

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

**Paul D. Joyce, CPA  
State Examiner**

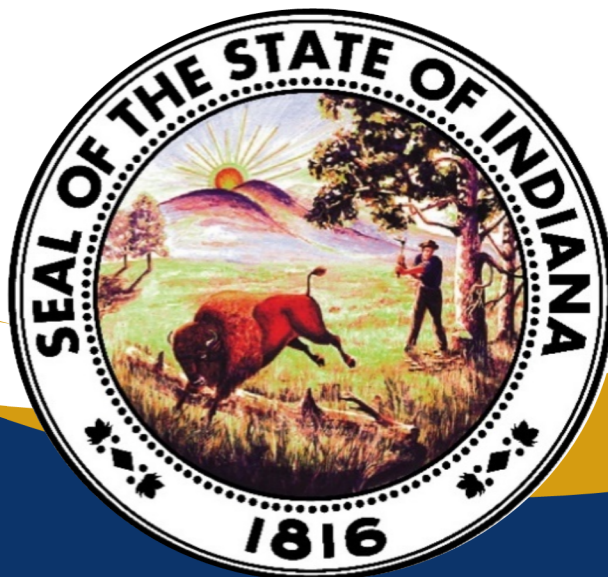
SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF SHIPSHEWANA

LAGRANGE COUNTY, INDIANA

January 1, 2022 to December 31, 2023



**FILED**  
01/21/2025



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Ruth Ann Downey	01-01-22 to 02-18-22
	(Vacant)	02-19-22 to 03-01-22
	Tad T. Hite	03-02-22 to 12-31-24
President of the Town Council	Tad T. Hite	01-01-22 to 03-01-22
	(Vacant)	03-02-22 to 03-09-22
	Joshua Weimer	03-10-22 to 09-28-23
	Christine Yoder	09-29-23 to 12-31-24



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State Examiner

## INDIANA STATE BOARD OF ACCOUNTS

302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769  
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TO: THE OFFICIALS OF THE TOWN OF SHIP SHEWANA, LAGRANGE COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Shipshewana (Town), for the period from January 1, 2022 to December 31, 2023. 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

December 18, 2024



CLERK-TREASURER  
TOWN OF SHIPSHEWANA

CLERK-TREASURER  
TOWN OF SHIPSHEWANA  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROL DEFICIENCIES**

*Condition and Context*

Internal control deficiencies resulted in the noncompliance over:

- Internal Controls
- Annual Financial Report
- Bank Account Reconciliations
- Condition of Records
- Timely Recording
- Overdrawn Cash Balances
- Compensation and Benefits
- Motor Vehicle Highway (MVH) - Restricted Fund
- Monthly and Annual Uploads
- Board Minutes Deficiencies

These internal control deficiencies are further detailed in the comments below.

*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. . . ."

**INTERNAL CONTROLS**

A similar comment also appeared in prior Report B54864, entitled *INTERNAL CONTROLS*.

*Condition and Context*

*Cash and Investments*

The Town did not have internal controls in place to ensure that the bank reconciliations were being performed monthly.



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

*Receipts*

There are inconsistent documented internal controls over the receipts process. Three out of five deposit tickets tested did not have a documented review. Only one receipts transaction list was found to have a documented review. We were unable to verify internal controls over the receipts process for 2023.

*Payroll*

Internal controls over payroll disbursements were not properly implemented. Payroll from July 2022 to December 2022 was approved by the Town Council in December 2022.

*Financial Close and Reporting*

The Clerk-Treasurer submitted, after review from a financial consultant, financial information into the Indiana Gateway for Government Units (Gateway) financial reporting system, which is the source of the Annual Financial Report and financial statement. While there was segregation of duties in place, there was no documented evidence of a review, oversight, or approval process provided by the Town prior to financial information submission into Gateway.

*Components of Internal Control*

There was no documented evidence to verify that the internal control environment, risk assessment, and monitoring components of internal control were properly designed or implemented.

*Criteria*

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"Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information. Internal communication enables personnel to receive a clear message that control responsibilities are taken seriously by the organization. External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties. . . ."

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

"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. . . ."

## **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:

### *Financial Data*

- In 2022, the Motor Vehicle Highway fund disbursements were overstated and the ending cash and investments balance was understated by \$26,350; the Redevelopment TIF Allocation Fund disbursements were overstated and the ending cash and investments balance was understated by \$158,034; the State Grant Community Crossings fund disbursements were understated and the ending cash and investments balance was overstated by \$184,383; and the Sewer Cash Operating fund disbursements were overstated and the ending cash and investments balance was understated by \$64,572.
- In 2023, the Payroll Fund receipts and disbursements were each understated by \$1,309,630.

Audit 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 Other Information in the Financial Statement 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 as set forth in the uniform compliance guidelines. 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](#)."

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

**BANK ACCOUNT RECONCILIATIONS**

*Condition and Context*

The Town did not have a process in place that ensured a monthly reconciliation was prepared each month and agreed with the fund balances. Out of the 24 months in our audit period, no months were reconciled timely. The Indiana State Board of Accounts (SBOA) noted that the Town did not attempt bank reconciliations for 11 of the 12 months in 2022 or any month in 2023.

In 2023, the Town had used a financial consultant to complete bank reconciliations for 2022. The consultant identified \$9.2 million in posting errors and provided a list of the errors to the Clerk-Treasurer; however, no corrections were made to the Town's ledgers.

In April 2024, the bank reconciliation at December 31, 2022, performed by the SBOA, verified the \$9.2 million in errors. The \$9.2 million represented unposted cash transactions that should have been posted to the Town's ledger.

On May 13, 2024, the SBOA informed the Town of these items and of the requirement to reconcile monthly per Indiana Code 5-13-6-1(e). The Town then hired a CPA firm to complete bank reconciliations for 2022. The Town also hired an independent financial consulting firm to help identify items that needed to be posted to the Town's ledger for 2022. As of December 18, 2024, the Town's combined bank reconciliation as of December 31, 2022, showed depository balances exceeded the recorded funds balances by \$28,807.

The Clerk-Treasurer began utilizing new accounting software in 2023. In the initial setup of the system, an adjustment was created that related to unidentified differences between the ledger fund balances and bank statement balances at December 31, 2022, in the amount of \$302,597. The Town then utilized the new accounting software to attempt bank reconciliations for 2023. As of December 18, 2024, the Town's combined bank reconciliation as of December 31, 2023, showed depository balances exceeded the recorded funds balances by \$73,875.

*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."

**CONDITION OF RECORDS**

*Condition and Context*

The following errors were noted during testing related to the condition of records:

- December 2022 local settlement distributions for the Motor Vehicle Highway fund were receipted into the General Fund.
- June 2023 local distributions for the General Fund were receipted into the Cumulative Capital Development fund.
- For 2023 state distributions, 3 out of 50 were found in the disbursement ledger as a credit, and 7 of the 50 were not recorded in the ledger.

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

- For the 2023 receipts sampled, 8 of the 45 tested were listed on the detailed receipts ledger but were not actual receipts. They were categorized as adjustments, charges, invoices, and blank. Of the 45 2023 receipts tested, 1 was listed as a receipt but was a transfer.
- An adjustment was created in the Town's accounting software at the beginning of 2023 that related to unidentified cash from 2022 in the amount of \$302,597. This was the difference between the December 31, 2022 funds cash balance and the December 31, 2022 bank statement cash balance.

*Criteria*

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)

**TIMELY RECORDING**

*Condition and Context*

The following errors were noted during testing related to timely recording for receipts:

- For 2022 state distributions, 2 of the 50 distributions were not recorded at the time of the transaction.
- For 2023 state distributions, 7 of the 50 were not recorded at the time of the transaction.
- For 2022 local distributions, 11 of the 156 were not recorded at the time of the transaction.
- Of the 25 2022 receipts sampled, 6 were not recorded at the time of the transaction.
- Of the 45 2023 receipts sampled, 8 were not recorded at the time of the transaction.

*Criteria*

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

**OVERDRAWN CASH BALANCES**

*Condition and Context*

The following funds were overdrawn as noted:

Fund	Amount Overdrawn December 31, 2022	Amount Overdrawn December 31, 2023
State Grant Community Crossings	\$ 172,059	\$ 138,084
Payroll Fund	30,898	85,858
TOS MERCHANT ACCOUNT	-	636
Waste Water	-	988

*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 Cities and Towns, Chapter 1)

**COMPENSATION AND BENEFITS**

*Condition and Context*

During December of 2022, a three percent pay raise was applied to each employee. No documentation of approval of the pay raise was provided for audit.

*Criteria*

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 Cities and Towns, Chapter 1)

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

*Condition and Context*

Of the 12 state distributions in 2023 for the Motor Vehicle Highway and MVH Restricted funds, 2 were not posted as of December 18, 2024. Therefore, the Town did not post all Motor Vehicle Highway receipts and split the receipts 50 percent for the Motor Vehicle Highway and MVH Restricted funds.

*Criteria*

Indiana Code 8-14-1-5(c) states: "Except as provided in subsection (d), 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."

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

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. . . .

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)

### **MONTHLY AND ANNUAL UPLOADS**

#### *Condition and Context*

Of the six months selected for testing, none of the required monthly uploads were completed. All uploads were completed during 2024 after the start of the audit engagement. None of the required annual uploads were uploaded timely for the 2022 or 2023 audit year.

#### *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 2018-1)

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. (Amended State Examiner Directive 2018-1, Updated November 9, 2020, and effective with uploads due February 15, 2021)

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)

### **BOARD MINUTES DEFICIENCIES**

#### *Condition and Context*

The Town Council minutes from September 8, 2022, were not available for audit. Written minutes were not maintained in a minute book for any month under audit. Written minutes were not available for audit until November 2024.

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

*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."

CLERK-TREASURER  
TOWN OF SHIPSHEWANA  
EXIT CONFERENCE

The contents of this report were discussed on December 18, 2024, with Tad T. Hite, Clerk-Treasurer; Terry Martin, Town Manager; Sally Balzer, Utility Clerk; and Christine Yoder, President of the Town Council.



TOWN COUNCIL  
TOWN OF SHIPSHEWANA

TOWN COUNCIL  
TOWN OF SHIPSHEWANA  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROL DEFICIENCIES**

*Condition and Context*

Internal control deficiencies resulted in noncompliance over:

- Board Minutes Deficiencies

These internal control deficiencies are further detailed in the comments below.

*Criteria*

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TOWN COUNCIL  
TOWN OF SHIPSHEWANA  
AUDIT RESULTS AND COMMENTS  
(Continued)

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EXIT CONFERENCE

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