

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF KNIGHTSVILLE

CLAY COUNTY, INDIANA

January 1, 2019 to December 31, 2022



FILED
10/07/2024

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Annual Financial Report.....	6-7
Bank Account Reconciliations.....	7
Capital Assets	7
Certification on Internal Control Standards	7-8
Contracts.....	8
Internal Controls.....	8-9
Monthly and Annual Uploads	9
Motor Vehicle Highway (MVH) - Restricted Fund	10
Recording of Receipts.....	11
Exit Conference	12

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Terri Close	01-01-19 to 06-13-20
	(Vacant)	06-14-20 to 08-10-20
	Susan Clodfelter	08-11-20 to 12-31-24
President of the Town Council	Steve Withers	01-01-19 to 12-31-22
	Christopher A. Styleburg	01-01-23 to 12-31-24
Utility Office Manager	Shelby Tilley	01-01-19 to 12-31-21
	Tina Styleburg	01-01-22 to 12-31-24



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE TOWN OF KNIGHTSVILLE, CLAY COUNTY, INDIANA

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

Beth Kelley, CPA, CFE
Deputy State Examiner

September 3, 2024

(This page intentionally left blank.)

CLERK-TREASURER
TOWN OF KNIGHTSVILLE

CLERK-TREASURER
TOWN OF KNIGHTSVILLE
AUDIT RESULTS AND COMMENTS

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:

Grants

Federal expenditures reported on the grant schedule were misstated in the amount of \$1,565,636 in total during the audit period. Other errors included incorrect program names, entity identifying numbers, and pass-through entity names. 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 Awards was not required to be reported.

Capital Assets

A detailed listing of capital assets was not maintained by the Town; therefore, the amounts reported for the Schedule of Capital Assets for each year could not be verified. The Town chose to not present the Schedule of Capital Assets in the Financial Statements Audit Report of the Town.

Investments

The Town did not upload a listing of all investments held by the Town for each year of the audit period.

Financial Data

- The SRF Construction fund 2021 receipts, disbursements, and ending cash and investments balance were understated by \$218,970; \$163,382; and \$55,588, respectively. For 2022, the beginning cash and investments balance and disbursements were understated by \$55,588.
- The Local RD and Bridges Matching Grant fund 2022 receipts and ending cash and investment balance were overstated by \$261,000.
- In 2021, one fund included individually immaterial errors, which caused an understatement of expenditures and an overstatement of ending cash balance in the amount of \$12,661.
- In 2022, eight funds included individually immaterial errors, which caused understatements of receipts and disbursements in the amounts of \$24,850 and \$25,613, respectively, and overstatements of ending cash balances in the amount of \$763.

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

The 2022 AFR was filed on March 16, 2023, which is 15 days after the due date.

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

BANK ACCOUNT RECONCILIATIONS

Condition and Context

The Town did not perform bank account reconciliations for any of the Town's depository accounts during 2022. As of December 31, 2022, a variance of \$4,431 was noted.

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."

CAPITAL ASSETS

Condition and Context

The Town had not adopted a capital assets policy or maintained a complete record of capital assets with their acquisition value, and there was no evidence that a physical inventory was performed during the engagement period. The Town reported \$1,339,628 of capital assets as of December 31, 2022, in the Annual Financial Report filed in the Indiana Gateway for Government Units financial reporting system.

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)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Town incorrectly certified on the 2022 Annual Financial Report that the Town did not provide personnel with training over the minimum internal control standards; however, all employees had received the necessary training on internal standards.

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

CONTRACTS

Condition and Context

The Town made payments to two vendors totaling \$469,179 for labor and materials for paving and stormwater improvements, of which written contracts were not provided for audit. Additionally, a contract for stormwater improvements was overpaid by the Town in the amount of \$3,448.

Criteria

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)

INTERNAL CONTROLS

A similar comment also appeared in prior Report B53098, entitled *FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

There were deficiencies in the internal control system of the Town related to cash and investments, financial close and reporting, and receipts.

Cash and Investments

Bank reconciliations of the Town were not performed for any depository accounts during 2022.

Financial Close and Reporting

The Town had properly designed a system of internal controls, but the internal control was not effective as it allowed material errors in the 2021 and 2022 Annual Financial Reports to remain undetected and be reported into the Indiana Gateway for Government Units financial reporting system.

Receipts

The Clerk-Treasurer collected, recorded, and deposited receipts of the Town. The Superintendent of Water collected, recorded, and deposited receipts of the Water and Stormwater Utilities. There was no documentation of internal controls in place such as an oversight, review, or approval process.

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

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. . . ."

MONTHLY AND ANNUAL UPLOADS

Condition and Context

The Town did not comply with the State Examiner Directive 2018-1 and failed to upload 100 of the 144 required monthly files and all of the required annual files except for salary ordinances on the Indiana Gateway for Government Units financial reporting system for 2019, 2020, 2021, and 2022.

Criteria

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)

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)

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

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

The Town did not allocate greater than 50 percent of the monthly state Motor Vehicle Highway (MVH) distributions for any month during the audit period. The Town did make a transfer from the MVH - Restricted fund to the MVH fund in the amount of \$25,000. Amounts transferred out of the MVH - Restricted fund can only be for amounts in excess of the required 50 percent of the monthly state MVH distribution. Additionally, the Town did not assign the appropriate fund numbers to the MVH and MVH - Restricted funds when they were established.

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.

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 . . .

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.

The political subdivision, by ordinance or resolution, may elect to allocate more than fifty percent (50%) of the distributions to MVH Restricted. During the same fiscal year, the political subdivision may transfer, by ordinance or resolution, the amount allocated in excess of the 50% requirement from MVH Restricted to MVH. ***In no event can any transfers from MVH Restricted to MVH reduce the fiscal year distributions from the State Motor Vehicle Highway Account below the 50% requirement for MVH Restricted.***

(State Examiner Directive 2018-2)

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

RECORDING OF RECEIPTS

Condition and Context

Receipts were posted to the ledger for the incorrect amount for 37 receipts. There were 10 receipts that were not posted to the ledger at all, and 1 receipt was posted to the ledger 17 days before the distribution was received.

Criteria

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF KNIGHTSVILLE
EXIT CONFERENCE

The contents of this report were discussed on September 3, 2024, with Susan Clodfelter, Clerk-Treasurer, and Christopher A. Styleburg, President of the Town Council.