

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF MODOC

RANDOLPH COUNTY, INDIANA

January 1, 2019 to December 31, 2022



FILED

12/14/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	David Sexton	01-01-19 to 12-31-23
President of the Town Council	Tom Griffey	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 MODOC, RANDOLPH COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Modoc (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.

A handwritten signature in blue ink that reads "Beth Kelley".

Beth Kelley, CPA, CFE
Deputy State Examiner

December 4, 2023

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CLERK-TREASURER
TOWN OF MODOC

CLERK-TREASURER
TOWN OF MODOC
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS AND FINANCIAL REPORTING

A similar comment appeared in prior Report B48163, entitled *CONDITION OF RECORDS*, and in prior Report B54199, entitled *CONDITION OF RECORDS AND FINANCIAL REPORTING*.

Condition and Context

Financial records presented for the audit were incomplete and not reflective of the activity of the Town. Due to errors in the financial records, the Annual Financial Reports (AFR) submitted through the Indiana Gateway for Government Units (Gateway) financial reporting system were also inaccurate. The following items were noted:

1. The Town's sewage accounts receivable information entered into Gateway did not agree with the aged receivables report for 2019, 2020, and 2022.
2. The Town's capital asset information entered into Gateway did not agree with the Town's capital asset listing.
3. The Town reported the same ending principal balance for its debt from 2019 through 2022 despite principal payments being made during that period. The Town had not reported any of the one-year principal balances due from 2019-2022.
4. The Town reported a \$20,432 Coronavirus Relief Fund receipt as a beginning balance in the 2021 AFR.
5. The Town recorded a \$10,000 transfer of funds from the Motor Vehicle Highway (MVH) fund to the MVH Restricted fund as a beginning balance in the Town's ledger for 2019.

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](#)."

ORDINANCES AND RESOLUTIONS - UTILITY BILLINGS

The same comment also appeared in prior Reports B48163 and B54199.

Condition and Context

Ordinance 2013-01 established the Wastewater Utility rates for the years 2019 through 2022. Wastewater charges billed to the Union School Corporation were not calculated in accordance with the rate ordinance.

Criteria

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

MONTHLY AND ANNUAL UPLOADS

Condition and Context

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 annual files on the Indiana Gateway for Government Units financial reporting system for the audit period.

Criteria

Beginning with July 2018 files, which will be due September 15, 2018, **all** cities, towns, townships, libraries, and special districts will use the Upload App to upload files containing financial and governmental unit information on Gateway to allow the State Board of Accounts (SBOA) to conduct audit planning and audit processes prior to on-site work at a unit. (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 Cities and Towns, Chapter 1)

CAPITAL ASSETS

Condition and Context

The Town had not adopted a capital asset policy which listed a minimum dollar threshold for what is considered a capital asset. The Town had not had taken inventory of its capital assets 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)

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

INTERNAL CONTROLS

Condition and Context

The Town did not have an adequate system of internal controls over cash and investments, receipts, and financial close and reporting.

Cash and Investments and Receipts

There was a lack of documented internal controls over cash and investments and receipts (including wastewater billing). The Town indicated their monthly bank reconciliations and receipt information was provided to the Town Council for review; however, there was no documentation to indicate a review was performed by the Town Council.

In addition, the Town utilized an outside entity for wastewater billing and collections. No internal controls were in place to verify correct billing of customers or that proper amounts were collected.

Financial Close and Reporting

The Clerk-Treasurer completed and submitted the Town's Annual Financial Reports without a documented oversight, review, or approval process in place to ensure their accuracy.

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 MODOC
EXIT CONFERENCE

The contents of this report were discussed on December 4, 2023, with David Sexton, Clerk-Treasurer, and Tom Griffey, President of the Town Council.

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TOWN COUNCIL
TOWN OF MODOC

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TOWN OF MODOC
AUDIT RESULTS AND COMMENTS

ADOPTION OF, AND TRAINING ON, INTERNAL CONTROL STANDARDS

The same comment also appeared in prior Report B54199.

Condition and Context

The Town had not adopted the minimum internal control standards and procedures or trained personnel on internal control standards as required by Indiana Code 5-11-1-27(g).

Criteria

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

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

ORDINANCES AND RESOLUTIONS - UTILITY BILLINGS

The same comment also appeared in prior Reports B48163 and B54199.

Condition and Context

Ordinance 2013-01 established the Wastewater Utility rates for the years 2019 through 2022. Wastewater charges billed to the Union School Corporation were not calculated in accordance with the rate ordinance.

Criteria

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ORDINANCES AND RESOLUTIONS

This same comment appeared in a Management Letter addressed to officials of the Town for the audit period ending December 31, 2018.

Condition and Context

The Maintenance Fund was established in 2017 without the adoption of an ordinance describing the purpose of the fund, the source of revenue to the fund, and how the funds can be spent.

Criteria

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TOWN COUNCIL
TOWN OF MODOC
EXIT CONFERENCE

The contents of this report were discussed on December 4, 2023, with David Sexton, Clerk-Treasurer, and Tom Griffey, President of the Town Council.