

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF SOUTH WHITLEY

WHITLEY COUNTY, INDIANA

January 1, 2021 to December 31, 2022



**FILED**

11/17/2023



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Pamela Hoffman Alyssa Knepple	01-01-21 to 12-14-22 12-15-22 to 12-31-23
President of the Town Council	Randall C. Cokl	01-01-21 to 12-31-23



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF SOUTH WHITLEY, WHITLEY COUNTY, INDIANA

This report is supplemental to the audit report of the Town of South Whitley (Town), for the period from January 1, 2021 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 Statement Audit Report of the Town, which provides our opinions on the Town's financial statement. This report may be found at [www.in.gov/sboa/](http://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 SOUTH WHITLEY

CLERK-TREASURER  
TOWN OF SOUTH WHITLEY  
AUDIT RESULTS AND COMMENTS

**MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED RECEIPTS**

A similar comment also appeared in prior Report B58048, entitled *MVH RESTRICTED FUND ALLOCATIONS*.

*Condition and Context*

The Town did not allocate the required 50 percent of the State Motor Vehicle Highway (MVH) distribution to the MVH Restricted fund. Amounts were incorrectly recorded in the Motor Vehicle Highway fund for 2021 and 2022, totaling \$3,311 and \$2,988, respectively. In addition, \$10,000 was inappropriately transferred out of the MVH Restricted fund to the Rainy Day fund in 2021.

*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. . . .

***In no event can any transfers from MVH Restricted to MVH reduce the fiscal year distributions from the State Motor Vehicle Highway Account below the 50% requirement for MVH Restricted.***

***Any amounts allocated in excess of the required 50% of distributions which remain in MVH Restricted at the end of the fiscal year must remain in MVH Restricted until expended for construction, reconstruction, or preservation. . . .***

(State Examiner Directive 2018-2)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letter, 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 actions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**CERTIFICATION ON INTERNAL CONTROL STANDARDS**

A similar comment also appeared in prior Report B58048, entitled *CERTIFICATION ON INTERNAL CONTROL STANDARDS*.

*Condition and Context*

The Town certified on the Annual Financial Report (AFR) submitted in the Indiana Gateway for Government Units financial reporting system for 2021 and 2022 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, no evidence was provided indicating that training had been provided. Therefore, the AFRs for 2021 and 2022 were incorrect.

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

*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](#)."

**ANNUAL FINANCIAL REPORT**

A similar comment also appeared in prior Report B54094, entitled *ANNUAL FINANCIAL REPORT*, and B58048, entitled *ANNUAL FINANCIAL REPORTS*.

*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:

*Financial Data*

1. The Town took out multiple State Revolving Fund loans for the purpose of updating utility systems. The contracted vendors were paid directly by the Bank of New York from the loan accounts. The Town did not record the financial activity of the loans within the financial software, and, therefore, did not report the activity in Gateway, which was the source of the AFR and the financial statement.

The BNY SRF WW 2018 fund receipts and disbursements for 2021 were each understated by \$308,972, and receipts and disbursements for 2022 were each understated by \$95,172. The BNY SRF DW 2017 fund receipts and disbursements for 2021 were each understated by \$287,199, and receipts and disbursements for 2022 were each understated by \$103,606.

2. Several additional funds had individually immaterial errors or omissions for 2022 that resulted in a combined immaterial overstatement of receipts totaling \$19,668, understatement of disbursements totaling \$69,011, and overstatement of cash and investments ending balance totaling \$88,679.

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 Statement Audit Report for the Town.

*Leases and Debt Information*

1. The Sewage Works Revenue Bonds of 2018, with an ending principal balance of \$1,788,000, and principal due within one year of \$30,000, as of December 31, 2022, were omitted.

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

2. The ending principal balance and principal due within one year amounts for the Sewage Works Revenue Bonds of 2011 were overstated by \$385,000 and understated by \$195,000, respectively, as of December 31, 2022.
3. The ending principal balance of the Waterworks Revenue Bonds of 2017 was overstated by \$234,000, 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 Statement Audit Report for the Town.

*Accounts Payable and Receivable Information*

1. Accounts payable and accounts receivable for Governmental Activities were overstated by \$1,810,192 and \$9,882, respectively, at December 31, 2022.
2. Accounts payable and accounts receivable for the Electric Utility were overstated by \$1,799,090 and \$186,726, respectively, at December 31, 2022.
3. Accounts payable and accounts receivable for the Wastewater Utility, were overstated by \$841,930 and \$81,756, respectively, at December 31, 2022.
4. Accounts payable and accounts receivable for the Water Utility were overstated by \$300,506 and \$56,409, respectively, at December 31, 2022.

Adjustments were proposed, accepted by the Town, and made to the Schedule of Payables and Receivables presented as Other Information in the Financial Statement Audit Report for the Town.

*Capital Assets*

The Town was unable to provide documentation to support the capital assets information entered into Gateway. The Town approved the omission of the Schedule of Capital Assets from the Financial Statement Audit Report for 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 SOUTH WHITLEY  
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. . . ."

### **CAPITAL ASSETS**

The same comment also appeared in prior Report B58048.

#### *Condition and Context*

The Town did not have a capital assets policy to determine a threshold for capitalizing assets. In addition, the Town did not maintain a Capital Asset Ledger (Form 369) to document all capital assets owned. A physical inventory of capital assets had not been taken.

#### *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)

### **OVERPAYMENT COLLECTIONS**

A similar comment also appeared in prior Reports B46466, B54094, and B58048, entitled **OVERPAYMENT COLLECTIONS**.

#### *Condition and Context*

In 2013, sales tax remittances on Electric and Water Utility billings exceeded amounts due by approximately \$20,000. Sales tax remittances for the years 2011 and 2012 exceeded amounts due by approximately \$11,000 and \$10,000, respectively.

As of November 8, 2023, the amounts listed above have not been resolved or refunded.

#### *Criteria*

Units must collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

**INTERNAL CONTROLS**

A similar comment also appeared in prior Reports B54094 and B58048, entitled *INTERNAL CONTROLS*.

*Condition and Context*

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not established internal controls, which would include appropriated segregation of duties over financial close and reporting, receipts, and payroll disbursements.

*Financial Close and Reporting*

The Clerk-Treasurer entered and submitted financial information into the Indiana Gateway for Government Units financial reporting system, which was the source of the Annual Financial Report (AFR) and financial statement without a proper system of internal controls in place to prevent, or detect and correct, errors on the AFR and financial statement. The lack of internal controls allowed a material misstatement in the financial statement as reported in the above comment titled *Annual Financial Report*.

*Receipts*

The Clerk-Treasurer entered receipts into the financial software without evidence of internal controls, such as an oversight, review, or approval process, to ensure accuracy of the information entered.

*Payroll Disbursements*

The Clerk-Treasurer entered gross payroll and employee deductions into the financial software without evidence of internal controls, such as an oversight, review, or approval process, to ensure accuracy of the information entered.

*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. . . ."

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

**CONTRACTS**

*Condition and Context*

The Town was unable to provide documentation of contracts entered into with a contracted vendor. Payments made to the vendor that could not be supported by a contract totaled \$1,949,238.

*Criteria*

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)

**BANK ACCOUNT RECONCILIATIONS**

*Condition and Context*

Depository reconciliations of the general ledger to the bank account balances were performed throughout the audit period; however, as of December 31, 2021, and December 31, 2022, there was an unidentified difference between the reconciled bank account balances and the general ledger balance of \$420 (cash long), and \$5,265 (cash short), respectively.

*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."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER  
TOWN OF SOUTH WHITLEY  
EXIT CONFERENCE

The contents of this report were discussed on November 8, 2023, with Alyssa Knepple, Clerk-Treasurer, and Randall C. Cokl, President of the Town Council.

TOWN COUNCIL  
TOWN OF SOUTH WHITLEY

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TOWN OF SOUTH WHITLEY  
AUDIT RESULTS AND COMMENTS

**TRAINING ON INTERNAL CONTROL STANDARDS**

A similar comment also appeared in prior Report B58048, entitled *TRAINING ON INTERNAL CONTROL STANDARDS*.

*Condition and Context*

The Town did not have supporting documentation to confirm Town employees whose official duties included receiving, processing, depositing, disbursing, or otherwise having access to funds that belonged to the Town, had received training over internal control standards that was developed or approved 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: . . .

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

**CAPITAL ASSETS**

The same comment also appeared in prior Report B58048.

*Condition and Context*

The Town did not have a capital assets policy to determine a threshold for capitalizing assets. In addition, the Town did not maintain a Capital Asset Ledger (Form 369) to document all capital assets owned. A physical inventory of capital assets had not been taken.

*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)

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