

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF MEDORA

JACKSON COUNTY, INDIANA

January 1, 2019 to December 31, 2022



FILED

11/06/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Betty M. Campbell	01-01-19 to 12-31-23
President of the Town Council	Robert K. Thompson Jerry Ault Darin Downs	01-01-19 to 12-31-19 01-01-20 to 12-31-21 01-01-22 to 12-31-23
Superintendent of Utilities	Steven L. Ingle	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 MEDORA, JACKSON COUNTY, INDIANA

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

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CLERK-TREASURER
TOWN OF MEDORA

CLERK-TREASURER
TOWN OF MEDORA
AUDIT RESULTS AND COMMENTS

CERTIFICATION ON INTERNAL CONTROL STANDARDS

This same comment also appeared in prior Report B54175.

Condition and Context

For 2019, 2020, 2021, and 2022, the Town certified on the Indiana Gateway for Government Units financial reporting system that all personnel defined by Indiana Code 5-11-1-27(c) had received training concerning the internal control standards adopted by the Town; however, the acceptable minimum level of internal control standards as defined by the Indiana State Board of Accounts had not been adopted and training had not been provided to necessary employees and officials.

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](#)."

MONTHLY AND ANNUAL UPLOADS

Condition and Context

The files and governmental unit information that are required to be uploaded monthly include the bank reconciliements, 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 upload any of the monthly and annual files on the Indiana Gateway for Government Units financial reporting system for 2019, 2020, 2021, and 2022.

Criteria

All counties, cities, towns, townships, libraries, schools, and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients.

A user guide for the Engagement Uploads is available and located at: <https://gateway.ifonline.org/userguides/engagementguide> **It is pertinent that this user guide be used in conjunction with this Directive.** It provides critical information to you that will help guide you to uploading the correct documents.

(Amended State Examiner Directive 2018-1)

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

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

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

Capital Assets

The Town did not provide supporting documentation for the reported capital assets. The Town did not have a listing of capital assets. The Town chose not to present the Schedule of Capital Assets in the Financial Statements Audit Report of the Town.

Payables and Receivables

The amounts that the Town reported for accounts payable and accounts receivable could not be verified. The Town did not maintain supporting documentation. The Town chose to not present the Schedule of Payables and Receivables in the Financial Statements Audit Report.

Leases and Debt

The Town overstated the ending principal balance of the Wastewater Loan Payable by \$114,498 at 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.

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](#)."

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:

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

"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. . . ."

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Report B54175, entitled *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.

1. **Lack of Segregation of Duties:** Internal control activities, an integral part of which is segregation of duties, should be in place to reduce the risks of errors in financial recording and reporting. The Town had not separated incompatible activities related to financial close and reporting, cash and investments, receipts, and disbursements.
2. **Monitoring of Internal Controls:** Effective internal controls over financial reporting requires the Town to monitor and evaluate the quality of the system of internal controls. The Town did not have a process to identify or communicate corrective actions to improve internal controls.
3. **Risk Assessment:** The Town had no process to identify, analyze, and respond to potential threats that could impact the internal control system.

The failure to establish a proper system of internal controls enabled material misstatements or irregularities to occur and remain undetected.

Financial Close and Reporting

The Town had not established internal controls over the financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Town's Annual Financial Report (AFR) and financial statements.

The Town failed to properly review the financial information prepared and submitted in Gateway to ensure all transactions of the Town had been properly recorded and reported. The Clerk-Treasurer provided the Town's financial consultant with the ledgers. The financial consultant prepared and entered the financial information in Gateway; however, there was no oversight, review, or approval process in place to ensure financial transactions, the AFR, and the financial statements were accurate.

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

Due to the lack of internal controls, the financial information presented for audit included the following errors:

1. For 2019, the Crossroads Paving Grant fund was omitted from the financial report, which resulted in the understatement of both receipts and disbursements by \$160,375.
2. For 2020, the Water Utility - Operating fund receipts and disbursements were both understated by \$4,872.

Audit adjustments were proposed, accepted by the Town, and made to the financial statements 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.

Cash and Investments

There were no internal controls, which would include appropriate segregation of duties, in place to ensure monthly bank reconciliements were complete and accurate.

The Clerk-Treasurer was solely responsible for recording all transactions in the ledger and preparing the bank reconciliements for all of the Town and Utility funds. As such, all reconciliements were prepared without a documented review or approval process to prevent, or detect and correct, errors.

Receipts

The Town had not established internal controls over receipts. The Clerk-Treasurer received all the money that is collected, issued the receipts, recorded the receipts, and deposited the funds. There was no segregation of duties such as an oversight, review, or approval process over receipts.

Disbursements

The Town had not established internal controls over disbursements. The Clerk-Treasurer was solely responsible for receiving invoices, preparing payroll, writing checks, and posting payments to the ledger. There was no segregation of duties such as an oversight, review, or approval process over disbursements.

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](#)."

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:

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

"Risk is the possibility that an event will occur and adversely affect the achievement of objects. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. Each identified risk is evaluated in terms of its impact and likelihood of occurrence. Overall, risk assessment is the basis for determining how risk will be managed. . . .

Management identifies risks to the achievement of the political subdivision's objectives across the unit as a whole and within each office or department. Analysis of risk through determination of objective measures and variance tolerance is the basis for determining how the risks should be managed. The response to risk is selected: acceptance, avoidance, reduction, or sharing. . . .

Internal control is a process, and part of that process is the responsibility for management to be continually aware of changes, both external and internal, that could affect the achievement of the political subdivision's objectives. Those changes should be analyzed for both their immediate effect and for any future impact. Management would then determine any modifications needed in the internal control process to adapt to these changes."

"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. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

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

CAPITAL ASSETS

This same comment appeared in a Management Letter addressed to the Town Council and Clerk-Treasurer for the audit period ending December 31, 2018.

Condition and Context

The Town had not properly maintained a complete inventory of capital assets owned. A capital asset policy, a detailed capital asset ledger, or proof that a capital asset inventory had been conducted every two years were not provided for audit.

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)

DELINQUENT WASTEWATER ACCOUNTS

This same comment appeared in a Management Letter addressed to the Town Council and Clerk-Treasurer for the audit period ending December 31, 2018.

Condition and Context

During the audit period, delinquent Wastewater Utility fees and penalties had not been recorded with the County Recorder, nor were they certified to the County Auditor which would result in a lien against the property.

Criteria

Indiana Code 36-9-23-33 states in part:

". . . (c) Except as provided in subsection (m), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
 - (B) A description of the premises, as shown by the records of the county auditor.
 - (C) The amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

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

(d) The officer shall record a copy of each list or each individual instrument with the county recorder . . .

(f) . . . Using the lists and instruments prepared under subsection (c) and recorded under subsection (d), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (d), certify to the county auditor a list of the unpaid liens for collection with the next May installment of property taxes. . . ."

CLERK-TREASURER
TOWN OF MEDORA
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2023, with Betty M. Campbell, Clerk-Treasurer; Rhonda Freeman, Town Council member; and James L. Davers, Town Council member.

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TOWN COUNCIL
TOWN OF MEDORA

TOWN COUNCIL
TOWN OF MEDORA
AUDIT RESULTS AND COMMENTS

ADOPTION OF INTERNAL CONTROL STANDARDS

This same comment also appeared in prior Report B54175.

Condition and Context

The Town had not adopted the acceptable minimum level of internal control standards as defined by the Indiana State Board of Accounts.

Criteria

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision. . . ."

TRAINING ON INTERNAL CONTROL STANDARDS

This same comment also appeared in prior Report B54175.

Condition and Context

The Town did not train employees on the internal control standards required by Indiana Code 5-11-1-27(g).

Criteria

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

CAPITAL ASSETS

This same comment appeared in a Management Letter addressed to the Town Council and Clerk-Treasurer for the audit period ending December 31, 2018.

Condition and Context

The Town had not properly maintained a complete inventory of capital assets owned. A capital asset policy, detailed capital asset ledger, and proof that a capital asset inventory had been conducted were not provided for audit.

TOWN COUNCIL
TOWN OF MEDORA
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)

BOARD MINUTES

Condition and Context

Town Council minutes were present for each month, but did not adequately document the governing body's proceedings. Voting or motions made were usually not noted and the minutes did not include all relevant information of the proceedings.

Criteria

Indiana Code 5-14-1.5-4 states in part:

". . . (b) As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes taken by individual members if there is a roll call.
- (5) Any additional information required under section 3.5 or 3.6 of this chapter or any other statute that authorizes a governing body to conduct a meeting using an electronic means of communication.

(c) The memoranda are to be available within a reasonable period of time after the meeting for the purpose of informing the public of the governing body's proceedings. The minutes, if any, are to be open for public inspection and copying."

TOWN COUNCIL
TOWN OF MEDORA
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2023, with Betty M. Campbell, Clerk-Treasurer; Rhonda Freeman, Town Council member; and James L. Davers, Town Council member.