

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CLEVELAND TOWNSHIP

ELKHART COUNTY, INDIANA

January 1, 2019 to December 31, 2022



FILED
01/03/2024

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Audit Results and Comments:	
Internal Controls	4-5
Contracts	5
Penalties, Interest, and Other Charges	5-6
Compensation.....	6-7
Annual Financial Report	7
Capital Assets.....	8
Monthly and Annual Gateway Uploads	8-9
Appropriations.....	9
Overdrawn Cash Balances.....	9
Annual Nepotism and Contracting Certifications.....	10
Training on Internal Control Standards	10
Certification of Internal Control Standards	11
Exit Conference.....	12

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Trustee	Kathy Gordon	01-01-19 to 12-31-23
Chair of the Township Board	Erin Hartman	01-01-19 to 12-31-19
	Jason Stutsman	01-01-20 to 12-31-22
	Matthew Hartman	01-01-23 to 12-31-23



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF CLEVELAND TOWNSHIP, ELKHART COUNTY, INDIANA

This report is supplemental to the audit report of Cleveland Township (Township), 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 Township. It should be read in conjunction with the Financial Statements Audit Report of the Township, which provides our opinions on the Township'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

December 13, 2023

CLEVELAND TOWNSHIP, ELKHART COUNTY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Condition and Context

There were deficiencies in the internal control system of the Township related to financial transactions. The Township had not separated incompatible activities related to cash and investments, receipts, and disbursements. The failure to establish these internal controls could have enabled material misstatements to occur and remain undetected.

Cash and Investments (Bank Reconciliations)

The Trustee completed monthly bank reconciliations and provided the reconciliation, outstanding check listing, and bank statement to the Chair of the Township Board (Chair). However, evidence of an oversight or review process to ensure the accuracy and completeness of reconciliations performed was not documented.

Receipts

The Trustee was responsible for issuing, depositing, and recording all receipts into the financial accounting system. Monthly, the Trustee provided the Chair the bank reconciliation and a receipt register. However, evidence of an oversight or review process over receipts to ensure the accuracy, completeness, timeliness, and classification of the receipts posted was not documented.

Disbursements

The Trustee was responsible for processing vendor claims and recording the disbursements into the financial accounting system. Monthly, the Trustee provided the Chair the bank reconciliation and a disbursement register. However, evidence of an oversight or review process in place to ensure the accuracy, completeness, timeliness, and classification of the vendor disbursements was not documented.

For 2019 and 2020, the Trustee processed and posted payroll disbursements into the financial accounting system. Starting in 2021, the Township contracted with an outside vendor for the processing of payroll. The contracted vendor processed and issued the payroll checks for the Township. The Trustee was responsible for recording the payroll disbursements into the financial accounting system. Monthly, the Trustee provided the Chair the bank reconciliation and a payroll register. However, evidence of an oversight or review process to ensure the accuracy, completeness, timeliness, and classification of the payroll disbursements was not documented.

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:

CLEVELAND TOWNSHIP, ELKHART COUNTY
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. . . ."

CONTRACTS

Condition and Context

The Township had established a Fire Fighting fund for the payment of costs attributable to providing fire protection and emergency services. For 2019, the Township contracted with the Cleveland Township Volunteer Fire Department for fire protection and emergency medical services (EMS). For 2020, the Township contracted with the Cleveland Township Volunteer Fire Department for fire protection and EMS; however, the contract was not provided for audit.

Effective January 1, 2021, the Township assumed the operations of the Cleveland Township Volunteer Fire Department. However, the Township Board did not approve or provide a formal written agreement of the merger. The agreement would have addressed the transfer of the volunteer fire department's assets and liabilities to the Township, as well as the Township's responsibilities in the transition of the volunteer fire department to Township operations.

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 Townships, Chapter 1)

PENALTIES, INTEREST, AND OTHER CHARGES

Condition and Context

With the merger of the Cleveland Township Volunteer Fire Department into the Township effective January 1, 2021, the Township and the Volunteer Fire Department became one entity for tax reporting purposes. However, the merger information was not timely conveyed to various state tax entities, and a new tax identification number was not obtained until 2023.

As a result, in October 2022, the Township paid a \$1,138 tax warrant to the County Sheriff for unpaid unemployment insurance premiums to the State of Indiana for the former Cleveland Township Volunteer Fire Department. The tax warrant was for the first quarter of 2022, but did not contain a breakdown of the unemployment insurance premium owed and interest assessed. Additionally, in October 2023, the Township paid \$3,518 in penalties and interest and \$13,140 in unemployment insurance premiums for the years 2021, 2022, and the first three quarters of 2023. The Township had been advised that a credit will be received by the Township at a future date for taxes paid under the prior identification numbers of approximately \$9,718.

CLEVELAND TOWNSHIP, ELKHART COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

COMPENSATION

Condition and Context

The following deficiencies related to payroll were noted:

Township Employees

1. The Township could not locate a 2019 or 2022 salary resolution which established compensation of all officers and employees of the Township.
2. Nonelected Township employees did not maintain attendance or time records as required by state statute.

Fire Employees

1. The Township became fiscally responsible for the Fire Department as of January 1, 2021. The Township Board did not approve a salary resolution to address the compensation paid to fire employees during 2021 or 2022.
2. Firefighters worked assigned shifts which were typically four or five 24-hour shifts per pay period. The Fire Department had an informal policy to automatically pay fire employees 6.5 hours of overtime each pay period regardless of hours worked to align with the Fair Labor Standards Act guidelines. However, this resulted in the advance payment of fire employees overtime hours when four 24-hour shifts per pay period were worked.

Criteria

Indiana Code 36-6-6-10(c) states: "The township legislative body shall fix the compensation of all officers and employees of the township. Compensation shall be established using an annual, monthly, or biweekly salary schedule. An elected township officer is not required to report hours worked and may not be compensated based on the number of hours worked."

Indiana Code 5-11-9-4(b) states:

"The state board of accounts shall require that records be maintained showing which hours were worked each day by officers and employees:

- (1) covered by section 1 or 2 of this chapter; and
- (2) employed by more than one (1) public agency or in more than one (1) position by the same public agency described in section 1 or 2 of this chapter."

CLEVELAND TOWNSHIP, ELKHART COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

Compensation and any other payments for goods and services must not be paid in advance of receipts of the goods or services unless specifically authorized by law. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, 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 capital asset and the leases and debt information entered into Gateway for the 2019, 2020, 2021, and 2022 AFRs contained the following errors:

Capital Assets

The Township prepared and submitted the capital asset information into Gateway; however, the amounts reported were not supported by a complete, detailed listing of the Township's capital assets. The Township was unable to provide a detailed capital asset record to support the capital asset amounts reported

The Township approved the omission of the 2022 Schedule of Capital Assets from the Financial Statements Audit Report of the Township.

Leases and Debt

1. The New Fire Station debt ending principal balance was understated by \$471,065 in 2022.
2. The New Fire Truck lease was reported as a debt rather than a lease. This resulted in the overstatement of the ending principal balance and principal due within one year by \$842,000 and \$69,209, respectively. This also resulted in an understatement of the annual lease payment by \$77,595.

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

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](#)."

CLEVELAND TOWNSHIP, ELKHART COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

CAPITAL ASSETS

Condition and Context

The Township did not adopt a capital assets policy that detailed the threshold at which an item is considered a capital asset. The Township did not have an updated, complete, detailed listing of all capital assets owned. The Township did not conduct a physical inventory of capital assets as required.

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 Townships, Chapter 1)

MONTHLY AND ANNUAL GATEWAY UPLOADS

This same comment appeared in a Management Letter addressed to the Township Board and Trustee for the review period ending December 31, 2018.

Condition and Context

The Township is required to upload monthly and annual information to the Indiana Gateway for Government Units financial reporting system.

The files and governmental unit information that are required to be uploaded monthly include the bank reconciliations, bank statements, outstanding check listings, approved Township Board minutes and a funds ledger, which summarizes the receipts, disbursements, and balances by fund.

Annual upload requirements include the year-end investment statements, detail of receipts and disbursements for the year (unless manual records are maintained), current year salary schedule and amendments, annual vendor history report (unless manual records are maintained), annual payroll history report, annual funds ledger, summarizing year-to-date total receipts, disbursements, and beginning and ending balances of funds.

The Township did not comply with the State Examiner Directive and failed to upload ten months of the monthly files for 2020 and 2021.

The Township did not comply with the State Examiner Directive and failed to upload any of the annual files for the years 2019, 2020, 2021, and 2022.

CLEVELAND TOWNSHIP, ELKHART COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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.ifionline.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)

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 Townships, Chapter 1)

APPROPRIATIONS

This same comment appeared in a Management Letter addressed to the Township Board and the Trustee for the review period ending December 31, 2018.

Condition and Context

Disbursements in the Fire Fighting Fund exceeded the budgeted appropriations for 2020 and 2021 by \$748,591 and \$1,404,941, respectively.

Disbursements in the Township Assistance Fund exceeded the budgeted appropriations for 2022 by \$4,310.

Criteria

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

OVERDRAWN CASH BALANCES

Condition and Context

The financial statements included the Payroll Deduction Fund with overdrawn cash balances on December 31, 2021, and 2022 of \$8,689 and \$13,192, respectively.

CLEVELAND TOWNSHIP, ELKHART COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

ANNUAL NEPOTISM AND CONTRACTING CERTIFICATIONS

The same comment also appeared in prior Reports B47292 and B55282.

Condition and Context

Each elected officer did not certify in writing that they had not violated Indiana Code 36-1-20.2 (Nepotism) by December 31, 2021 and 2022.

Each elected officer did not certify in writing that they had not violated Indiana Code 36-1-21 (Contracting with a Unit) by December 31, 2021 and 2022.

Certifications for 2019 and 2020 were provided for review.

Criteria

Indiana Code 36-1-20.2-16 states: "Each elected officer of the unit shall annually certify in writing, subject to the penalties for perjury, that the officer has not violated this chapter. An officer shall submit the certification to the executive of the unit not later than December 31 of each year."

Indiana Code 36-1-21-6 states: "Each elected officer of the unit shall annually certify in writing, subject to the penalties for perjury, that the officer is in compliance with this chapter. An officer shall submit the certification to the executive of the unit not later than December 31 of each year."

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

The Township failed to provide training on internal control standards to applicable new personnel as required in 2022.

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."

CLEVELAND TOWNSHIP, ELKHART COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

CERTIFICATION OF INTERNAL CONTROL STANDARDS

Condition and Context

The Township certified on the Indiana Gateway for Government Units financial reporting system for 2022, that appropriate personnel were trained on internal control standards. However, personnel did not receive the internal control training; therefore, the certification was incorrect.

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](#)."

CLEVELAND TOWNSHIP, ELKHART COUNTY
EXIT CONFERENCE

The contents of this report were discussed on December 13, 2023, with Kathy Gordon, Trustee, and Matthew Hartman, Chair of the Township Board.