

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF BLUFFTON

WELLS COUNTY, INDIANA

January 1, 2023 to December 31, 2023



FILED
10/29/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Tamara D. Runyon Michelle Simon Briana Lautzenheiser	01-01-23 to 12-31-23 01-01-24 to 09-02-24 09-03-24 to 12-31-24
Mayor	John Whicker	01-01-23 to 12-31-24
President of the Board of Public Works and Safety	John Whicker	01-01-23 to 12-31-24
President Pro Tempore of the Common Council	Scott Mentzer	01-01-23 to 12-31-24
Utility Operations Manager	Jon S. Oman	01-01-23 to 12-31-24



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF BLUFFTON, WELLS COUNTY, INDIANA

This report is supplemental to the audit report of the City of Bluffton (City), for the period from January 1, 2023 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 City. It should be read in conjunction with the Financial Statement Audit Report of the City, which provides our opinions on the City's financial statement. 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

October 10, 2024

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CLERK-TREASURER
CITY OF BLUFFTON

CLERK-TREASURER
CITY OF BLUFFTON
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

A similar comment appeared in prior Report B61129.

Condition and Context

The Annual Financial Report (AFR) is required to be submitted annually via the Indiana Gateway for Government Units (Gateway) financial reporting system, which is the source of the City's financial statement and Schedule of Expenditures of Federal Awards (SEFA). The City had not established effective internal controls over the information submitted in the AFR, which resulted in the following errors:

Financial Data

- The Electric Utility-Operating fund receipts and ending cash and investments balance were each overstated by \$12,923,885.
- The Wastewater SRF 2023 Construction Loan fund with receipts, disbursements, and an ending cash and investments balance of \$35,812,317; \$4,517,853; and \$31,294,464, respectively, was omitted from the financial statement.
- The SRF Bluffton BAN23 fund with receipts and disbursements of \$1,567,618 each was omitted from the financial statement.
- The Wastewater Utility-Operating fund receipts and ending cash and investments balance were each overstated by \$3,191,779.
- The Water Utility-Operating fund receipts were overstated \$2,007,130, and disbursements were understated \$114,724, resulting in an ending cash and investments balance overstatement of \$2,121,854.
- Several additional funds had individually immaterial errors or omissions that resulted in a receipts and disbursements understatement of \$527,165 and \$838,679, respectively, and an ending cash and investments balance overstatement of \$311,514.

Adjustments were proposed, accepted by the City, and made to the financial statement and to the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Other Information in the Financial Statement Audit Report of the City.

Grants

- The Outdoor Recreation Acquisition, Development and Planning expenditures were overstated by \$1,511,895.
- The COVID-19 - Coronavirus State and Local Fiscal Recovery Funds expenditures totaling \$3,936,831 were omitted.
- The Clean Water State Revolving Fund expenditures totaling \$6,085,471 were omitted.

Adjustments were proposed, accepted by the City, and made to the SEFA presented in the Federal Compliance Audit Report of the City.

CLERK-TREASURER
CITY OF BLUFFTON
AUDIT RESULTS AND COMMENTS
(Continued)

Capital Assets

The City did not provide complete documentation to support the capital assets information entered into Gateway. The financial reporting framework utilized by the City includes the option to present a Schedule of Capital Assets as Other Information in its Financial Statement Audit Report. The City elected to not present this schedule.

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. . . ."

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](#)."

CONDITION OF RECORDS

Condition and Context

The City had not designed or implemented effective internal controls over the 2023 financial records. The lack of effective internal controls allowed noncompliance to go undetected during the audit period.

The City's general ledger balance for utility related funds exceeded its reconciled bank account balances by \$1,835,814 as of December 31, 2023. The variance was substantially due to State Revolving Fund (SRF) activity not being completely and accurately recorded at the time of the transactions, which included the following:

- The Wastewater SRF 2023 Construction Loan fund receipts and disbursements were under-recorded by \$138,813 and \$1,025,400, respectively.
- The Sewage Works Sinking Fund receipts were over-recorded by \$851,568.
- The Water Filtration Sinking Fund (SRF) fund receipts were over-recorded by \$108,641.
- Four additional SRF related funds receipts were aggregately under-recorded by \$11,552.

CLERK-TREASURER
CITY OF BLUFFTON
AUDIT RESULTS AND COMMENTS
(Continued)

As well, the City's general ledger balance for non-utility related funds exceeded its reconciled bank account balances by \$758 as of December 31, 2023.

Criteria

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)

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)

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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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. . . ."

CAPITAL ASSETS

A similar comment appeared in prior Report B61129.

Condition and Context

The City had not designed or implemented internal controls over capital assets. The lack of internal controls allowed noncompliance to go undetected during the audit period.

The City did not have a complete detailed listing of capital assets during the audit period as the City's detailed listing of capital assets did not include an acquisition value for a substantial number of items documented in the listing.

CLERK-TREASURER
CITY OF BLUFFTON
AUDIT RESULTS AND COMMENTS
(Continued)

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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CONFLICTS OF INTEREST

Condition and Context

It was identified that during the audit period, the City had entered into related-party transactions with two vendors involving City Council member, Rick Elwell (Elwell), and City Council and Board of Public Works and Safety member, Joshua Hunt (Hunt). Elwell and Hunt are considered a "public servant" per Indiana Code 35-31.5-2-261. With respect to Stylus Productions, LLC, Elwell served as the Vice President of the entity, per a review of documents on file with the Indiana Secretary of State. With respect to Craigville Appliance, Inc., Hunt served as President of the entity per review of supporting documentation obtained.

Based upon the circumstances, the Indiana State Board of Accounts would expect a conflict of interest disclosure for these related-party transactions to be filed. However, there was no evidence to support that a conflict of interest disclosure was filed with the Indiana State Board of Accounts or the Wells County Clerk of the Circuit Court during the audit period that covered these matters. The related-party transactions in 2023 totaled \$301 to Stylus Productions, LLC and \$2,789 to Craigville Appliance, Inc. Additionally, subsequent period related-party transactions were identified, totaling \$24,825 to Stylus Productions, LLC and \$1,818 to Craigville Appliance, Inc.

CLERK-TREASURER
CITY OF BLUFFTON
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Indiana Code 35-44.1-1-4(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:
 - (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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CLERK-TREASURER
CITY OF BLUFFTON
EXIT CONFERENCE

The contents of this report were discussed on October 10, 2024, with Briana Lautzenheiser, Clerk-Treasurer; John Whicker, Mayor; and Scott Mentzer, President Pro Tempore of the Common Council.