

**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 MONTGOMERY

DAVISS COUNTY, INDIANA

January 1, 2023 to December 31, 2023



FILED

01/27/2025

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Cynthia Smith Jonathan R. Wagler	01-01-23 to 12-31-23 01-01-24 to 12-31-25
President of the Town Council	John M. Healy	01-01-23 to 12-31-25



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INDIANA STATE BOARD OF ACCOUNTS

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

This report is supplemental to the audit report of the Town of Montgomery (Town), for the period from January 1, 2023 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/.

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 14, 2025



CLERK-TREASURER
TOWN OF MONTGOMERY

CLERK-TREASURER
TOWN OF MONTGOMERY
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

A similar comment also appeared in prior Report 000000595S, entitled *ANNUAL FINANCIAL REPORT*.

Condition and Context

The Annual Financial Report (AFR) is required to be submitted annually via the Indiana Gateway for Government Units financial reporting system. The Town did not have adequate internal controls over the information submitted in the AFR, and as a result, the financial data, accounts payable, and debt information entered by the Town contained the following errors:

Financial Data

The Town did not report the financial activity of the MVH - Restricted fund in its AFR.

Adjustments were proposed, accepted by the Town, and made to the financial statement and the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Other Information in the Financial Statement Audit Report of the Town.

Accounts Receivable

The Town reported \$0 for accounts receivable. However, the supporting documentation provided by the Town for review reflected that \$1,284 had been billed to, but not yet paid by, utility customers at year end.

Leases and Debt

The Town did not report its Sewage Works Revenue Bonds, Series 2018, or its loan with Daviess County related to the Town's overhead bridge project. As a result, the ending principal balance was understated in total by \$1,013,000, and principal due within one year was understated in total by \$79,000.

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 of the Town.

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.

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

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. . . ."

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](#)."

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Report 000000595S, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

There were deficiencies in the Town's internal control system related to financial transactions and reporting. The failure to establish a proper system of internal controls enabled material errors in the form of misstatements to occur and remain undetected and uncorrected.

Financial Close and Reporting

The Town did not have a proper system of internal controls in place over financial close and reporting to prevent, or detect and correct, errors. The Clerk-Treasurer entered the information into the Annual Financial Report in the Indiana Gateway for Government Units financial reporting system, which was the source of the Town's financial statement. There was no evidence of an oversight, review, or approval process to ensure the information was accurate or complete prior to submission.

Due to the lack of internal controls, the financial statement compiled for the Town did not include the financial activity of the MVH - Restricted fund. While approving the compiled financial statement for audit, the Clerk-Treasurer identified the exclusion and added the MVH - Restricted fund to the financial statement with a beginning cash balance of \$34,407 and no financial activity during the year. As a result, the financial statement approved for audit was materially misstated. The beginning balance was overstated by \$34,407, and receipts for the year were understated by the same amount.

Adjustments were proposed, accepted by the Town, and made to the financial statement and the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Other Information in the Financial Statement Audit Report of the Town.

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

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MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

A similar comment also appeared in prior Report 000000595S, entitled *MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND*.

Condition and Context

Internal controls were not in place to ensure compliance with State Examiner Directive 2018-2 (Directive) regarding the Motor Vehicle Highway (MVH) - Restricted sub fund. The Town created the Motor Vehicle Highway (MVH) - Restricted fund as required. However, the Town did not allocate or record at least 50 percent of the distribution from the State Motor Vehicle Highway Account into the MVH - Restricted fund at the time of the receipt. Accordingly, the Town receipted \$17,054 into the Motor Vehicle Highway fund that should have been receipted into the MVH - Restricted fund.

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."

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 MONTGOMERY
AUDIT RESULTS AND COMMENTS
(Continued)

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)

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CLERK-TREASURER
TOWN OF MONTGOMERY
EXIT CONFERENCE

The contents of this report were discussed on January 14, 2025, with Jonathan R. Wagler, Clerk-Treasurer, and John M. Healy, President of the Town Council.

TOWN COUNCIL
TOWN OF MONTGOMERY

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AUDIT RESULT AND COMMENT

TEMPORARY LOAN FROM WATER UTILITY TO SEWER UTILITY

Condition and Context

The Town did not have adequate internal controls to ensure compliance related to temporary loans between utility funds. On June 6, 2023, the Town Council approved a temporary loan from the Water Utility Operating fund to the Sewer Utility Operating fund in the amount of \$117,000 to cover several large sewer invoices. Although the Town Council minutes indicated that the Town Council approved the loan, a temporary loan between utility funds required an approved ordinance. No such ordinance was presented for review.

In addition, Indiana Code 8-1.5-3-11(f) requires temporary loans between utilities to be made from a cash reserve fund. Instead, the Town made the temporary loan directly from the Water Utility Operating fund instead of the Water Cash Reserve fund as required.

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."

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TOWN OF MONTGOMERY
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