

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

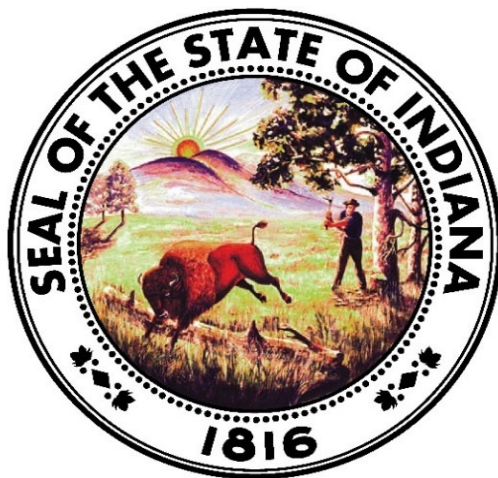
SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF SWEETSER

GRANT COUNTY, INDIANA

January 1, 2019 to December 31, 2022



FILED

04/11/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	John R. Potter	01-01-19 to 12-31-24
President of the Town Council	Dave Fox Kyle Taylor	01-01-19 to 12-31-22 01-01-23 to 12-31-24



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE TOWN OF SWEETSER, GRANT COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Sweetser (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

April 3, 2024

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CLERK-TREASURER
TOWN OF SWEETSER

CLERK-TREASURER
TOWN OF SWEETSER
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

A similar comment appeared in prior Report B53869, entitled *INTERNAL CONTROLS*.

Condition and Context

There were several 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, disbursements, and receipts.

Financial Close and Reporting

The Town had not established a system of internal controls over financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Annual Financial Report and the financial statements. The Clerk-Treasurer entered and submitted the information into Gateway without an oversight or review process in place to prevent, or detect and correct, errors.

Cash and Investments

The Town had not established a system of internal controls to ensure monthly bank reconciliations were completed timely and accurately. The bank reconciliations were prepared by the Clerk-Treasurer without a review or approval process in place.

Disbursements

The Town had not established a system of internal controls to ensure disbursements were recorded timely and accurately to the financial ledger. Though all disbursements tested indicated approval by the Town Council (Council), there are no procedures in place to ensure the amount approved was properly recorded to the financial ledger. The Clerk-Treasurer entered activity into an Excel spreadsheet, then manually prepared the Accounts Payable Voucher Register for Council approval based on the Excel spreadsheet; there are no procedures performed to ensure the disbursements approved by Council were accurately recorded in the financial ledger.

Receipts

The Town had not established a system of internal controls to ensure receipts were recorded timely and accurately to the financial ledger. The Clerk-Treasurer entered receipt activity into an Excel spreadsheet with no review or approval process in place.

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:

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

"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. . . ."

ANNUAL FINANCIAL REPORT

A similar comment appeared in prior Report B53869, entitled *INTERNAL CONTROLS*.

Condition and Context

Financial 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 internal controls to detect or correct errors prior to submission. The financial information was prepared and submitted in Gateway by the Clerk-Treasurer without a review or approval process.

Financial Data

Due to the lack of effective internal controls, the financial statement presented in the Financial Statement Audit Report for the Town contained the following errors:

- Receipts and disbursements were overstated by \$93,429 and \$89,121, respectively, resulting in a \$4,308 overstatement of the ending cash and investments balance for the year ended December 31, 2019.
- Receipts and disbursements were overstated by \$91,999 and \$99,824, respectively, resulting in a \$7,825 understatement of the ending cash and investments balance for the year ended December 31, 2020.
- Receipts and disbursements were understated by \$7,721 and \$6,158, respectively, resulting in a \$1,563 understatement of the ending cash and investments balance for the year ended December 31, 2021.
- Receipts were overstated by \$137,413, and disbursements were understated by \$51,051, resulting in a \$188,464 overstatement of the ending cash and investments balance for the year ended December 31, 2022.

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

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

Capital Assets

The Town reported capital assets in the Annual Financial Report submission but was not able to provide a detailed listing of capital assets. The Schedule of Capital Assets was not presented in the Financial Statements Audit Report of the Town.

Grants

The Town did not report any grants in Gateway; however, reimbursement grants were received each year. The total grants received and not reported for 2019, 2020, 2021, and 2022 was \$219,461.

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](#)."

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-279(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. . . ."

BANK ACCOUNT RECONCILIATIONS

Condition and Context

The Town did not reconcile its bank accounts in a timely manner for three of the four years audited. At the start of the audit, the Town was able to provide the bank reconciliations for 2019; however, bank reconciliations for 2020, 2021, and 2022 had not been completed at that time. The bank reconciliations were subsequently completed and provided for audit.

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

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

A similar comment appeared in prior Reports B51996 and B53869, entitled *CAPITAL ASSETS*.

Condition and Context

The Town has not adopted a capital assets policy that details the threshold at which an item is considered a capital asset. In addition, the Town had not properly maintained a complete inventory of capital assets owned. There were no capital asset records presented for audit.

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

A similar comment appeared in prior Report B53869, entitled *CERTIFICATION ON INTERNAL CONTROL STANDARDS*.

Condition and Context

The Town's Indiana Gateway for Government Units financial reporting system certification of the training on internal control standards was made incorrectly. The Town certified that they had received training; however, the Town was unable to provide training certifications on the internal control standards for the Clerk-Treasurer and the Deputy Clerk-Treasurer.

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](#)."

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

ERROR IN RECORDING RECEIPTS AND DISBURSEMENTS

Condition and Context

During our testing, we identified the following errors:

- Two receipts, totaling \$6,116, in 2019 for state distributions were recorded to the incorrect funds.
- Five receipts in 2019 were recorded as negative disbursements rather than receipts which understated receipts and disbursements by \$21,342.
- Utility receipts for Stormwater and Trash were originally recorded as receipts into the Wastewater Operating fund and then later transferred to the Stormwater Fund and the General Fund. As a result, this overstated Wastewater Operating fund receipts and disbursements for the audit period by \$364,318.
- Receipts for Stormwater and Trash Collection for August through November of 2021, totaling \$35,931 were not transferred to the Stormwater Fund and the General Fund and remained in the Wastewater Operating fund as of December 31, 2022.

Criteria

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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)

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 Cities and Towns, Chapter 1)

MONTHLY AND ANNUAL UPLOADS

Condition and Context

The files and governmental unit information that are required to be uploaded monthly include the bank reconcilements, approved Town Council minutes, and the funds ledger, summarizing total receipts, disbursements, and balances by fund. Annual upload requirements include the year-end bank statement, year-end outstanding check list, year-end investments, detail of receipt activity, detail of disbursement activity, current year salary ordinance, and an annual vendor history report.

The Town did not comply with the State Examiner Directive and failed to upload any of the monthly or annual files on the Indiana Gateway for Government Units financial reporting system for 2019 through 2022.

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

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 Directive 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

The Town did not establish or report the Motor Vehicle Highway (MVH) Restricted sub-fund or allocate at least 50 percent of the distribution from the State MVH account to a MVH Restricted fund during the audit period as required.

Based upon the statutory requirement, the Town should have recorded \$26,449; \$23,327; \$25,780; and \$23,907 of MVH distributions into a MVH Restricted fund for 2019, 2020, 2021, and 2022, respectively. Given the lack of proper recording, we could not determine if the Town complied with the required uses of MVH restricted funds.

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."

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:

...

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

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 and Annual Operational Report.

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)

OVERDRAWN CASH BALANCES

Condition and Context

The financial statements presented for audit included the following funds with overdrawn cash balances as of December 31, 2019, 2020, 2021, and 2022, which were not attributed to the timing of reimbursable grant funds:

Fund	Amount Overdrawn 12-31-19	Amount Overdrawn 12-31-20	Amount Overdrawn 12-31-21	Amount Overdrawn 12-31-22
General Fund	\$ -	\$ 4,930	\$ -	\$ -
Blight Elimination Program Grant	3,103	3,103	3,103	3,103
Parks and Recreation	5,953	-	7,580	11,291
150th Non-Reverting Fund	-	-	1,730	1,730
Local Road & Bridge Matching Grant Fund	-	-	93,093	93,093

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)

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

PRESCRIBED FORMS

Condition and Context

The Town maintained its accounting records using Microsoft Excel spreadsheets which did not produce reports or other information for the Town's financial activity in a manner that would comply with prescribed formats. The use of spreadsheets does not have adequate internal controls built in nor did the Town implement additional internal controls to safeguard financial activity and ensure accurate reporting in the prescribed format.

The spreadsheets did not produce, nor did the Town use, the following prescribed forms:

- Accounts Payable Voucher (Form 39)
- Ledger of Receipts, Disbursements and Balances (Form 208)
- Ledger of Appropriations, Encumbrances, Disbursements and Balances (Form 209)
- Accounts Payable Voucher Register (Form 364)

Criteria

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)

PRESCRIBED CITY AND TOWN FORMS

Town Form No.

39	(Rev. 1995)	**	Accounts Payable Voucher
208	(Rev. 1967)	**	Ledger of Receipts, Disbursements and Balances
209	(Rev. 1967)	**	Ledger of Appropriations, Encumbrances, Disbursements and Balances
364	(Rev. 1997)	**	Accounts Payable Voucher Register

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 6)

11.06 Management designs appropriate types of control activities in the entity's information system for coverage of information processing objectives for operational processes. For information systems, there are two main types of control activities: general and application control activities.

11.07 Information system general controls (at the entity-wide, system, and application levels) are the policies and procedures that apply to all or a large segment of an entity's information systems. General controls facilitate the proper operation of information systems by creating the environment for proper operation of application controls. General controls include security management, logical and physical access, configuration management, segregation of duties, and contingency planning.

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

11.08 Application controls, sometimes referred to as business process controls, are those controls that are incorporated directly into computer applications to achieve validity, completeness, accuracy, and confidentiality of transactions and data during application processing. Application controls include controls over input, processing, output, master file, interface, and data management system controls.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Political Subdivisions - Information Technology, page 4)

CLERK-TREASURER
TOWN OF SWEETSER
EXIT CONFERENCE

The contents of this report were discussed on April 3, 2024, with John R. Potter, Clerk-Treasurer, and Kyle Taylor, President of the Town Council.

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TOWN COUNCIL
TOWN OF SWEETSER

TOWN COUNCIL
TOWN OF SWEETSER
AUDIT RESULTS AND COMMENTS

ORDINANCES AND RESOLUTIONS

A similar comment also appeared in prior audit Report B53869, entitled *ORDINANCES AND RESOLUTIONS*.

Condition and Context

Salaries were paid in 2020 without an approved Salary Ordinance. The 2020 salary rates paid were the same rates as paid from the 2019 Salary Ordinance.

The Town entered into a contract with an outside party to provide trash collection services to residents. The Town billed residents monthly for these services but had not adopted an ordinance or resolution to substantiate the amount of fees charged to residents for the trash collection fees.

Criteria

Indiana Code 36-5-3-2(b) states:

"The town legislative body shall, by ordinance, fix the compensation of its own members, the town clerk-treasurer, and the town marshal. An ordinance adopted under this subsection that fixes the annual compensation of an elected town office shall provide for an annual, monthly, or biweekly salary schedule. An elected town officer is not required to report hours worked and may not be compensated based on the number of hours worked. The legislative body shall provide reasonable compensation for other town officers and employees."

Fees can only be collected as specifically authorized by law or properly authorized ordinance/resolution. When a fee is NOT specified by law, but instead through the use of an ordinance/resolution, sufficient authoritative reference should be maintained. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TRAINING ON INTERNAL CONTROL STANDARDS

A similar comment appeared in prior Report B53869, entitled *TRAINING ON INTERNAL CONTROL STANDARDS*.

Condition and Context

The Town was unable to provide training certifications on the internal control standards for the Clerk-Treasurer and Deputy Clerk-Treasurer. The Clerk-Treasurer and the Deputy Clerk-Treasurer had not received training concerning the internal control standards and procedures adopted by the political subdivision.

Criteria

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

TOWN COUNCIL
TOWN OF SWEETSER
EXIT CONFERENCE

The contents of this report were discussed on April 3, 2024, with John R. Potter, Clerk-Treasurer, and Kyle Taylor, President of the Town Council.