

**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 SHIPSHEWANA

LAGRANGE COUNTY, INDIANA

January 1, 2019 to December 31, 2021



FILED
01/21/2025

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Ruth Ann Downey	01-01-19 to 02-18-22
	(Vacant)	02-19-22 to 03-01-22
	Tad T. Hite	03-02-22 to 12-31-24
President of the Town Council	Tad T. Hite	01-01-19 to 03-01-22
	(Vacant)	03-02-22 to 03-09-22
	Joshua Weimer	03-10-22 to 09-28-23
	Christine Yoder	09-29-23 to 12-31-24



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INDIANA STATE BOARD OF ACCOUNTS

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TO: THE OFFICIALS OF THE TOWN OF SHIPSHEWANA, LAGRANGE COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Shipshewana (Town), for the period from January 1, 2019 to December 31, 2021. 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

December 12, 2024



CLERK-TREASURER
TOWN OF SHIPSHEWANA

CLERK-TREASURER
TOWN OF SHIPSHEWANA
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROL DEFICIENCIES

Condition and Context

Internal control deficiencies resulted in the noncompliance over:

- Internal Controls
- Monthly and Annual Uploads
- Annual Financial Report
- Board Minutes Deficiencies

These internal control deficiencies are further detailed in the comments below.

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

A similar comment also appeared in prior Report B54864, entitled *INTERNAL CONTROLS*.

Condition and Context

Financial Close and Reporting

The Clerk-Treasurer submitted, after review from a financial consultant, financial information into the Indiana Gateway for Government Units (Gateway) financial reporting system, which is the source of the Annual Financial Report and financial statement. While there was segregation of duties in place, there was no documented evidence of a review, oversight, or approval process provided by the Town prior to financial information submission into Gateway.

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

Components of Internal Control

After discussion with the current Clerk-Treasurer, it was determined that there was no documented evidence to verify that the information and communication and monitoring components of internal control within the Town were properly designed or implemented.

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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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"Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information. Internal communication enables personnel to receive a clear message that control responsibilities are taken seriously by the organization. External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

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

MONTHLY AND ANNUAL UPLOADS

Condition and Context

The files that are required to be uploaded monthly to the Indiana Gateway for Government Units financial reporting system include the bank statements and reconciliations, approved Town Council minutes, and the funds ledger, summarizing total receipts, disbursements, and balances by fund.

Annual upload requirements include the year-end investment statements, detail of receipt activity, detail of disbursement activity, current year salary ordinance, and an annual vendor history report.

Of the nine months selected for testing, six of the months did not have bank statements uploaded until 2024, after the start of the audit engagement. One of the months selected for testing did not have the Town Council minutes uploaded until 4 days past the due date. A different month did not have the bank reconciliations, outstanding checklist, Town Council minutes, and funds ledgers until 10 days past the due date. One month selected for testing did not have the Town Council minutes uploaded until 122 days past the due date. The funds ledger for that month was not uploaded until 17 days past the due date. Lastly, one month selected for testing did not have the Town Council minutes uploaded. The funds ledger for that month was not uploaded until 19 days past the due date.

The Town did not timely upload five of the seven required annual uploads for the 2019 audit year. None of the required annual uploads were uploaded timely for the 2020 audit year. Lastly, for the 2021 audit year, only the detail of receipt and disbursement activity files were completed; however, they were not uploaded timely.

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)

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:

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

Cash and Investments

The Investment Fund Statement was not completed for any year during the audit.

Schedule of Leases and Debt:

The Redevelopment Authority Lease Rental Revenue Bonds was omitted from the debt schedule, which caused ending principal balance to be understated by \$1,255,000.

The information related to leases and debt reported in the AFR is utilized to compile the Schedule of Leases and Debt presented as Other Information in the Financial Statements Audit Report of the Town. Therefore, this error also appeared in this schedule. An adjustment was proposed, accepted by the Town, and made to the Schedule of Leases and Debt.

Capital Assets

Amounts reported on the Schedule of Capital Assets originally classified the Redevelopment Authority assets within governmental activities.

The information related to capital assets reported in the AFR is utilized to compile the Schedule of Capital Assets presented as Other Information in the Financial Statements Audit Report of the Town. Therefore, this error also appeared in this schedule. An adjustment was proposed, accepted by the Town, and made to the Schedule of Capital Assets.

Schedule of Payables and Receivables:

The Town did not provide adequate audit documentation to support the amounts included in the Schedule of Payables and Receivables. Supporting documentation did not agree with the information related to payables and receivables reported in the AFR utilized to compile the Schedule of Payables and Receivables.

Criteria

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

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](#)."

BOARD MINUTES DEFICIENCIES

Condition and Context

Town Council minutes were not kept for any meetings in November or December 2020 or March 22, 2021.

In addition, 13 meetings in 2021 did not have formal minutes recorded. The Clerk-Treasurer provided packets of information presented at the meetings; however, the Town Council's precise actions and approvals could not be ascertained. There was no audit evidence of the meetings' minutes notes being approved at subsequent meetings.

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."

CLERK-TREASURER
TOWN OF SHIPSHEWANA
EXIT CONFERENCE

The contents of this report were discussed on December 12, 2024, with Tad T. Hite, Clerk-Treasurer; Terry Martin, Town Manager; Sally Balzer, Utility Clerk; Christine Yoder, President of the Town Council; Lynn Bontrager, Town Council member; and Ruth Ann Downey, former Clerk-Treasurer.



TOWN COUNCIL
TOWN OF SHIPSHEWANA

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TOWN OF SHIPSHEWANA
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROL DEFICIENCIES

Condition and Context

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- Board Minutes Deficiencies
- Conflict of Interest

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TOWN COUNCIL
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AUDIT RESULTS AND COMMENTS
(Continued)

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- (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."

CONFLICT OF INTEREST

Condition and Context

It was identified during the audit period that the Town had entered into related-party transactions with a local vendor involving Town Council member, Tad T. Hite (Hite). Hite is considered a "public servant" per Indiana Code 35-31.5-2-261. With respect to Hite Uniform Company, LLC, Hite served as the "President" of the entity, while his wife served as "Vice President," per a review of documents on file with the Indiana Secretary of State.

Based on the circumstances, a conflict-of-interest disclosure for these related-party transactions was required to be filed. There was no evidence to support a conflict-of-interest disclosure was filed with the Indiana State Board of Accounts or the LaGrange County Clerk of the Circuit Court in 2021 that covered this matter. The related-party transaction in 2021 totaled \$600 to Hite Uniform Company, LLC.

Criteria

Indiana Code 34-44.1-1-4(d) states in part:

"A disclosure must:

- (1) be in writing;
- (2) describe the contract or purchase to be made by the governmental entity;
- (3) describe the pecuniary interest that the public servant has in the contract or purchase;
- (4) be affirmed under penalty of perjury;
- (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the governmental entity before final action on the contract or purchase;
- (6) be filed within fifteen (15) days after final action on the contract or purchase with:

TOWN COUNCIL
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AUDIT RESULTS AND COMMENTS
(Continued)

(A) the state board of accounts; and

(B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase . . ."

Conflict of interest disclosures must be completed on Gateway. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

The attorney for the unit or a private attorney must be consulted in regard to whether a conflict of interest disclosure statement must be filed and whether the format of the disclosure is sufficient. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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EXIT CONFERENCE

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