

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF WARREN

HUNTINGTON COUNTY, INDIANA

January 1, 2020 to December 31, 2023



FILED
07/03/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Marilyn Morrison	01-01-20 to 12-31-24
President of the Town Council	Ethan Stivers	01-01-20 to 12-31-21
	Steve Buzzard	01-01-22 to 12-31-24
Utility Office Manager	Lee Poulson	01-01-20 to 08-09-20
	Brian Sills	08-10-20 to 12-31-21
	Lee Poulson	01-01-22 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 WARREN, HUNTINGTON COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Warren (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, CPA, CFE
Deputy State Examiner

June 11, 2024

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CLERK-TREASURER
TOWN OF WARREN

CLERK-TREASURER
TOWN OF WARREN
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

A similar comment also appeared in prior Reports B53871 and B56344, entitled *INTERNAL CONTROLS*.

Condition and Context

Although the Town Council had established internal control standards by passing Ordinance 2016-04 on June 13, 2016, the Town had not implemented these standards or assessed the quality of internal controls. As a result, there were several deficiencies in the internal control system of the Town related to the following significant audit areas:

Cash and Investments

The Clerk-Treasurer was responsible for performing the bank reconciliation of the depository accounts with the record balance. While there was a documented review and approval process in place, the internal controls did not prevent, or detect and correct, errors in the below comments entitled *BANK ACCOUNT RECONCILEMENTS* and *INTEREST ON INVESTMENTS*.

Receipts

The Town did not have proper segregation of duties to ensure the accuracy of the receipts. A Clerk-Treasurer's office employee would collect receipts, record them to the financial ledger, and make deposits with no additional oversight or review by another person.

Financial Close and Reporting

The Town did not have a proper system of internal controls in place to ensure transactions in the records were accurately reported in the Indiana Gateway for Government Units financial reporting system, which is the source of the Annual Financial Report and financial statements, for calendar years 2020 through 2022. For calendar year 2023, while there was a documented review and approval process in place, the internal controls did not prevent, or detect and correct, misstatements in the below comment entitled *ANNUAL FINANCIAL REPORT*.

In addition, internal control deficiencies resulted in noncompliance over the following:

- Condition of Records
- Motor Vehicle Highway (MVH) - Restricted Fund
- Capital Assets
- Certification of Internal Control Standards

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 WARREN
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

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 financial reporting system. The AFR contained the following errors:

Financial Data

In total, receipt and disbursement amounts were each understated in 2021, 2022, and 2023 by \$450,775, \$590,946, and \$17,500, respectively, from the State Revolving Fund (SRF) activity.

Audit 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 for the Town.

Capital Assets

The Town did not report water infrastructure from its SRF project in the amount of \$1,284,838.

An audit adjustment was proposed, accepted by the Town, and made to the Schedule of Capital Assets presented as Other Information in the Financial Statements Audit Report for the Town.

Leases and Debt

The ending principal balance at December 31, 2023, for the Water System Upgrade E project was overstated by \$58,000.

An audit adjustment was proposed, accepted by the Town, and made to the Schedule of Leases and Debt presented as Other Information in the Financial Statements Audit Report for the Town.

CLERK-TREASURER
TOWN OF WARREN
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

A similar comment also appeared in prior Reports B45860, B53871, and B56344, entitled *Bank Account Reconciliations*.

Condition and Context

The Town did not have a process in place that ensured a combined monthly bank reconciliation was prepared and agreed with the fund balances. The Town did not include the State Revolving Fund (SRF) bank accounts in its bank reconciliations.

Throughout the audit period, the Town continued to accumulate bank reconciliation adjustments. Examples of adjustments were monies being deposited into the incorrect bank account, several monthly unidentified variances ranging from a deduction of \$773 to an addition of \$806, a duplicate payroll error deduction of \$11,362, and an adjustment created by the Town's software vendor during 2020 that related to items prior to 2020 for an addition in the amount of \$9,535, which was not supported. As of December 31, 2023, the Town and Utility bank account reconciliations had a combined 57 adjustments netting to \$23,444, some due to identified errors and some were unidentified and could not be verified to supporting documentation. The following total amount of adjustments that require correction:

	Amount and Number of Uncorrected Adjustments							
	December 31, 2020		December 31, 2021		December 31, 2022		December 31, 2023	
	Amount	Nos. of Items	Amount	Nos. of Items	Amount	Nos. of Items	Amount	Nos. of Items
Town	\$ (15,774)	11	\$ 376	6	\$ 269	7	\$ (18,275)	17
Utility	11,949	22	14,221	16	13,513	22	41,719	40
Totals	\$ (3,825)	33	\$ 14,597	22	\$ 13,782	29	\$ 23,444	57

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."

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

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

INTEREST ON INVESTMENTS

Condition and Context

During the audit period, accrued interest had not been recorded for one of the Town's investments. By December 31, 2023, the investment had accrued \$20,574 in interest that was not recorded in the funds ledger. The investment was cashed in during the course of the audit in 2024.

Criteria

Interest on investments should not be added automatically to 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)

CONDITION OF RECORDS

Condition of Records

Of the 28 disbursements from the State Revolving Fund (SRF) bank accounts for construction contracts during the audit period, 16 of them, totaling \$1,184,719, were not recorded in the Town's ledgers.

Criteria

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (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 allocate at least 50 percent of the MVH distributions from the State Motor Vehicle Highway Account into the MVH Restricted fund in 2021 or 2023. In 2021, the Town receipted \$4,582 into the Local Road and Street fund instead of the MVH Restricted fund. In 2023, the Town receipted \$17,520 more into the Motor Vehicle Highway fund instead of the MVH Restricted fund.

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."

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

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)

CAPITAL ASSETS

Condition and Context

The Town had not maintained a detailed listing of capital assets. Two of the ten capital assets selected for observation had been disposed of, but not deleted from the listing. Other disposals noted in the Town Council minutes during the audit period were not removed from the listing.

In addition, the Town was unable to provide documentation that a completed physical inventory was performed 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)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Town certified on the Indiana Gateway for Government Units financial reporting system that all personnel defined by Indiana Code 5-11-1-27(c) had received training concerning the internal control standards adopted by the Town; however, during the audit, the Town could not provide supporting documentation showing all required personnel had received training concerning the internal control standards.

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

June 12, 2024

Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: Town of Warren, Huntington County
Audit – Official Response

General Statement: This was a four year audit including 2020-2023 into the early months of 2024

Internal Controls:

- Bank reconcilements are done monthly as required.
- It is difficult with only two people in the office to meet segregated duties required as both people in the office collect payments at the counter, receipt payment, and deposit payments. Also, when one person is not available, there can be no segregation of duties between collection of funds, balancing of receipts, and depositing of funds.
- Do not know what 'condition of records' refer to as there were few requests for additional records to those on audit site.

Annual Financial Report:

- This finding relates solely to the Bank of New York, SRF Loan, being added to the Keystone System although all payments were tracked and provided.

Condition and Context:

- Fixed Asset Accounting is contracted out and the auditors and that company cleared the issue.

Leases and Debt:

- Related to SRF timing of information through bank statements.

Reconciliations:

- This again relates to SRF and will be corrected.
- Adjustments date back prior to 2020 and have not been corrected due to those early adjustments being made by consultant who became ill and did not finish the work. The process will continue to remove.

Interest on Investments:

- The Town, during the time of the audit, had 11 CD accounts. Interest was never applied to any CD but was received by Check from the financial instituion. The Interest applied as noted here was to ONE CD in December of 2023 which that bank had not done with any of the multiple CDs held. There was no way to correct that but shown in the books, 2024.

Condition of Records:

- Again relates only to SRF and corrected.

MVH Restricted Fund

- These monies were separated upon resceipt but, a separate fund was not established at the time for Restricted. However, within the main MVH Fund, a revenue account had been established so that the monies were separated. A Restricted Fund had been established and transfer had been made prior to the audit.

Capital Assets:

- Contracted Out. The auditors worked with Contractor to correct the issue.

I appreciate the opportunity to respond and clarify issues from this perspective. Reviewed by Council President and Vice President. Appreciated was direction gained from the auditors on processes to be addressed.

Town of Warren

Marilyn Morrison
Clerk-Treasurer

CLERK-TREASURER
TOWN OF WARREN
EXIT CONFERENCE

The contents of this report were discussed on June 11, 2024, with Steve Buzzard, President of the Town Council; Michelle Schweikhardt, Town Council member; Jeremy Rufener, Town Council member; and Marilyn Morrison, Clerk-Treasurer.

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TOWN COUNCIL
TOWN OF WARREN

TOWN COUNCIL
TOWN OF WARREN
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROL STANDARDS

A similar comment also appeared in prior Reports B53871 and B56344, entitled *TRAINING ON INTERNAL CONTROL STANDARDS*.

Condition and Context

The Town could not provide supporting documentation showing all personnel defined by Indiana Code 5-11-1-27(c) had received training concerning the internal control standards adopted by the Town.

Criteria

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

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

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

TOWN COUNCIL
TOWN OF WARREN
EXIT CONFERENCE

The contents of this report were discussed on June 11, 2024, with Steve Buzzard, President of the Town Council; Michelle Schweikhardt, Town Council member; Jeremy Rufener, Town Council member; and Marilyn Morrison, Clerk-Treasurer.