

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF SANTA CLAUS

SPENCER COUNTY, INDIANA

January 1, 2019 to December 31, 2022



FILED

10/31/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kelly K. Greulich Jane Lindsey	01-01-19 to 04-02-23 04-03-23 to 12-31-23
President of the Town Council	Michael Johannes Kevin Burke	01-01-19 to 12-31-22 01-01-23 to 12-31-23
Superintendent of Utilities	Russell L. Luthy	01-01-19 to 12-31-23
Chair of Water Board	Scot Elliott	01-01-19 to 12-31-23



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE TOWN OF SANTA CLAUS, SPENCER COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Santa Claus (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

October 4, 2023

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CLERK-TREASURER
TOWN OF SANTA CLAUS

CLERK-TREASURER
TOWN OF SANTA CLAUS
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER 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:

Financial Close and Reporting

The Clerk-Treasurer entered the financial information for the Town into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source for the Annual Financial Report (AFR) and financial statements. The Town Council is to review and approve the AFR to ensure the accuracy of the information entered prior to the Clerk-Treasurer submitting it. There was no evidence presented for audit that the Town Council reviewed and approved the AFR prior to the Clerk-Treasurer submitting the AFR.

Receipts and Disbursements

Internal controls were not effective to ensure all financial activity of the Town was properly recorded in the financial records. As a result, the following errors were noted:

1. During 2021, the Water Utility issued Waterworks Refunding Revenue Bonds with a par amount of \$5,260,000. Net proceeds of \$2,152,040, after deduction of bond issuance cost of \$31,300 and \$3,076,660 for payment to escrow account to pay off the 2008 Revenue Bonds, were recorded in the Town's ledger. The Town failed to properly record the par amount of the bonds and the related bond issuance costs and payment made to the escrow account. As a result, receipts and disbursements were each understated by \$3,107,960.
2. During 2021, the Wastewater Utility issued Sewer Revenue Bonds with a par amount of \$4,750,000. Net proceeds of \$4,721,250, after deduction of \$28,750 in bond issuance cost, were recorded in the Town's ledger. The Town failed to properly record the par value of the bonds and the related bond issuance cost. As a result, receipts and disbursements were each understated by \$28,750.

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

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 SANTA CLAUS
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. . . ."

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)

CARES ACT FUND

Condition and Context

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

Reimbursements received from the Indiana Finance Authority for payroll expenditures were receipted into the CARES fund. The Town did not reverse the non-payroll expenditures spent without appropriation from the CARES fund, but rather prepared a claim for the remaining balance, which was receipted into the General fund. By not creating reversing entries, expenditure activities were reflected in the incorrect funds and did not re-establish appropriations.

Criteria

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

Option One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. The reimbursed amount for public health and safety payroll costs originally incurred in the general fund (or other fund) will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the general fund (or other fund) cash balance and re-appropriate the general fund (or other fund) in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the general fund (or other fund), it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once option one is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund.** . . .

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.

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

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.**

(State Examiner Directive 2020-3)

ANNUAL FINANCIAL REPORT

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 City had not established effective internal controls over the AFR information entered into Gateway, which resulted in the following errors:

Financial Data

1. During 2021, the Water Utility issued Waterworks Refunding Revenue Bonds with a par amount of \$5,260,000. Net proceeds of \$2,152,040, after deduction of bond issuance cost of \$31,300 and \$3,076,660 for payment to escrow account to pay of the 2008 Revenue Bonds, were recorded in the Town's ledger. The Town failed to properly record the par amount of the bonds and the related bond issuance costs and payment made to the escrow account. As a result, receipts and disbursements were understated by \$3,107,960.
2. During 2021, the Wastewater Utility issued Sewer Revenue Bonds with a par amount of \$4,750,000. Net proceeds of \$4,721,250, after deduction of \$28,750 in bond issuance cost, were recorded in the Town's ledger. The Town failed to properly record the par value of the bonds and the related bond issuance cost. As a result, receipts and disbursements were understated by \$28,750.

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

Capital Assets

Amounts reported for capital assets for 2019 and 2020, were not supported by the Town's capital asset records.

Grant Information

1. The Highway Planning and Construction Cluster was overstated by \$5,091, \$19,000, and \$34,578, for 2019, 2020, and 2021, respectively.

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

2. The Cooperative Forestry Assistance Program was understated by \$4,545 for the year 2019.
3. The Recreational Trails Program was understated by \$1,727 for the year 2019 and overstated by \$1,112 and \$180,146, for 2020 and 2021, respectively.

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 the 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 components 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. . . ."

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](#)."

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

The Town failed to post at the time of the receipt 50 percent of the April 2020 distribution from the State Motor Vehicle Highway Account to the Motor Vehicle Highway Restricted fund. The transfer was subsequently made in June 2020. Additionally, for 22 months during the audit period, the Town transferred more than 50 percent of the distributions to the Motor Vehicle Highway Restricted fund. The Town had not passed an ordinance or resolution that would permit them to allocate more than 50 percent of the distributions to the Motor Vehicle Highway Restricted fund.

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

Criteria

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted.

The political subdivision, by ordinance or resolution, may elect to allocate more than fifty percent (50%) of the distributions to MVH Restricted. . . .

(State Examiner Directive 2018-2)

CLERK-TREASURER
TOWN OF SANTA CLAUS
EXIT CONFERENCE

The contents of this report were discussed on October 4, 2023, with Jane Lindsey, Clerk-Treasurer; Patricia D. Vaal, Vice President of the Town Council; Brian Warran, Town Council member; and Kelly K. Greulich, former Clerk-Treasurer.