

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

COMPLIANCE ENGAGEMENT REPORT

OF

TOWN OF MOUNT AYR

NEWTON COUNTY, INDIANA

January 1, 2019 to December 31, 2023



FILED
04/18/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Karen Warne	01-01-19 to 12-31-24
President of the Town Council	Larry Berenda	01-01-19 to 12-31-22
	Jerry Durlinger	01-01-23 to 12-31-24



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF MOUNT AYR, NEWTON 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 Mount Ayr (Town), for the period of January 1, 2019 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 and Statements of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis (Statements) are informational only. The Statements have not been subjected to any procedures designed to express an opinion or provide any assurance on them, and, accordingly, we do not express an opinion or provide any assurance on them.

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 Karen Warne, Clerk-Treasurer; Howard Marshall, Town Council member; Teresa Zenor, Town Council member; and Jerry Durlinger, President of the Town Council, on April 11, 2024.



Beth Kelley, CPA, CFE
Deputy State Examiner

March 26, 2024

TOWN OF MOUNT AYR
COMMENTS

BANK ACCOUNT RECONCILIATIONS

Condition and Context

Internal controls were not in place to ensure the bank account was reconciled properly. The monthly bank reconciliations of the Town's bank accounts did not agree to the record balance, resulting in monthly variances. At December 31, 2019 and 2020, the adjusted bank balance was greater than the record balance by \$38,882 and \$38,635, respectively. At December 31, 2021, 2022, and 2023, the adjusted bank balance was less than the record balance by \$10,147, \$3,661, and \$670, respectively. The financial statement was not adjusted for these unknown variances.

The Town did not receipt checking account interest to the ledger. Also, interest earned on the CD's was automatically added to the principal.

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."

Interest on investments should not be automatically added into the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

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. . . ."

TOWN OF MOUNT AYR
COMMENTS
(Continued)

PAYROLL

The same comment also appeared in the prior Report B53605.

Condition and Context

Internal controls were not in place to ensure the payroll was issued properly. The Town employees consist of the Town Council members, the Clerk-Treasurer, the Building Commissioner, a custodian/janitor, and a groundskeeper. The following deficiencies were noted concerning payroll transactions:

- Internal Revenue Service (IRS) Wage and Tax Statements - Form W-2s were not issued to employees.
- Employees were paid without federal, state, or local taxes being withheld.

The Town did issue IRS Miscellaneous Income Form 1099 - MISC to the employees.

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)

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MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

Internal controls were not in place to ensure the Motor Vehicle Highway (MVH) fund was reported properly. The Town did not create a MVH restricted sub-fund within the MVH Fund to properly manage and account for the usage restrictions that were included in Indiana Code 4-12-16.5 and Indiana Code 6-2.5-5-51.

TOWN OF MOUNT AYR
COMMENTS
(Continued)

An MVH Fund and MVH Restricted sub-fund must be created in the Towns records and reported separately on the Town's Annual Financial Report. At least 50 percent of the distribution from the State Motor Vehicle Highway Account should be allocated and posted at the time of the receipt to the MVH Restricted Fund.

Criteria

Indiana Code 8-14-1-5(c) states: "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."

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

Together, MVH and MVH Restricted shall constitute the total MVH Fund. MVH and MVH Restricted will be shown separately on the Annual Financial Report . . .

(State Examiner Directive 2018-2)

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:

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CAPITAL ASSETS

Condition and Context

Internal controls were not in place to ensure the capital assets were reported properly. The Town did not have a capital assets policy that detailed the threshold at which an item is considered a capital asset.

TOWN OF MOUNT AYR
COMMENTS
(Continued)

The Town did not maintain a complete detailed listing of all capital assets owned which reflects their acquisition value. Capital assets were reported on the Town's Annual Financial Report without the proper detailed listing as backup documentation.

A complete physical inventory was not taken 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)

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:

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STATEMENTS OF RECEIPTS, DISBURSEMENTS, AND CASH
AND INVESTMENT BALANCES - REGULATORY BASIS

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TOWN OF MOUNT AYR
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Years Ended December 31, 2019 and 2020

Fund	Cash and Investments 01-01-19	Receipts	Disbursements	Cash and Investments 12-31-19	Receipts	Disbursements	Cash and Investments 12-31-20
GENERAL FUND	\$ 89,929	\$ 64,155	\$ 26,751	\$ 127,333	\$ 62,891	\$ 44,610	\$ 145,614
MOTOR VEHICLE HIGHWAY	20,656	5,251	-	25,907	4,631	3,927	26,611
LOCAL ROAD & STREET	16,002	1,272	-	17,274	1,215	5,159	13,330
RAINY DAY	865	-	-	865	-	600	265
CUM CAP IMP - CIG TAX	7,309	-	-	7,309	-	3,400	3,909
BUILDING	912,264	99,648	66,849	945,063	86,942	47,668	984,337
POSTAL	80,211	5,760	431	85,540	5,760	44	91,256
Totals	<u>\$ 1,127,236</u>	<u>\$ 176,086</u>	<u>\$ 94,031</u>	<u>\$ 1,209,291</u>	<u>\$ 161,439</u>	<u>\$ 105,408</u>	<u>\$ 1,265,322</u>

TOWN OF MOUNT AYR
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Years Ended December 31, 2021 and 2022

Fund	Cash and Investments 01-01-21	Receipts	Disbursements	Cash and Investments 12-31-21	Receipts	Disbursements	Cash and Investments 12-31-22
GENERAL FUND	\$ 145,614	\$ 46,398	\$ 40,956	\$ 151,056	\$ 81,201	\$ 68,116	\$ 164,141
MOTOR VEHICLE HIGHWAY	26,612	4,775	-	31,387	5,024	-	36,411
LOCAL ROAD & STREET	13,329	1,552	1,310	13,571	1,469	-	15,040
RAINY DAY	265	-	-	265	-	-	265
CUM CAP IMP - CIG TAX	3,909	-	-	3,909	-	-	3,909
BUILDING	984,337	121,298	45,764	1,059,871	85,626	60,483	1,085,014
POSTAL	91,256	5,280	-	96,536	6,060	-	102,596
Totals	<u>\$ 1,265,322</u>	<u>\$ 179,303</u>	<u>\$ 88,030</u>	<u>\$ 1,356,595</u>	<u>\$ 179,380</u>	<u>\$ 128,599</u>	<u>\$ 1,407,376</u>

TOWN OF MOUNT AYR
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended December 31, 2023

Fund	Cash and Investments 01-01-23	Receipts	Disbursements	Cash and Investments 12-31-23
GENERAL FUND	\$ 164,141	\$ 82,919	\$ 45,729	\$ 201,331
MOTOR VEHICLE HIGHWAY	36,412	5,039	-	41,451
LOCAL ROAD & STREET	15,040	2,166	1,959	15,247
RAINY DAY	265	-	-	265
CUM CAP IMP - CIG TAX	3,909	107	-	4,016
BUILDING	1,085,014	138,373	351,990	871,397
POSTAL	102,596	4,590	-	107,186
Totals	<u>\$ 1,407,377</u>	<u>\$ 233,194</u>	<u>\$ 399,678</u>	<u>\$ 1,240,893</u>