

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF MONTEZUMA

PARKE COUNTY, INDIANA

January 1, 2019 to December 31, 2022



FILED
12/18/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Cathy L. Morgan	01-01-19 to 12-31-23
President of the Town Council	John Norris	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 MONTEZUMA, PARKE COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Montezuma (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 30, 2023

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CLERK-TREASURER
TOWN OF MONTEZUMA

CLERK-TREASURER
TOWN OF MONTEZUMA
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT - OTHER INFORMATION

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 other information reported by the Town contained the following errors:

Leases and Debt

1. The USDA Initial Fire Truck Loan was omitted in 2021 and 2022. This resulted in the ending principal balance and principal due within one year to be understated by \$99,981 and \$24,076, respectively, as of December 31, 2022.
2. The USDA Subsequent Fire Truck Loan was omitted in 2021 and 2022. This resulted in the ending principal balance and principal due within one year to be understated by \$8,463 and \$2,078, respectively, as of December 31, 2022.

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

Capital Assets

The Town did not provide subsidiary, detail records to support the Capital Asset totals reported in the AFR. Therefore, we were unable to determine the accuracy of the information. The Town approved the omission of the Schedule of Capital Assets from the Financial Statements Audit Report of the Town.

Investment Fund Statement

The ending balance of investments reported in 2019 was understated by \$79,863. The value of the Town's investment accounts as of December 31, 2019, was \$1,313,863. In addition, the 2020 ending balance of investments did not equal the 2021 beginning balance of investments reported in the Town's AFR.

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

The Town did not maintain a detailed listing of its capital assets owned at their acquisition value. In addition, the Town had not performed a physical inventory in the last two years, as required by its capital asset policy.

CLERK-TREASURER
TOWN OF MONTEZUMA
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)

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)

LOANS FROM ELECTRIC UTILITY

Condition and Context

On March 16, 2017, Resolution 2017-03-01 was passed authorizing a loan from the Electric Operating fund to the Water Utility for a water improvement project in the amount not to exceed \$644,500 with an interest rate of 1 percent. As of July 5, 2018, the actual amount of the loan was \$590,814. Repayments began on July 15, 2018, with the final payment due on or before January 15, 2038.

On February 25, 2021, Resolution 2021-02-02 was passed authorizing a loan from the Electric Operating fund to the Wastewater Utility for a wastewater improvement project in the amount of \$576,378 with an interest rate of 1.25 percent. Repayments began on January 15, 2021, with the final payment due on or before July 15, 2049.

The Electric Operating fund should not have made the loans as it is not an appropriate use of those funds. A cash reserve fund should have been established by ordinance specifically authorizing the use of these funds to make loans to another utility. Loans are not to exceed five years. See the following table for the terms of the loans:

<u>Loan From</u>	<u>Loan To</u>	<u>Amount</u>	<u>Semi-annual Payment</u>	<u>Loan Date</u>	<u>Payoff Date</u>	<u>Duration In Years</u>
Electric Utility	Water Utility	\$ 590,814	\$ 16,333	07-05-18	01-15-38	19
Electric Utility	Wastewater Utility	576,378	11,878	02-25-21	07-15-49	28

Criteria

Indiana Code 8-1.5-3-11 states in part:

" . . . (b) A cash reserve fund shall be created by ordinance and carried on the records of the utility or utilities by providing for monthly contributions or transfers to the cash reserve fund of surplus earnings of the utility or utilities.

(c) 'Surplus earnings' are those cash earnings remaining after provision has been made to take care of current obligations, including:

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

- (1) operating expense;
- (2) depreciation or replacement fund;
- (3) bond and interest sinking fund;
- (4) retirement fund; or
- (5) any other priority fund requirements fixed by law. . . .

(f) A cash reserve fund, if authorized by ordinance, may be used to make loans to another utility owned by the same municipality, for periods not to exceed five (5) years, at any interest rate. The repayment of the loan and interest shall be returned to the cash reserve fund."

ACCOUNTING OF COVID-19 GRANTS

Condition and Context

The Town did not properly account for the COVID-19 - Coronavirus Relief Fund (CRF) in accordance with State Examiner Directive 2020-3 (Directive).

The Town established three funds, IFA COVID-19 (fund 150), IFA Covid Payroll (fund 151), and IFA COVID-19 Public Safety Awareness (fund 152), instead of one fund as outlined in the Directive to account for the reimbursements from the Indiana Finance Authority (IFA).

The Town posted \$21,197 in non-payroll related expenditures to fund 150 during the months of November and December 2020 in anticipation of receipt of reimbursement. This was contrary to Framework 3 of the Directive which instructed that such expenditures be made from a fund that had an appropriation for the desired expenditure. No reimbursements were received in 2020; therefore, this fund had a year-end negative balance of \$21,197. In January 2021, the Town received reimbursement for non-payroll expenses totaling \$2,158 which were posted to this fund still leaving a negative balance.

The Town also received reimbursement for payroll related expenses totaling \$30,188 in January 2021. The reimbursement was receipted into fund 151. Then the Town claimed part of the reimbursement to fund 150 to cover the negative balance, to various other funds, and to the Montezuma Volunteer Fire Department. However, the reimbursement should have been claimed to the General fund, which would have allowed the Town to spend the funds in any manner.

Criteria

Each local unit of government that receives an allocation from the Coronavirus Relief Fund administered by IFA shall establish a separate CARES grant fund with a fund number consistent with memorandum *Accounting and Appropriation of COVID-19 Grants, April 29, 2020 (updated September 29, 2020)*.

All Reimbursements received from IFA shall be receipted into a separate CARES grant fund that is specific to IFA reimbursements. . . .

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

Transactions for public health and safety payroll costs must be accounted for through one of these two prescribed options. . . .

Option Two. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. A claim will be created against the separate CARES grant fund for the reimbursed amount in favor of the general fund. This claim must be supported by documentation of the public health and safety payroll costs that have been expensed from the general fund or other funds.

The amount of the claim will be receipted into the general fund cash balance. Normal appropriation procedures will apply to these funds.

Once option two is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. This option requires a resolution or ordinance as detailed in the memorandum *CARES Reimbursement of Public Health and Safety Payroll Costs, September 30, 2020.*** . . .

Transaction for other permitted costs reimbursed by IFA must be accounted for through one of the following prescribed frameworks. . . .

Framework Three. If you have created a negative balance in your CARES fund based on expenditures made in anticipation of receipt of reimbursement for allowable expenditures where invoices have already been submitted to IFA then leave as is and receipt reimbursement when received, bringing the balance in the separate CARES grant fund to zero. Going forward, expend any anticipated allowable expenditures from a fund with an appropriation and follow framework one. If a negative balance in the CARES grant fund is not fully reimbursed, then the unreimbursed amount will require a reverse entry and posting of the expenditure to the general or other appropriate fund within an appropriated line item.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund.**

(State Examiner Directive 2020-3)

CLERK-TREASURER
TOWN OF MONTEZUMA
EXIT CONFERENCE

The contents of this report were discussed on November 30, 2023, with Cathy L. Morgan, Clerk-Treasurer; John Norris, President of the Town Council; and Paul Bartlow, Town Council member.