76252S

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF MARENGO

CRAWFORD COUNTY, INDIANA

January 1, 2020 to December 31, 2023

FILED
10/15/2024

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SCHEDULE OF OFFICIALS

Office	Official	Term
Clerk-Treasurer	Katy Brewer	01-01-20 to 12-31-24
President of the Town Council	Michael Haverstock	01-01-20 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 MARENGO, CRAWFORD COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Marengo (Town), for the period from January 1, 2020 to December 31, 2023. 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

Beth Kelley, CPA, CFE
Deputy State Examiner

October 2, 2024

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CLERK-TREASURER
TOWN OF MARENGO

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

The same comment also appeared in prior Report B54990.

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not established an effective internal control system that had separated incompatible activities related to cash and investments and receipts.

Cash and Investments

The Deputy Clerk-Treasurer performed monthly bank reconcilements; however, there were no documented internal controls in place, such as an oversight, review, or approval process to ensure the accuracy of cash and investment balances.

Receipts

The Deputy Clerk-Treasurer received payments, prepared and made deposits, and posted to the ledger. There were no documented internal controls in place, such as an oversight, review, or approval process to ensure the accuracy of collections and posting of receipts.

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.
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> 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

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 effective internal controls over the AFR information entered into Gateway, which resulted in the following errors:

Grant Information

- The Community Facilities and Grants - 10.766 was understated by $64,427 for 2020, overstated by $216,416 for 2021, understated by $54,161 for 2022, and understated by $49,977 for 2023.
- The COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - 21.027 was understated by $6,524 for 2021, understated by $166,665 for 2022, and understated by $27,592 for 2023.

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

The capital assets listing presented for audit was dated October 25, 2023. It did not contain the acquisition values or purchase dates of the capital assets. As a result, the amount reported for capital assets in the AFR could not be verified. The Town reported capital assets of $6,533,566 at December 31, 2023.

The Town elected not to present the Schedule of Capital Assets as part of the Other Information in the Financial Statements Audit Report of the Town.

Payables and Receivables

The Town did not report amounts for accounts payable and accounts receivable nor did they maintain any supporting documentation for payables and receivables.

The Town elected not to present the Schedule of Payables and Receivables as part of the Other Information in the Financial Statements Audit Report of the Town.

Leases and Debt

Although the Town reported leases and debt on the AFR, the submission included immaterial variances in ending principal balance and principal due within one year for notes and loans payable as follows:

- The ending principal balance was overstated by $12,506 at December 31, 2020, and understated by $10,618 for both December 31, 2021 and 2022.
- The principal due within one year was understated by $20,192 at December 31, 2020, $4,150 at December 31, 2021, $3,074 at December 31, 2022, and $3,006 at December 31, 2023.

Audit adjustments were proposed, accepted by the Town, and made to the Schedule of Leases and Debt presented as Other Information in the Financial Statements Audit Report of the Town.

Criteria

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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."

FUND SOURCES AND USES

A similar comment appeared in a Management Letter addressed to the Clerk-Treasurer for the period ending December 31, 2019.

Condition and Context

Internal controls were not in place to ensure compliance with laws and regulations pertaining to the recording of state and local distributions. State distributions, local distributions, and local income taxes were recorded in the incorrect funds as follows:

- 2020 - $1,145 of Certified Shares Distributions incorrectly posted to CEDIT fund instead of General Fund.
- 2021 - $2,487 of Certified Shares Distributions incorrectly posted to CEDIT fund instead of General Fund.
- 2022 - $1,745 of Economic Development Tax Distribution incorrectly posted to General Fund instead of CEDIT fund.
- 2022 - $78 of Local Opioid Settlement Distribution incorrectly posted to Local Law Enf Cont Ed fund instead of Opioid Settlement fund (fund not yet created).
- 2023 - $55 of Local Opioid Settlement Distribution incorrectly posted to Local Law Enf Cont Ed fund instead of Opioid Settlement fund (fund not yet created).

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:

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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)

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)

CAPITAL ASSETS

The same comment also appeared in prior Report B54990.

Condition and Context

Internal controls were not in place to ensure that the capital assets listing contained the required information and was up to date. The capital assets listing presented for audit was dated October 25, 2023. It did not contain the acquisition values or purchase date of the capital assets. As a result, the amount reported for capital assets on the Annual Financial Report could not be verified. The Town reported capital assets of $6,533,566 at December 31, 2023.

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:

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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)

PENALTIES, INTEREST, AND OTHER CHARGES

This same comment appeared in a Management Letter addressed to the Clerk-Treasurer for the period ending December 31, 2019.

Condition and Context

Internal controls were not in place to ensure that claims were paid timely so that penalties and interest were not incurred. Of the 39 claims tested, 6 contained payments of service charges, late charges, or interest due to the payments being made after the due date. The payments of service charges, late charges, and interest observed during the audit of claims totaled $48 paid to four different vendors.

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:

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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)

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

MOTOR VEHICHLE HIGHWAY (MVH) - RESTRICTED FUND

The same comment also appeared in prior Report B54990.

Condition and Context

Internal controls were not in place to ensure that distributions were properly receipted to the MVH Restricted (MVHR) fund. The Town created the required MVHR fund within its financial records; however, it did not receipt the required 50 percent of the state motor vehicle highway distributions, any other receipts, or post any disbursements to the MVHR fund. As such, the fund is not included in the Financial Statement Audit Report of the Town as it had no balances or transactions during any year of the audit period.

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:

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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. . . .

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)

CLERK-TREASURER
TOWN OF MARENGO
EXIT CONFERENCE

The contents of this report were discussed on October 2, 2024, with Michael Haverstock, President of the Town Council; Katy Brewer, Clerk-Treasurer; and Tonia Jones Elliott, Deputy Clerk-Treasurer.

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TOWN COUNCIL
TOWN OF MARENGO

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

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Cash and Investments

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Receipts

The Deputy Clerk-Treasurer received payments, prepared and made deposits, and posted to the ledger. There were no documented internal controls in place, such as an oversight, review, or approval process to ensure the accuracy of the collection and posting of receipts.

Criteria

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CAPITAL ASSETS

The same comment also appeared in prior Report B54990.

Condition and Context

Internal controls were not in place to ensure the Town had adopted a capital assets policy. The Town had not established a policy that detailed the threshold at which an item is considered a capital asset.

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:

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TOWN COUNCIL
TOWN OF MARENGO
EXIT CONFERENCE

The contents of this report were discussed on October 2, 2024, with Michael Haverstock, President of the Town Council; Katy Brewer, Clerk-Treasurer; and Tonia Jones Elliott, Deputy Clerk-Treasurer.