

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

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

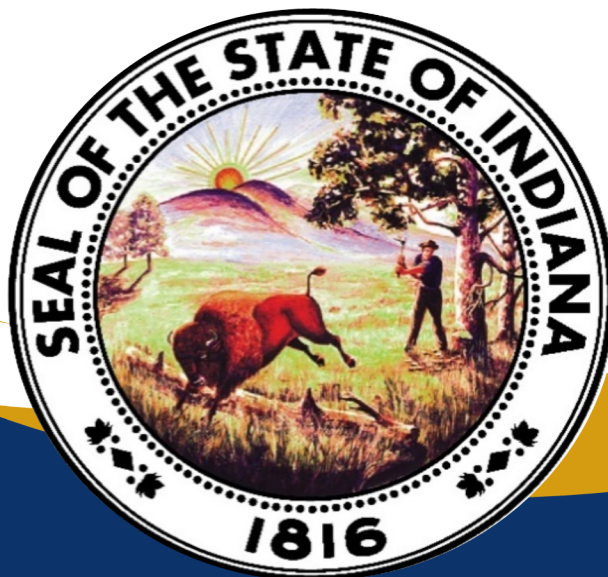
COMPLIANCE ENGAGEMENT REPORT

OF

TOWN OF FARMERSBURG

SULLIVAN COUNTY, INDIANA

January 1, 2018 to December 31, 2023



FILED
01/15/2025

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Margaret Tuttle (deceased)	01-01-18 to 01-02-23
	(Vacant)	01-03-23 to 01-31-23
	Sharon M. Baker	02-01-23 to 12-31-23
	Angela McCullough	01-01-24 to 12-31-24
President of the Town Council	Mike Bledsoe	01-01-18 to 12-31-18
	Jim Bishop	01-01-19 to 12-31-19
	Jerry Baker	01-01-20 to 12-31-23
	Justin Wassel	01-01-24 to 10-04-24
	(Vacant)	10-05-24 to 10-11-24
	Jennifer Harrelson	10-12-24 to 12-31-24



Paul D. Joyce, CPA
State Examiner

INDIANA STATE BOARD OF ACCOUNTS

302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769
Telephone: (317) 232-2513
Fax: (317) 232-4711
www.in.gov/sboa

TO: THE OFFICIALS OF THE TOWN OF FARMERSBURG, SULLIVAN COUNTY, INDIANA

As authorized under Indiana Code 5-11-1, we performed certain procedures to the accounting records and related documents of the Town of Farmersburg (Town), for the period of January 1, 2018 to December 31, 2023. The objective of this engagement was to determine compliance with applicable Indiana laws, regulations, and uniform compliance guidelines (Guidelines) established by the Indiana State Board of Accounts pursuant to Indiana Code 5-11-1-24. The objective of this engagement is not to opine on compliance or financial activity of the Town as this engagement was not conducted in accordance with any standards established by an authoritative standard setting body, and, as such, we do not provide any opinions on compliance or financial activity.

Management is responsible for preparing and maintaining its accounting records and related documents in accordance with applicable Indiana laws, regulations, and Guidelines. Management's responsibility also includes, but is not limited to, complying with other applicable Indiana laws, regulations, and Guidelines concerning how it operates: authorized sources and uses of funds; what reports are required to be prepared and filed; and what depositories and investment types are allowable.

We fulfilled our responsibility as detailed in the first paragraph, using procedures that verified the appropriate accounting for and reporting of cash, receipts, and disbursements; and the appropriate sources and uses of funds in accordance with applicable Indiana laws, regulations, and Guidelines. Expanding the scope and nature of these procedures can and does occur in specific circumstances.

The Comments contained herein, if any, describe the identified reportable instances of noncompliance found during our engagement. Our procedures were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified. Any Official Response to the Comments incorporated within this report was not verified for accuracy.

The Schedule of Officials is informational only. The Statements of Receipts, Disbursements, and Schedule of Cash and Investment Balances - Regulatory Basis have not been included in this report due to the issues detailed in the Comments below.

This report is intended solely for the information and use of management, governance, and others within the organization. This restriction is not intended to limit the distribution of this report, which is a matter of public record. Reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>, and the Town's Annual Financial Reports filed by management can be found on the Indiana Gateway for Government Units financial reporting system website: <http://www.gateway.ifionline.org>.

The contents of this report were communicated to Angela McCullough, Clerk-Treasurer; Woodrow Power III, Town Council member; and Sharon M. Baker, former Clerk-Treasurer, on December 17, 2024.



Beth Kelley, CPA, CFE
Deputy State Examiner

November 25, 2024

TOWN OF FARMERSBURG
COMMENTS

INTERNAL CONTROLS - FINANCIAL TRANSACTIONS AND REPORTING

The same comment appeared in prior Report B52206.

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 to financial close and reporting, cash and investments, receipts, and disbursements (including payroll). The ledger did not support the Annual Financial Report filed on the Indiana Gateway for Government Units financial reporting system.

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 OVER COMPLIANCE

Condition and Context

Internal controls were not in place to ensure that the Town complied with laws, regulations, and uniform compliance guidelines. Internal control deficiencies resulted in noncompliance over the following areas and are detailed further in the comments below:

- Condition of Records
- Bank Account Reconciliations
- Annual Financial Report
- Board Minutes Missing
- Capital Assets
- Adoption of, and Training on, Internal Control Standards

TOWN OF FARMERSBURG
COMMENTS
(Continued)

- Certification on Internal Control Standards
- Errors on Claims
- Monthly and Annual Uploads
- Motor Vehicle Highway (MVH) - Restricted Fund
- Penalties, Interest, and Other Charges
- Late Filing of Annual Financial Report

Criteria

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CONDITION OF RECORDS

A similar comment also appeared in prior Reports B43085, entitled *ANNUAL REPORT FILED WITH ERRORS*, and B52206, entitled *ANNUAL FINANCIAL REPORT*.

Condition and Context

Internal controls were not in place to ensure the accuracy of the Town's accounting records for January 1, 2018 through December 31, 2023. Accounting records presented for the engagement contained the following issues:

- There were no detailed listings of transactions for receipts and disbursements for the engagement period that supported the amounts reported on the Annual Financial Reports filed on the Indiana Gateway for Government Units financial reporting system.
- The Ledger of Receipts, Disbursements and Balances, Town Form No. 208, was inaccurate and did not reconcile to the bank balances for any month of the engagement period.

TOWN OF FARMERSBURG
COMMENTS
(Continued)

Criteria

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)

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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."

BANK ACCOUNT RECONCILIATIONS

Condition and Context

Internal controls were not in place to ensure compliance over bank account reconciliations. The Town did not perform accurate bank account reconciliations on a monthly basis during the engagement period. The bank account reconciliations contained several unsupported adjustments. Based on the limited procedures performed, bank account reconciliations could not be recreated as of December 31 of any year of the engagement period based on the original documentation provided as further discussed in the *Condition of Records* comment.

The Town had six bank accounts during the years 2018-2020 and seven bank accounts during the years 2021-2023. The following bank account information was not available for review:

- Twenty-eight bank statements were not able to be located.
- Fifty-six bank statements did not include optical images of the cancelled checks.

The Town hired a consultant during 2024 to perform a bank reconciliation as of December 31, 2023, only. Based on the results of the work performed by the consultant, the Town passed Resolution 2024-8 on November 14, 2024, adjusting the cash balances of various Town funds as of January 1, 2024, as follows.

TOWN OF FARMERSBURG
COMMENTS
(Continued)

	Cash and Investments December 31, 2023 Per Fund Report	Adjustments	Adjusted Cash and Investments January 1, 2024
General Fund	\$ 103,050	\$ (117,818)	\$ (14,768)
Motor Vehicle Highway	26,220	1,693	27,913
Local Road & Street	23,549	296	23,845
Local Law Enf Cont ED	2,641	-	2,641
Riverboat	3,814	1,104	4,918
Park	1,835	-	1,835
Rainy Day	5,123	1	5,124
Opioid Settlement Restricted	1,828	-	1,828
Opioid Settlement Unrestricted	755	-	755
CUM CAP Imp - Cig Tax	3,457	964	4,421
CUM CAP Development CCD	1,861	-	1,861
EDIT	784,886	6,713	791,599
Payroll	(52,015)	64,784	12,769
American Rescue Plan (ARPA)	162,491	(21,134)	141,357
MVH Restricted	75,939	3,972	79,911
Loc Rds & Bridges Matching Fund	388,135	(327,572)	60,563
Hollie & Anna Oakley Foundation Inc.	14	-	14
New Police Car	12,525	-	12,525
Sewer Operating	60,303	135,957	196,260
Sewer Construction	-	(220)	(220)
Sewer Bond & Int	(4,023)	30,000	25,977
Sewer Special Equipment	(2,167)	-	(2,167)
Sewer Debt Reserve	(4,918)	27,000	22,082
Storm Water Drain Fee	135,039	8,830	143,869
Sanitation	116,204	-	116,204
Totals	<u>\$ 1,846,546</u>	<u>\$ (185,430)</u>	<u>\$ 1,661,116</u>

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."

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)

TOWN OF FARMERSBURG
COMMENTS
(Continued)

Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference. . . .

(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a). . . ."

The State Board of Accounts is of the audit position both sides of a check are part of the original record. Therefore, both sides of an "optical imaged check" should be available for public inspection and audit. Encoding, printing and bank certification should exist to ascertain that the back side of a check is part of a particular check, i.e. endorsements should belong to the front side of a check presented. (Cities and Towns Bulletin and Accounting and Uniform Compliance Guidelines, March 2018)

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)

ANNUAL FINANCIAL REPORT

Condition and Context

Internal controls were not in place to ensure the Annual Financial Reports (AFR) were submitted accurately. We were unable to determine the accuracy of the AFRs filed on the Indiana Gateway for Government Units financial reporting system due to the lack of accounting records for the fiscal years 2018-2023 as further discussed in the *Condition of Records* comment. Specific schedules of the AFR that could not be verified due to the lack of accounting records in addition to the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis; Detail of Receipts by Fund; and Detail of Disbursements by Fund; include:

- Accounts Payable/Receivable
- Debt
- Leases
- Grants
- Investment Fund Statement

TOWN OF FARMERSBURG
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 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](#)."

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 MISSING

Condition and Context

Internal controls were not in place to ensure the minutes of the Town Council meetings were recorded and retained. The following meetings' minutes were not presented for review:

- July, September, October, and December 2019
- November 2020
- January through December 2023

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."

TOWN OF FARMERSBURG
COMMENTS
(Continued)

CAPITAL ASSETS

Condition and Context

Internal controls did not ensure that the Town had a capital asset policy in place that included a threshold at which an item is considered a capital asset. Total assets reported in the Annual Financial Report filed in the Indiana Gateway for Government Units financial reporting system were \$5,583,650 at December 31, 2023.

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)

ADOPTION OF, AND TRAINING ON, INTERNAL CONTROL STANDARDS

A similar comment appeared in prior Report B52206, entitled *ADOPTION OF INTERNAL CONTROL STANDARDS*.

Condition and Context

The Town Council failed to adopt internal control standards and provide the necessary training to required personnel.

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."

TOWN OF FARMERSBURG
COMMENTS
(Continued)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

The same comment appeared in prior Report B52206.

Condition and Context

Internal controls were not in place to ensure the Town correctly certified on the Indiana Gateway for Government Units (Gateway) financial reporting system whether it adopted internal control standards and that appropriate personnel received training on the internal control standards as required. The Town certified in Gateway for every year of the engagement that it had adopted internal control standards and appropriate personnel had received training over the internal control standards it adopted. No documentation was available to certify that the minimum internal control standards had been adopted and personnel received training.

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](#)."

ERRORS ON CLAIMS

A similar comment also appeared in prior Report B52206, entitled *APPROVAL OF CLAIMS*.

Condition and Context

Internal controls were not in place to ensure the Town complied with laws, regulations, and compliance guidelines when processing claims. Many of the claims paid during the period of 2018-2022, by the former Clerk-Treasurer who is now deceased, could not be located. Therefore, our compliance testing over disbursements was limited to 2023. We tested twenty-two claims and the following errors were identified:

- Thirteen claims were not certified by the Clerk-Treasurer indicating the invoice or bill was true and correct.
- Five of the thirteen claims were written by the President of the Town Council to reimburse himself for purchases. The claims did have documentation of what was purchased. The total of these five claims was \$605.
- One of the thirteen claims included a charge on a credit card for a hotel stay in French Lick, Indiana. The claim did not specify the business nature of the expense.
- Two claims, both paid to Card Services, did not have any supporting documentation attached to substantiate the validity of the payment. These two claims totaled \$1,693.

TOWN OF FARMERSBURG
COMMENTS
(Continued)

Criteria

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

MONTHLY AND ANNUAL UPLOADS

Condition and Context

Internal controls were not in place to ensure compliance with State Examiner Directive 2018-1, as amended. The Town had not uploaded any of the monthly or annual uploads for 2018 through 2023.

The following files and governmental unit information are required to be uploaded monthly:

- Bank reconcilements.
- Bank Statements (effective for the required upload beginning with December 2020 information).
- Outstanding Check Lists (effective for the required upload beginning with December 2020 information).
- Approved Town Council minutes.
- Funds ledger, summarizing total receipts, disbursements, and beginning and ending balances by fund (beginning and ending balances effective for the required uploads beginning with December 2020 information).

TOWN OF FARMERSBURG
COMMENTS
(Continued)

The following files and governmental unit information are required to be uploaded annually:

- Year-end bank statement (no longer required after 2019 annual uploads).
- Year-end outstanding check list (no longer required after 2019 annual uploads).
- Year-end investment statements.
- Detail of receipts for the year.
- Detail of disbursements for the year.
- Current year salary ordinance (and Amendments effective beginning with annual uploads of 2020 information).
- Annual vendor history report.
- Annual employee earnings record/payroll history report without social security numbers (unless only hand posted records exist).
- Annual funds ledger summarizing year-to-date total receipts, year-to-date disbursements, and beginning and ending balances by fund (effective beginning with 2020 information).

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)

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

Internal controls were not in place to ensure the Town allocated money properly to the MVH - Restricted fund. Due to the condition of records, as further discussed in the *Condition of Records* comment, we were unable to determine if 50 percent of the MVH distributions received from the State of Indiana to be used for the construction, reconstruction, and preservation of roads were allocated to 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."

TOWN OF FARMERSBURG
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)

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)

PENALTIES, INTEREST, AND OTHER CHARGES

The same comment appeared in prior Report B52206.

Condition and Context

Internal controls were not in place to prevent the incurrence and payment of penalties and interest. During calendar year 2023, the Town did not remit loan principal and interest payments to First Financial Bank in a timely manner. As a result of these late payments, late payment penalties were paid by the Town in the amount of \$3,977. Additionally, during 2023, the Town did not remit payments to Card Services timely, which resulted in late penalties and interest paid by the Town in the amount of \$103.

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 Cities and Towns, Chapter 1)

TOWN OF FARMERSBURG
COMMENTS
(Continued)

LATE FILING OF ANNUAL FINANCIAL REPORT

The same comment appeared in prior Report B52206.

Condition and Context

Internal controls were not in place to ensure the Annual Financial Report (AFR) was submitted timely in the Indiana Gateway for Government Units financial reporting system. The AFR for 2018 was not filed electronically until March 4, 2019, which was 3 days past the due date. The AFR for 2023 was not filed electronically until April 5, 2024, which was 36 days past the due date.

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](#)."

The Annual Financial Report (AFR) required under IC 5-11-1-4(a) shall be filed with the state examiner not later than sixty (60) days after the close of each fiscal year. (Accounting and Uniform Guidelines Compliance Manual for Cities and Towns, Chapter 1)