

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF MONTGOMERY

DAVISS COUNTY, INDIANA

January 1, 2019 to December 31, 2022



FILED

11/16/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Cynthia Smith	01-01-19 to 12-31-23
President of the Town Council	John M. Healy	01-01-19 to 12-31-23



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF MONTGOMERY, DAVIESS COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Montgomery (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

November 8, 2023

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CLERK-TREASURER
TOWN OF MONTGOMERY

CLERK-TREASURER
TOWN OF MONTGOMERY
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

A similar comment appeared in a Management Letter addressed to the Clerk-Treasurer for the review period ending December 31, 2018.

Condition and Context

Financial, supplemental, and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. The AFRs were the source of the Town's financial statements, Required Supplementary Information, and Other Information presented in the Financial Statements Audit Report for the Town. The following errors were noted on the Town's AFR submitted on Gateway:

Financial Data

1. During 2019, the Water Utility Operating fund disbursements were overstated, and the ending cash and investments balance was understated by \$1,000.
2. During 2019, the Water Utl Depreciation fund disbursements were understated, and the ending cash and investments balance was overstated by \$1,000.
3. During 2020, a transfer was recorded from the Sewage UTL Debt Service Reserve fund to the Sewage UTL Bond & Int fund in the amount of \$42,806 that should have been recorded as a correcting entry to move the original disbursement out of the Sewage UTL Bond & Int fund to the Sewage UTL Debt Service Reserve fund.
4. During 2020, a transfer was recorded from the Sewage UTL Debit Service Reserve fund to the UTL Sewage Construction fund in the amount of \$55,000 that should have been recorded as a correcting entry to move the original disbursement out of the UTL Sewage Construction fund to the Sewage UTL Debt Service Reserve fund.

Adjustments were proposed, accepted by the Town, and made to the financial statement and to the Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Required Supplementary Information in the Financial Statements Audit Report of the Town.

Leases and Debt

The Town did not properly report its debt during the audit period as follows:

1. The Sewage Works Revenue Bonds, Series 2018 was omitted from the schedule.
2. The general obligation bonds principal due within one year was understated by \$2,000.
3. The revenue bonds principal due within one year was understated by \$13,000.

Adjustments were proposed, accepted by the Town, and made to the Schedule of Leases and Debt as of December 31, 2022, that was presented as Other Information in the Financial Statements Audit Report of the Town.

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

Grants

The Town failed to properly review the federal grant information prepared and submitted in Gateway, which resulted in the following errors:

1. The Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii expenditures were overstated by \$443,098 for 2019. In addition, this grant was omitted for 2020, which understated expenditures by \$132,090.
2. The Assistance to Firefighters Grant Passed Through to Subrecipient reported in 2021 was overstated by \$67,500. In addition, this grant's federal award amount was overstated by \$1,034,558 and understated by \$189,643 for the years 2021 and 2022, respectively.
3. The Coronavirus State and Local Fiscal Recovery Funds grant was omitted during 2021 and 2022, which understated expenditures by \$65,904 and \$106,106 for the years 2021 and 2022, respectively.

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 as set forth in the uniform compliance guidelines. 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](#)."

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were deficiencies noted in the internal control system of the Town related to financial transactions and reporting. The Town had not designed or implemented a system of internal controls over financial close and reporting and receipts.

Financial Close and Reporting

The Town did not have a proper system of internal controls in place over financial close and reporting to prevent, or detect and correct, errors. The Clerk-Treasurer entered the information into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Annual Financial Report and the financial statements. There was no evidence of any oversight, review, or approval process of this information by the Town prior to it being submitted to Gateway to ensure its accuracy.

Receipts

The Town did not have a proper system of internal controls in place over cash receipts to prevent, or detect and correct, errors in receipts. The Clerk-Treasurer was responsible for collecting, posting, and depositing the Town's receipts. There was no evidence of any oversight, review, or approval process, to ensure that receipts were properly recorded and deposited.

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

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.

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. . . ."

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Context and Condition

The Town did not properly establish a Motor Vehicle Highway 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 posted to 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, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

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)

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

ORDINANCES AND RESOLUTIONS

Condition and Context

The Town adopted Revenue Bond Ordinance No. 10-2018, for the Sewage Works Revenue Bonds, Series 2018, General Obligation Bonds, and Revenue Bonds. The Town was required to make monthly transfers to the Sewage UTL Bond & Int fund from the Sewage Utility Operating fund. These monthly transfers were required to ensure sufficient funds were available to pay principal and interest payments as they came due. During 2021 and 2022, the Town did not make the required transfers to the Sewage UTL Bond & Int fund. As a result, principal and interest payments were made from the Sewage UTL Bond & Int fund, the Sewage UTL Debit Service Reserve fund, the Sewage Utility Operating fund, and the American Recue Plan fund.

Criteria

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF MONTGOMERY
EXIT CONFERENCE

The contents of this report were discussed on November 8, 2023, with Cynthia Smith, Clerk-Treasurer, and John M. Healy, President of the Town Council.