

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF MICHIGANTOWN

CLINTON COUNTY, INDIANA

January 1, 2019 to December 31, 2022



FILED

01/03/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Pamela Wellman	01-01-19 to 12-31-23
President of the Town Council	Robert Surber Carrie Russell	01-01-19 to 10-08-23 10-09-23 to 12-31-23



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF MICHIGANTOWN, CLINTON COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Michigantown (Town), for the period from January 1, 2019 to December 31, 2022. 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 the 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 19, 2023

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CLERK-TREASURER
TOWN OF MICHIGANTOWN

CLERK-TREASURER
TOWN OF MICHIGANTOWN
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

A similar comment also appeared in prior Report B55071, entitled *FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

There were several deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not established an effective system of internal controls related to financial close and reporting, cash and investments, receipts, and disbursements.

Financial Close and Reporting

The Town did not have effective internal controls in place to ensure accurate reporting of the Annual Financial Report (AFR). The Town Council approved the AFR prior to submission; however, the internal control did not prevent material misstatements.

Cash and Investments

The Town did not have internal controls in place to ensure accurate recording, reconciling, and reporting of cash and investments. The Clerk-Treasurer was solely responsible for the recording, reconciling, and reporting of cash and investments without any documented oversight, review, or approval process.

Receipts

The Town did not have internal controls in place to ensure accurate recording and reporting of receipts. The Clerk-Treasurer was solely responsible for the receipting of funds, without any documented oversight, review, or approval process.

Disbursements

The Town did not have internal controls in place to ensure accurate recording and reporting of disbursements. The Clerk-Treasurer was solely responsible for the payroll disbursements, without any documented oversight, review, or approval process. The Town Council did review and approve vendor disbursements based on a spreadsheet prepared by the Clerk-Treasurer; however, there were no internal controls in place to ensure that disbursements were properly entered into the financial software used to maintain the financial ledger.

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 MICHIGANTOWN
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. . . ."

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

The financial information entered in the Indiana Gateway for Government Units financial reporting system was not accurate. This information was the source of the Annual Financial Reports (AFR). The AFR is used to compile the financial statements. The financial statements presented for audit included the following errors:

1. The Wastewater Utility-Construction fund was not included in the financial statements. This caused receipts and disbursements both to be understated by \$96,243 in 2019; \$11,475 in 2020; \$5,400 in 2021; and \$74,258 in 2022.
2. The Town incorrectly reported activity for an SRF-OCRA fund on the AFR that was not included in its financial ledgers, which overstated receipts and disbursements both by \$71,818 in 2019 and \$7,350 in 2020.
3. Other errors were also identified in various other funds. The beginning cash and investments balance at January 1, 2019, was overstated by \$8,159.

Adjustments were proposed, accepted by the Town, and made to the financial statements presented in the Financial Statements Audit Report of the Town.

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](#)."

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)

BANK ACCOUNT RECONCILIATIONS

Condition and Context

Depository reconciliations of the fund balances to the bank account balances were not completed in a timely manner for seven of the eight months tested. Additionally, for 2019, 2020, and 2021, the December 31 bank reconciliations provided were reconciled to the financial records but did not reconcile to the amounts reported in the Annual Financial Reports.

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

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."

RECORDING OF RECEIPTS

Condition and Context

Several local tax distributions were not properly recorded in the financial records or were not recorded in a timely manner. We were not able to verify the recording of local distributions in the amounts of \$865, \$536, and \$2,957 for 2019, 2020, and 2022, respectively. Additionally for 2020, \$16,367 of local distributions were not recorded until 2021.

Criteria

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 51-15-1-1.

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)

RECEIPT ISSUANCE

A similar comment appeared in prior Report B48846, and the same comment appeared in prior Report B55071, entitled *CONDITION OF RECORDS*.

Condition and Context

For all years of the audit period, the Town did not issue prenumbered receipts as required.

Criteria

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

PRESCRIBED FORMS

Condition and Context

The Town maintained its accounting records using the QuickBooks software program (program). This program does not produce reports or other information for the Town's financial activity in a manner that would comply with prescribed formats. The program also does not have adequate internal controls built in nor did the Town implement additional internal controls to safeguard financial activity and ensure accurate reporting in the prescribed format.

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

The program did not produce, nor did the Town use, the following prescribed forms:

1. Clerk-Treasurer's Receipt (Form 217)
2. Ledger of Receipts, Disbursements and Balances (Form 208)
3. Ledger of Appropriations, Encumbrances, Disbursements and Balances (Form 209)

Criteria

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 6)

11.06 Management designs appropriate types of control activities in the entity's information system for coverage of information processing objectives for operational processes. For information systems, there are two main types of control activities: general and application control activities.

11.07 Information system general controls (at the entity-wide, system, and application levels) are the policies and procedures that apply to all or a large segment of an entity's information systems. General controls facilitate the proper operation of information systems by creating the environment for proper operation of application controls. General controls include security management, logical and physical access, configuration management, segregation of duties, and contingency planning.

11.08 Application controls, sometimes referred to as business process controls, are those controls that are incorporated directly into computer applications to achieve validity, completeness, accuracy, and confidentiality of transactions and data during application processing. Application controls include controls over input, processing, output, master file, interface, and data management system controls.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Political Subdivisions - Information Technology)

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

The Town did not properly establish an MVH Restricted sub-fund and allocate 50 percent of the distributions from the State Motor Vehicle Highway Account to the sub-fund. All monies received from the State Motor Vehicle Highway Account were receipted into the Motor Vehicle Highway fund.

Criteria

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account after June 30, 2017, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and maintenance of the city's or town's highways."

The purpose of this Directive is to authorize and require counties, 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. . . .

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

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 the 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)

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)

PUBLIC WORKS CONTRACTS

Condition and Context

In 2019, the Town entered into a contract for a construction project in the amount of \$124,185. The Town obtained quotes as would have been required for a contract of this dollar amount; however, the Town elected to change the scope of the project to cover additional improvements. As the scope of the project changed, change orders totaling \$34,524 were added to the contract which amended the contract amount to \$158,709. The change orders increased the contract more than 20 percent above of the original contract price. The additional work on the project should have been reviewed and let out for bids.

Criteria

Indiana Code 36-1-12-18(d) states: "The total of all change orders issued that increase the scope of the project may not exceed twenty percent (20%) of the amount of the original contract. A change order issued as a result of circumstances that could not have been reasonably foreseen does not increase the scope of the project."

Indiana Code 36-1-12-4 states in part:

"(a) This section applies whenever the cost of a public work project will be:

- (1) except as provided in subdivision (2), at least one hundred fifty thousand dollars (\$150,000); . . .

(b) The board must comply with the following procedure:

- (1) The board shall prepare general plans and specifications describing the kind of public work required, but shall avoid specifications which might unduly limit competition. If the project involves the resurfacing (as defined by [IC 8-14-2-1](#)) of a road, street, or bridge, the specifications must show how the weight or volume of the materials will be accurately measured and verified.
- (2) The board shall file the plans and specifications in a place reasonably accessible to the public, which shall be specified in the notice required by subdivision (3).

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

- (3) Upon the filing of the plans and specifications, the board shall publish notice in accordance with [IC 5-3-1](#) calling for sealed proposals for the public work needed. . . .
- (4) The notice must specify the place where the plans and specifications are on file and the date fixed for receiving bids.
- (5) The period of time between the date of the first publication and the date of receiving bids shall be governed by the size of the contemplated project in the discretion of the board. The period of time between the date of the first publication and receiving bids may not be more than:
 - (A) six (6) weeks if the estimated cost of the public works project is less than twenty-five million dollars (\$25,000,000); and
 - (B) ten (10) weeks if the estimated cost of the public works project is at least twenty-five million dollars (\$25,000,000).
- (6) The board shall require the bidder to submit a financial statement, a statement of experience, a proposed plan or plans for performing the public work, and the equipment that the bidder has available for the performance of the public work. The statement shall be submitted on forms prescribed by the state board of accounts.
- (7) The board may not require a bidder to submit a bid before the meeting at which bids are to be received. The meeting for receiving bids must be open to the public. All bids received shall be opened publicly and read aloud at the time and place designated and not before. Notwithstanding any other law, bids may be opened after the time designated if both of the following apply:
 - (A) The board makes a written determination that it is in the best interest of the board to delay the opening.
 - (B) The day, time, and place of the rescheduled opening are announced at the day, time, and place of the originally scheduled opening.
- (8) Except as provided in subsection (c), the board shall:
 - (A) award the contract for public work or improvements to the lowest responsible and responsive bidder; or
 - (B) reject all bids submitted.
- (9) If the board awards the contract to a bidder other than the lowest bidder, the board must state in the minutes or memoranda, at the time the award is made, the factors used to determine which bidder is the lowest responsible and responsive bidder and to justify the award. The board shall keep a copy of the minutes or memoranda available for public inspection.
- (10) In determining whether a bidder is responsive, the board may consider the following factors:
 - (A) Whether the bidder has submitted a bid or quote that conforms in all material respects to the specifications.

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

(B) Whether the bidder has submitted a bid that complies specifically with the invitation to bid and the instructions to bidders.

(C) Whether the bidder has complied with all applicable statutes, ordinances, resolutions, or rules pertaining to the award of a public contract.

(11) In determining whether a bidder is a responsible bidder, the board may consider the following factors:

(A) The ability and capacity of the bidder to perform the work.

(B) The integrity, character, and reputation of the bidder.

(C) The competence and experience of the bidder.

(12) The board shall require the bidder to submit an affidavit:

(A) that the bidder has not entered into a combination or agreement:

(i) relative to the price to be bid by a person;

(ii) to prevent a person from bidding; or

(iii) to induce a person to refrain from bidding; and

(B) that the bidder's bid is made without reference to any other bid. . . ."

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ERRORS ON CLAIMS

Condition and Context

The following issues were identified during our test of disbursements:

1. A debt payment in the amount of \$29,176 was made by the Town on July 1, 2022. This transaction was erroneously entered into the Town's records as \$25,378, understating disbursements by \$3,798.
2. A claim for the purchase of police equipment was paid by the Town on December 13, 2019, in the amount of \$1,000. Supporting documentation for the paid claim was not presented for audit.
3. A claim for bookkeeping work was paid by the Town on August 14, 2022, in the amount of \$60. Supporting documentation for the paid claim was not presented for audit.

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

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
- (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)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

MONTHLY AND ANNUAL UPLOADS

Condition and Context

The files and governmental unit information that are required to be uploaded monthly include the bank reconcilements, approved Town Council minutes and the funds ledger, summarizing total receipts, disbursements, and balances by fund.

Annual upload requirements include the year-end bank statement, year-end outstanding check list, year-end investments, detail of receipt activity, detail of disbursement activity, current year salary ordinance, and an annual vendor history report.

The Town did not comply with the State Examiner Directive and failed to timely upload all the monthly and annual files on the Indiana Gateway for Government Units financial reporting system for 2019-2022.

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

Criteria

Beginning with July 2018 files, which will be due September 15, 2018, **all** cities, towns, townships, libraries, and special districts will use the Upload App to upload files containing financial and governmental unit information on Gateway to allow the State Board of Accounts (SBOA) to conduct audit planning and audit processes prior to on-site work at a unit. (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)

ANNUAL FINANCIAL REPORT - OTHER INFORMATION

Condition and Context

Financial and other information are required to be entered annually into the Annual Financial Report via the Indiana Gateway for Government Units (Gateway) financial reporting system. The other information entered in Gateway was not accurate. The following information reported in Gateway was inaccurate or incomplete:

1. Capital Assets
2. Lease and Debt
3. Accounts Payable and Accounts Receivable
4. Investments

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

No supporting documentation was provided for audit to show that an inventory of capital assets was completed at least every two years.

The Town maintained a detailed listing of capital assets; however, the asset records provided for audit did not reflect all additions and deletions for the audit period.

CLERK-TREASURER
TOWN OF MICHIGANTOWN
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)

CLERK-TREASURER
TOWN OF MICHIGANTOWN
EXIT CONFERENCE

The contents of this report were discussed on December 19, 2023, with Pamela Wellman, Clerk-Treasurer; Carrie Russell, President of the Town Council; Lindsey Cox, Town Council member; and Jeff Wellman, Town Council member.

TOWN COUNCIL
TOWN OF MICHIGANTOWN

TOWN COUNCIL
TOWN OF MICHIGANTOWN
AUDIT RESULT AND COMMENT

CAPITAL ASSET POLICY

Condition and Context

The Town had not established a capital assets policy that included a 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)

TOWN COUNCIL
TOWN OF MICHIGANTOWN
EXIT CONFERENCE

The contents of this report were discussed on December 19, 2023, with Pamela Wellman, Clerk-Treasurer; Carrie Russell, President of the Town Council; Lindsey Cox, Town Council member; and Jeff Wellman, Town Council member.