewater Utilities was transferred to Payroll Fund along with gross pay while the town funds' employer share was posted directly to the funds' employer share of federal taxes appropriation line item at the time the ACH payment to the IRS was made. At times this method resulted in a failure to charge the appropriate funds for the employer share of taxes.

Extent of Errors:

Net posting errors relating to both the employer's share of federal taxes and payroll transfers (Finding 3) amounted to \$10,939.83 in 2012; \$201.74 in 2013; \$943.12 in 2014; and \$907.89 in 2015.

Recommendation:

To reduce the risk of errors, it is recommended that the costs for the employer's share of federal taxes for all funds either be transferred to the Payroll fund for payment or be paid directly from the funds and appropriations responsible for the costs. Written procedures specifying the method to be used should be designed and put into place.

Status:

As of the date of this report, water and sewer fund shares of federal employer taxes are transferred to the Payroll fund, while the town funds shares are not. Errors relating to payment of employer share of federal taxes occurring from January 2012 to December 2015 have not been corrected on the Town's records as of the date of this report.

Finding 5:

Incorrect Posting of Employee PERF Contribution

Beginning in January 2013, new hires were required to pay their 3% PERF contribution rather than it being contributed by the Town. This withheld amount was receipted to the Payroll fund as a part of gross wages. When the electronic payment to INPRS for the payroll period's PERF was posted, the entire payment was allocated to the town and utility funds with no consideration of any withheld employee contribution residing in the Payroll fund. The result was the employee share of PERF charged to the town and utility funds twice while the amount receipted to the Payroll fund remained.

Extent of Errors:

Handling of this transaction was improper from January 2013 through December 2015. No adjustments to bank reconciliations were necessary due to these errors, but the entries resulted in an overstatement of the Payroll fund balance and understatement of the General fund.

Recommendation:

Written payroll procedures that result in the proper accounting for withheld PERF employee contributions should be designed and put into place.

Status:

The Clerk-Treasurer was informed of the errors in accounting for PERF employee contributions, and expressed the intention to properly account for the fees from that date forward.

Finding 6:

Incorrect Posting of Child Support Fees

Child support fees of \$2.00 per employee were withheld each pay period for any employee with a child support order. The withheld amount was receipted to the Payroll fund as a part of gross wages transferred from town and/or utility funds. A check for the total child support fees withheld was issued each month from the Payroll fund and incorrectly receipted back into the Payroll fund rather than to the General fund.

Extent of Errors:

The handling of these transactions was incorrect from Jan 2012 through Dec 2015. No adjustments to bank reconciliations were necessary due to these errors, but the entries resulted in an overstatement of the Payroll fund balance and understatement of the General fund.

Recommendation:

Written payroll procedures that result in the receipt of the fees into the General fund should be designed and put into place.

Status:

The Clerk-Treasurer was informed of the errors in accounting for child support fees, and expressed the intention to properly account for the fees from that date forward.

Finding 7:

Issues Relating to Outside Payroll Vendor

An outside payroll vendor provided services to the Town for payroll periods from June 30, 2012 to September 7, 2012. Although the vendor processed payroll during this time, transactions relating to payroll were still required to be posted to the Town's accounting records. Entries made did not accurately reflect the payroll activity which occurred.

Potential control issues also existed relating to the payroll vendor's access to the Town's primary Old National checking account. The vendor was able to generate checks drawn upon the account for those employees not on direct deposit and to pay over some withheld amounts to the proper entities. The checks were not pre-numbered by an outside printing vendor as required by the State Board of Accounts. The payroll vendor was also able to initiate electronic payments for direct deposits to employees and payment of state and federal taxes. Reports provided by the payroll vendor did not include check registers listing all of the paper checks generated resulting in some payments for withheld amounts clearing the bank, but not being recorded on the Town's records.

Extent of Errors:

Net posting errors in the amount of \$62,286.53 relating to payroll activities occurred during the period of June 30, 2012 to September 12, 2012.

Recommendation:

In the event that the Town employs outside payroll services in the future, it is recommended that written procedures for posting payroll activity in the Town's records be put in place. The procedures should detail specific vendor reports which will accurately reflect needed transfers from town and utility funds into the Payroll fund, as well as disbursements of net pay and withheld amounts to the proper individuals and agencies.

It is also recommended that any future outside payroll vendor not be given access to issue checks or initiate electronic payments from the Town's primary checking account. Instead, a separate bank account established for payroll purposes alone should be established with specified amounts being transferred to cover payroll costs for each payroll period as it occurs.

Status:

Outside services for payroll have not been in use since September 2012. Errors relating to recording payroll activity which occurred in 2012 have not been corrected on the Town's records as of the date of this report.

Finding 8:
Failure to Post Investment Transactions Correctly

Prior to July 2012, the Town invested in certificates of deposit which were accounted for as fund investments. To properly account for fund investments, certificates purchased should have been posted as disbursements and certificates redeemed should have been posted as receipts in order for the accounting system to reflect the correct investment balances. Instances were noted in which investment transactions were conducted without proper posting leading to errors in the record cash and investment balances.

Extent of Errors:

Errors noted in the posting of investment transactions in 2012 were in the amount of \$595,000. Some of the errors involved an effort to reflect the conversion of investments from fund investments to total monies on deposit investments.

Recommendation:

It is recommended that the Town contact their accounting software vendor for guidance in the proper methods of accounting for investments in the accounting system.

Status:

The Town converted to the total monies on deposit investment method in July 2012 through the use of a money market account. No additional amounts have been deposited in the account since that time, nor has any money been withdrawn from the account. Errors relating to posting of investment transactions occurring from January 2012 to July 2012 have not been corrected on the Town's records as of the date of this report.

Finding 9:
Multiple Entries for Corrections of Posting Errors

During the course of the engagement, it was noted that corrections of original posted amounts were at times made and reversed numerous times making the intent for the original transaction unclear. In the case of at least one transaction, multiple corrections and reversals resulted in an understatement of the final disbursed amount paid to the vendor and clearing the bank.

Extent of Errors:

Payments to the Mt. Pleasant Township Trustee in 2012 recorded on the records were \$24,300 less than the amount actually paid.

Recommendation:

It is recommended that written procedures for error corrections be put into place. Procedures should include review and approval by a second party prior to entering into the system. Proper supporting documentation to be maintained should also be specified as a part of the procedures, and should include a clear explanation of the error and the reason for correction.

Status:

The 2012 error in amounts disbursed to the Mt. Pleasant Township Trustee has not been corrected on the Town's records as of the date of this report.

Finding 10:
Checks Voided on Records Clearing Bank

As a part of the reconciliation process performed by Hartman and Williams, posted disbursements were compared to checks clearing the bank. This procedure revealed checks paid by the bank which had been voided on the Town's records.

Extent of Errors:

Checks indicated as void on the records, but clearing the bank were comprised of 2 checks totaling \$1443.89 in 2012; 2 checks totaling \$3,358.53 in 2013; 3 checks totaling \$83,257.10 in 2014; and 1 check totaling \$1,110.75 in 2015.

Recommendation:

It is recommended that written procedures for handling void checks be put into place. Procedures should include review and approval by a second party prior to entering into the system. Proper supporting documentation to be maintained should also be specified as a part of the procedures, and should include a clear explanation of the reason for the void, as well as the voided check stock.

Status:

As of the date of the report, no written procedure for handling void checks is in place. Errors relating to voided checks clearing the bank from January 2012 to December 2015 have not been corrected on the Town's records as of the date of this report.

Finding 11:
Pre-Numbered Checks Using Same Number Range for Three Series of Checks

A new Chase checking account was opened in February 2013 for Community Assistance and Fire Building Debt. The pre-numbered check series for this account began with check #1000. In June 2013, new check stock for the Town's accounts payable (claims) payments from Old National Bank was ordered and put into use. The overlapping check numbers in two different check series resulting in duplicate check numbers being posted to the Key Fund accounts. In addition, new payroll check stock which also began with check #1000 had been ordered and placed into use in May 2013. Both of these check series are paid from the Town's Old National bank account resulting in occurrences of two checks with the same check number clearing the bank.

Extent of Errors:

No errors resulted from the overlapping check numbers, but the reconciling process was made more difficult as a result.

Recommendation:

Care should be taken when ordering check stock to ensure that each account and check type has its own unique numbering series.

Status:

No problems continue to exist as a result of this situation as the three check types are issued in different volumes so that check numbers are no longer within range of one another.

Finding 12:
Large Block of Checks Voided

On August 14, 2013, there were 112 checks voided in the system due to a printer error. The printed checks were actually sent to vendors. The disbursements were re-posted on August 19, 2013 with intent to post correct check numbers matching the actual printed checks. However errors in this process resulted in not only in a large number of void transactions on the records, but also checks clearing the bank as different check numbers than posted.

Extent of Errors:

No errors requiring adjustments on the bank reconciliation resulted from the situation, but the reconciling process was made more difficult as a result.

Recommendation:

Re-posting of transactions increases the risk of errors. Despite the cost of wasted check stock, future occurrences of this type of situation would be better handled by actually voiding the checks and reprinting new checks.

Status:

There are no current issues or errors relating to this situation.

Finding 13:
Incorrect Check Numbers Posted to Records

Several instances of differences in the posted and actual check number were noted during the engagement. In some cases, it appeared the printer was set to print in reverse order resulting in the last check in a check run being printed on the first check copy of check stock.

Extent of Errors:

These occurrences of posted check numbers differing from the check number clearing the bank did not result in any adjustments on the bank reconciliations, however the reconciling process was made more difficult as a result.

Recommendation:

Written procedures for creating checks should include steps to verify correct printer settings and confirming the beginning check number to print agrees to the check stock placed in the printer.

Status:

There are no current issues or errors relating to this situation.

Finding 14:
Bond Payments Voided at Year End and Re-Entered in New Year

In order that January debt payments were received by the proper financial institutions in a timely manner, checks were written near the end of December each year. Although the checks were delivered to the appropriate parties, the December transactions were voided on the Town's records and re-entered in January of the year they were actually due. This was done in order that the disbursements were charged against the appropriations in the year in which they were due. This manner of accounting for debt

payments increased the risk of error and resulted in overstating debt payments in one case.

Extent of Errors:

Errors in voiding checks for debt payments in the amount of \$51,857.50 occurred in 2013.

Recommendation:

Transactions should not be voided and re-entered to address timing issues for payment due dates. It is recommended that the Town consider encumbering funds necessary for the payment of debts in accordance with amortization schedules.

Status:

Errors relating to voiding and re-entering debt payments from 2013 have not been corrected on the Town's records as of the date of this report.

Finding 15:

Monthly Water and Sewer Bond and Interest Transfers Not Made Timely

Some monthly transfers from Water Operating and Wastewater Operating to Water Bond and Interest and Wastewater Bond and Interest funds were not made on a timely basis. For some months, no transfers were made, and in other months, the transfers in and out did not agree.

Extent of Errors:

Net errors in monthly bond and interest transfers were \$70,680 in 2012 and \$56,747.35 in 2014.

Recommendation:

Written procedures for making operating transfers to bond and interest funds should be designed and put into place to ensure bond ordinance requirements regarding the setting aside of funds for debt payments are met.

Status:

Errors relating to monthly bond and interest transfers from January 2012 to December 2015 have not been corrected on the Town's records as of the date of this report.

Finding 16:

No Procedures to Agree Daily Utility Collections to Customer Account Credits

During the course of the engagement, it was noted that no process was in place to verify the daily collections turned over to the Clerk-Treasurer by utility staff agreed with amounts posted to customer accounts. Individuals in the Clerk-Treasurer's office do not have access to the Key Billing system in order to obtain information which would confirm cash deposits agree to customer accounts. While nothing came to light to indicate that any amounts deposited for utility collections did not agree to posted payments, a lack of controls existed in the process.

Extent of Errors:

There were no errors noted that required adjustment to bank reconciliations.

Recommendation:

It is recommended that a written policy be designed and put in place to verify that amounts

turned over to the Clerk-Treasurer for deposit agree to amounts credited to customer accounts.

Status:

When informed of the potential lack of controls in this area, the Clerk-Treasurer began requesting a daily cash collection report be submitted along with daily collections; however this procedure alone may not be sufficient to ensure proper accounting for utility accounts.

Finding 17:

Inconsistent Terminology Used for Receipt Source

When generating receipts from the Key Fund program, the information input in the "From" field did not always reflect the actual source from which monies were received. The Key Fund system accepts any value to populate the field allowing for misspellings and inconsistent terminology.

Extent of Errors:

Although this issue did not result directly in any errors requiring adjustment on the bank reconciliations, it made searching receipt data for the purposes of confirming posting of all amounts deposited to the Town's bank accounts more difficult.

Recommendation:

It is recommended that written procedures be designed and put into place to develop common terminologies and format to be used in entering receipts such as daily utility deposits, state and county tax distributions, and other recurring receipt types.

Status:

The Clerk-Treasurer was made aware of the recommendation and has begun to implement changes in the terminology used to indicate the source of receipts.

Finding 18:

Dormant Retainage Accounts

Three retainage accounts were established for construction projects which began prior to January 2012. While the accounts were established in the Town's name, they were not accounted for on the Town's records until such time as the dormant bank accounts were closed out into the Town's Old National checking account. For two of the retainage accounts involved, the final payment had previously been made to the contractor from current operating cash balances rather than from the monies that had been set aside in the accounts for final payment. In the case of the third, a final agreed upon settlement payment was made in September 2013 from the Park fund and the retainage account was transferred to Old National Bank and receipted properly into the Park fund.

Extent of Errors:

No errors occurred which required adjustments on the bank reconciliations. However, control risks existed by the amounts not being accounted for on the Town's records and by retainage payments being disbursed from current funds rather than from the monies set aside for that purpose.

Recommendation:

Any future retainage accounts should be accounted for on the Town's records as fiduciary funds

in accordance with the State Board of Accounts directions as detailed in the City and Towns Manual.

Status:

There are no current issues or errors relating to this situation.