

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF CHALMERS

WHITE COUNTY, INDIANA

January 1, 2023 to December 31, 2023



FILED
09/21/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Rene'e Collier	01-01-23 to 12-31-24
President of the Town Council	Kristofer Kelley Pamela Brown	01-01-23 to 03-11-23 03-12-23 to 12-31-24



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF CHALMERS, WHITE COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Chalmers (Town), 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 Town. It should be read in conjunction with the Financial Statement Audit Report of the Town, which provides our opinions on the Town'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

September 9, 2024

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CLERK-TREASURER
TOWN OF CHALMERS

CLERK-TREASURER
TOWN OF CHALMERS
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

A similar comment appeared in the last three prior Reports B45504, B53904, and B61461.

Condition and Context

There were deficiencies in the internal control system of the Town related to receipts, disbursements, financial close and reporting, grants, and compliance.

Receipts

The Town had not properly designed or implemented internal controls over receipts for Electronic Fund Transfers (EFT). The Town receives EFT payments which are deposited into the Town's bank accounts. Receipts for EFTs are recorded in the Town's ledgers by the Clerk-Treasurer without an oversight or review process in place to ensure accuracy. As a result, the Town erroneously receipted grant monies into the Water Utility Operating fund, commingling Town and federal funds.

Disbursements

The Town had not designed or implemented effective internal controls over disbursements. Though disbursements are processed by the Clerk-Treasurer and reviewed and approved by the Town Council, this was not effective at ensuring disbursements were properly posted. The Town erroneously disbursed grant monies from the Water Utility Operating fund, commingling Town and federal funds.

Financial Close and Reporting

The Town had not established effective internal controls over the financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Town's financial statements. The Town hired a consultant to assist in the financial report submission; once prepared, the Clerk-Treasurer enters the information into Gateway, which is subsequently presented to the Town Council for review and approval. The implemented internal control was not effective and did not detect and allow correction of errors prior to submission.

Grants

The Town had not established effective internal controls over the grant information entered into the Gateway, which was the source of the Schedule of Expenditures of Federal Awards (SEFA). Although the Clerk-Treasurer prepared and entered the federal award information into Gateway and the Town Council reviewed it prior to submission, the review process was not effective and did not detect and allow corrections of errors prior to submission.

Compliance

The Town did not have adequate internal controls in place to ensure compliance with applicable laws and regulations. Additional details on noncompliance are noted in the comments following this comment and entitled:

- Penalties, Interest, and Other Charges
- Annual Financial Report

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

- Fund Sources and Uses
- Compensation and Benefits
- Bank Account Reconciliations

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. . . ."

PENALTIES, INTEREST, AND OTHER CHARGES

The same comment appeared in the immediately prior Report B61461.

Condition and Context

The Town did not pay all claims and remit all taxes in a timely manner, which resulted in penalties and interest being assessed. On two occasions during the audit period, the Town did not pay sales tax and payroll withholding taxes in a timely manner. The late tax remittances resulted in \$564 in penalties and interest being assessed. The Indiana State Board of Accounts has recommended that the Clerk-Treasurer repay the Town for the penalty and interest amounts.

Criteria

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)

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

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. Grant information entered into Gateway is the source of the Schedule of Expenditures of Federal Awards (SEFA). Although the Clerk-Treasurer entered the information into Gateway, and the Town Council approved the information input, the internal controls were not effective and did not detect or allow for correction of the following errors prior to submission:

Financial Data

Due to the lack of effective internal controls, the financial statement presented in the Financial Statement Audit Report of the Town contained errors. The financial activity of the Town's CDBG - State's Program and Non-Entitlement Grants in Hawaii (CDBG) grant were commingled with the Town's Water Utility Operating fund. As a result, receipts and disbursements of the Town's Water Utility Operating fund were each overstated by \$541,933. The Town did not establish a separate fund to account for the CDBG grant funds.

Audit adjustments were proposed, accepted by the Town, and made to the financial statements and 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 Town.

Accounts Payable and Receivable

The Town did not report any accounts payable activity in the AFR via Gateway during the audit period. As a result, the accounts payable schedule was understated by \$111,441.

Audit adjustments were proposed, accepted by the Town, and made to the Schedule of Payables and Receivables presented as Other Information in the Financial Statement Audit Report of the Town.

Grants

Due to the lack of effective internal controls, the grant information entered in Gateway contained the following errors:

- The Drinking Water State Revolving Fund grant was omitted, which understated expenditures by \$412,203.
- The Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii was omitted, which understated expenditures by \$541,933.

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

CLERK-TREASURER
TOWN OF CHALMERS
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 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

Condition and Context

Receipts and disbursements of \$541,933 for the CDBG - State's Program and Non-Entitlement Grants in Hawaii grant were not recorded in an appropriate fund. The Town had not established a separate fund to account for this activity; therefore, the activity was included in the Water Utility Operating fund. The federal grant funds should have been receipted into a separate fund specifically for that grant and not commingled with other funds.

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)

When funds are provided by the federal government either directly to a city or town or through a state agency for any program or project, the following procedures should be followed:

A separate Fund for each grant is required.

(Cities and Towns Bulletin and Uniform Compliance Guidelines June 2020)

COMPENSATION AND BENEFITS

Condition and Context

The Town Council passed Ordinance 2022-11 establishing rates of compensation for employees and elected officials of the Town. The Ordinance established the rates of compensation as well as what fund the compensation was to be paid from.

Based on a sample of payroll disbursements, the following errors were noted:

- Two employees were not paid from the proper funds in accordance with the Town's adopted salary ordinance.
- One employee hired in December 2023 was not paid in accordance with the salary ordinance but rather paid according to the subsequent year's salary ordinance. This resulted in the employee being overpaid for one paycheck.

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

Criteria

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)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

BANK ACCOUNT RECONCILIATIONS

Condition and Context

Bank account reconciliations were being completed and reconciled. However, they were not being done timely. There were two months selected for testing. The May 2023 reconciliation was not completed until July 19, 2023, and the August 2023 reconciliation was not completed until February 22, 2024.

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 CHALMERS
EXIT CONFERENCE

The contents of this report were discussed on September 9, 2024, with Rene'e Collier, Clerk-Treasurer; Marcus King, Town Council member; Lee Trippet, Town Council member; and Linda Herget, Deputy Clerk-Treasurer.