

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF LINDEN

MONTGOMERY COUNTY, INDIANA

January 1, 2018 to December 31, 2022



FILED

01/24/2024

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Capital Assets	6
Motor Vehicle Highway (MVH) - Restricted Fund	6-7
Internal Controls over Financial Transactions and Reporting.....	7-8
Annual Financial Report.....	8-11
Interfund Loan	11
Transfers Not Approved by Governing Body	11
Public Works Contracts.....	11-12
Accounting of the IFA Administered CRF Money	13-14
Exit Conference	15
Town Council:	
Audit Result and Comment:	
Capital Assets	18
Exit Conference	19

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Janet Heide	01-01-18 to 12-31-24
President of the Town Council	Wade Bennett	01-01-18 to 12-31-24
Superintendent of Utilities	Earl Heide	01-01-18 to 12-31-24



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF LINDEN, MONTGOMERY COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Linden (Town), for the period from January 1, 2018 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

January 11, 2024

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CLERK-TREASURER
TOWN OF LINDEN

CLERK-TREASURER
TOWN OF LINDEN
AUDIT RESULTS AND COMMENTS

CAPITAL ASSETS

Condition and Context

The Town did not provide a detailed listing of capital assets for any year during the audit period or evidence that a capital assets inventory had been completed at least every two years.

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)

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

The Town failed to create and report the MVH Restricted sub-fund as required by State Examiner Directive 2018-2. Therefore, the Town failed to allocate or deposit at least 50 percent of the state distributions from the State Motor Vehicle Highway (MVH) Account, at the time of receipt, into an MVH Restricted sub-fund for the years 2019 through 2022. The amount that should have been receipted into the MVH Restricted sub-fund for the audit period was \$62,062. As a result, the MVH fund receipts were overstated by \$62,062 and the MVH Restricted sub-fund receipts were understated by \$62,062. Since the MVH Restricted sub-fund had not been created, we were not able to determine if the Town used at least 50 percent for the purpose specified in Indiana Code 8-14-1-5(c).

In addition, the MVH Fund was created with fund number 301 in the Town's records, instead of fund number 201.

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

Criteria

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

The purpose of this Directive is to authorize and require counties, cities, and towns that receive distributions from the State Motor Vehicle Highway Account to **create a new sub-fund within the MVH Fund** to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018.

The sub-fund will be referred to throughout this Directive as "MVH Restricted" and will be used to account for MVH monies which have been statutorily restricted for construction, reconstruction, and preservation purposes.

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

On the chart of accounts, the MVH Fund and MVH Restricted sub-fund shall be shown as follows:

...

Cities and Towns

Fund 201	MVH
Fund 203	MVH Restricted

Together, MVH and MVH Restricted shall constitute the total MVH Fund. MVH and MVH Restricted will be shown separately on the Annual Financial Report . . .

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.

(State Examiner Directive 2018-2)

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

The same comment also appeared in prior Report B51542.

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not separated incompatible activities related cash and investments, receipts, payroll disbursements, and financial close and reporting.

Cash and Investments

The Clerk-Treasurer was responsible for performing the monthly bank reconciliation for the Town and Utility bank accounts and comparing it to the recorded balance in the funds ledger. There were no internal controls in place, such as an oversight, review, or approval process, of the bank reconciliements.

Receipts

The Town had not separated incompatible activities related to receipts. For Town receipts, the Clerk-Treasurer issued receipts, posted receipts, prepared the deposit slip, and deposited the collections to the bank. For the Utility receipts, the Utility Billing Clerk accepted payments from customers, posted receipts, prepared the deposit slip, and deposited the collections to the bank. There was no evidence of an oversight, review, or approval process to ensure accuracy or completeness of receipts.

Payroll Disbursements

The Clerk-Treasurer entered payroll, reviewed payroll reports, transferred money, and issued direct deposits to the employees. There was no evidence of an oversight, review, or approval process to ensure accuracy or completeness of payroll disbursements.

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

Financial Close and Reporting

The Clerk-Treasurer entered the financial information into the Indiana Gateway for Government Units financial reporting system, which was the source of the Annual Financial Report and financial statements. There was no evidence of internal controls, such as an oversight, review, or approval process, to ensure the information was accurate.

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. . . ."

ANNUAL FINANCIAL REPORT

Condition and Context

Financial 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 information entered into Gateway contained the following errors:

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

Financial Data

Years	Fund	Beginning	Receipts	Disbursements	Ending
		Cash and Investments (Under)/Overstated	(Under)/Overstated	(Under)/Overstated	Cash and Investments (Under)/Overstated
2018	Wastewater Bond-SRF 105356	\$ -	\$ (63,050)	\$ (63,050)	\$ -
2018	Water SRF 314908	-	(51,173)	(51,173)	-
2019	Wastewater Bond-SRF 105356	-	(61,125)	(61,125)	-
2019	Water SRF 314908	-	(51,057)	(51,057)	-
2019	MVH	-	16,334	-	16,334
2019	MVH Restricted	-	(16,334)	-	(16,334)
2020	Wastewater Bond-SRF 105356	-	(64,200)	(64,200)	-
2020	Water SRF 314908	-	(50,911)	(50,911)	-
2020	MVH	16,334	14,406	-	30,740
2020	MVH Restricted	(16,334)	(14,406)	-	(30,740)
2021	Wastewater Bond-SRF 105356	-	(32,100)	(32,100)	-
2021	Water SRF 314908	-	(50,736)	(50,736)	-
2021	MVH	30,740	15,921	-	46,661
2021	MVH Restricted	(30,740)	(15,921)	-	(46,661)
2022	Water SRF 314908	-	(50,533)	(50,533)	-
2022	MVH	46,661	15,401	-	62,062
2022	MVH Restricted	(46,661)	(15,401)	-	(62,062)
2022	General	-	3,591	-	3,591
2022	Opioid Settlement Unrestricted	-	(1,077)	-	(1,077)
2022	Opioid Settlement Restricted	-	(2,514)	-	(2,514)

Adjustments were proposed, accepted by the Town, and made to the financial statements presented in the Financial Statements Audit Report for the Town 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 for the Town.

Accounts Payable/Accounts Receivable

The amounts reported on the AFR in Gateway for the Schedule of Accounts Payables and Accounts Receivable for 2019, 2020, 2021, and 2022 could not be verified due to the lack of supporting documentation. The Town has chosen to omit the Schedule of Payables and Receivables from the Financial Statements Audit Report for the Town.

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

Leases and Debt

1. For 2018, the Water Utility General obligation bond was omitted from the debt schedule, which resulted in the ending principal balance being understated by \$487,000, and the principal and interest due in one year being understated by \$53,368.
2. For 2018, the Wastewater Utility General obligation bond was omitted from the debt schedule, which resulted in the ending principal balance being understated by \$230,000, and the principal and interest due in one year being understated by \$61,126.
3. For 2019, the Water Utility General obligation bond ending principal balance was understated by \$7,000, and the principal and interest due in one year was understated by \$53,120.
4. For 2019, the Wastewater Utility General obligation bond principal and interest due in one year was understated by \$64,200.
5. For 2020, the Water Utility General obligation bond ending principal balance was overstated by \$32,000, and the principal and interest due in one year was understated by \$52,840.
6. For 2020, the Wastewater Utility General obligation bond ending principal balance was overstated by \$55,000, and the bond principal and interest due in one year was understated by \$62,100.
7. For 2021, the Water Utility General obligation bond ending principal balance was overstated by \$19,160, and the principal due in one year was overstated by \$10,528.
8. For 2022, the Water Utility General obligation bond ending principal balance was overstated by \$9,040, and the principal due in one year was overstated by \$7,120.

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 for the Town.

Capital Assets

The amounts reported on the AFR in Gateway for the Capital Asset Schedule for 2018, 2019, 2020, 2021, and 2022 could not be verified due to lack of supporting documentation. The Town has chosen to omit the Schedule of Capital Assets from the Financial Statements Audit Report for the Town.

Grant Schedule

The grant schedule for 2020 was overstated by \$204,899. Since the Town did not expend the requisite amount of federal dollars during any year of the audit period, a Schedule of Expenditures of Federal Assistance was not required to be reported.

CLERK-TREASURER
TOWN OF LINDEN
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](#)."

INTERFUND LOAN

Condition and Context

In 2018, the Water Utility loaned money to the Wastewater Utility to finance an upgrade project. At the end of February 2020, the total amount loaned was \$313,931. An ordinance was not passed approving the loan or payback options. The Water Utility did not have a cash reserve fund set up for these purposes and the money was transferred directly from the Water Operating fund.

Criteria

Indiana Code 8-1.5-3-11(f) states: "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."

TRANSFERS NOT APPROVED BY GOVERNING BODY

Condition and Context

Of the 29 transfers tested, 17 were not approved by the governing body in the form of either an ordinance or resolution.

Criteria

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

PUBLIC WORKS CONTRACTS

Condition and Context

In 2018, the Town entered into a public works contract with MSI Construction in the amount of \$151,480 for the Wastewater Treatment Plant UV Disinfection Improvement Project. The Town did not provide the original contract, evidence of proper advertisement, or evidence of proper bid packets. Additionally, there were two change orders that increased the scope of the project by more than 20 percent of the original contract amount.

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

Criteria

Indiana Code 36-1-12-4 states in part:

"(a) This section applies whenever the cost of a public work project will be:

(1) except as provided in subdivision (2), at least one hundred fifty thousand dollars (\$150,000); . . .

(b) The board must comply with the following procedure:

(1) The board shall prepare general plans and specifications describing the kind of public work required, but shall avoid specifications which might unduly limit competition. If the project involves the resurfacing (as defined by [IC 8-14-2-1](#)) of a road, street, or bridge, the specifications must show how the weight or volume of the materials will be accurately measured and verified.

(2) The board shall file the plans and specifications in a place reasonably accessible to the public, which shall be specified in the notice required by subdivision (3).

(3) Upon the filing of the plans and specifications, the board shall publish notice in accordance with [IC 5-3-1](#) calling for sealed proposals for the public work needed.

(4) The notice must specify the place where the plans and specifications are on file and the date fixed for receiving bids.

(5) The period of time between the date of the first publication and the date of receiving bids shall be governed by the size of the contemplated project in the discretion of the board. The period of time between the date of the first publication and receiving bids may not be more than:

(A) six (6) weeks if the estimated cost of the public works project is less than twenty-five million dollars (\$25,000,000); and . . ."

Indiana Code 36-1-12-18(d) states:

"The total of all change orders issued that increase the scope of the project may not exceed twenty percent (20%) of the amount of the original contract. A change order issued as a result of circumstances that could not have been reasonably foreseen does not increase the scope of the project."

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)

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

ACCOUNTING OF THE IFA ADMINISTERED CRF MONEY

Condition and Context

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

The Town did not properly establish a separate CARES grant fund for the CRF grant that followed the uniform chart of accounts. The Town utilized fund 01-101, entitled General fund, and funds 01-201, 02-000, and 01-202, entitled Park & Rec fund, Water Operating fund, and Cares covid grant fund, respectively, for reimbursements received from the Indiana Finance Authority (IFA).

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. . . .

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.

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

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

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 One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. Reimbursed disbursements originally incurred in another fund will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the fund cash balance and reappropriate the 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 original 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 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. . . .**

Framework Two. If IFA has provided reimbursement based on unpaid invoices or purchase orders, then reimbursements received from IFA shall be receipted into the separate CARES grant fund. The expenditures to vendors will be made through the CARES grant fund and these expenditures must match the application made to IFA. If the actual invoice or invoices relating to a purchase order is less than the purchase order, then the difference in the money expended to the vendor and the amount received for the purchase order from IFA must be returned to IFA. The items on the invoice must match the items on the purchase order. All documentation must be maintained.

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. . . .**

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 LINDEN
EXIT CONFERENCE

The contents of this report were discussed on January 11, 2024, with Janet Heide, Clerk-Treasurer; Wade Bennett, President of the Town Council; and Paul Buckles, Town Council member.

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TOWN COUNCIL
TOWN OF LINDEN

TOWN COUNCIL
TOWN OF LINDEN
AUDIT RESULT AND COMMENT

CAPITAL ASSETS

Condition and Context

The Town did not provide a formal capital asset policy.

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)

TOWN COUNCIL
TOWN OF LINDEN
EXIT CONFERENCE

The contents of this report were discussed on January 11, 2024, with Janet Heide, Clerk-Treasurer; Wade Bennett, President of the Town Council; and Paul Buckles, Town Council member.