

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

**Paul D. Joyce, CPA
State Examiner**

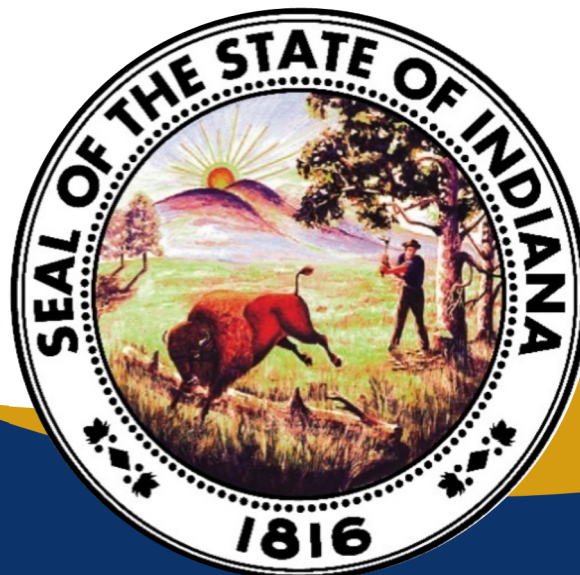
SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF SALEM

WASHINGTON COUNTY, INDIANA

January 1, 2023 to December 31, 2023



FILED

02/17/2025

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Internal Controls	6
Bank Account Reconciliations	6-7
Annual Financial Report - Other Information	7
Exit Conference	8
City Water Utility:	
Audit Result and Comment:	
Ordinances and Resolutions - Utility Billings	10
Exit Conference	11

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sally J. Hattabaugh	01-01-23 to 12-31-25
Mayor	Justin Green	01-01-23 to 12-31-25
President of the Board of Public Works	Justin Green	01-01-23 to 12-31-25
President Pro Tempore of the Common Council	Danny Libka Steve Crane Dylan M. Moore	01-01-23 to 12-31-23 01-01-24 to 12-31-24 01-01-25 to 12-31-25
Utility Office Manager	Edith Sutcliff Melissa Burton	01-01-23 to 01-31-24 02-01-24 to 12-31-25



Paul D. Joyce, CPA
State Examiner

INDIANA STATE BOARD OF ACCOUNTS

302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769
Telephone: (317) 232-2513
Fax: (317) 232-4711
www.in.gov/sboa

TO: THE OFFICIALS OF THE CITY OF SALEM, WASHINGTON COUNTY, INDIANA

This report is supplemental to the audit report of the City of Salem (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

February 4, 2025



CLERK-TREASURER
CITY OF SALEM

CLERK-TREASURER
CITY OF SALEM
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Condition and Context

Internal controls were not in place to ensure the City complied with laws and regulations. Internal control deficiencies resulted in noncompliance with the following areas and are detailed further in the comments below:

- Bank Account Reconciliations
- Annual Financial Report - Other Information

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. . . ."

BANK ACCOUNT RECONCILIATIONS

Condition and Context

In total, the City had 12 bank accounts which should have been reconciled monthly to the City's financial ledgers. Of the 144 monthly reconcilments required during the audit period, 29 were selected for testing. Of those selected, 6 did not have a properly completed bank reconciliation.

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

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."

ANNUAL FINANCIAL REPORT - OTHER INFORMATION

A similar comment also appeared in prior Report 000000229S, entitled *ANNUAL FINANCIAL REPORT - OTHER INFORMATION*.

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 Leases and Debt information entered into Gateway included the following errors.

- The City incorrectly reported two debts as leases, which overstated total annual lease payments by \$66,788, understated the total ending principal balance by \$208,154, and understated the total principal due within one year by \$60,168.
- The City incorrectly reported the ending principal balance for three debts. The Waterworks Revenue and Refunding Bonds of 2021 Series A, Waterworks Revenue Bonds Series B, and Waterworks Revenue Bonds Series C ending principal balances were understated by \$88,000, \$38,000, and \$19,000, respectively.

Adjustments were proposed, accepted by the City, and made to the AFR and to the Schedule of Leases and Debt presented as Other Information in the Financial Statement Audit Report of the City.

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](#)."

CLERK-TREASURER
CITY OF SALEM
EXIT CONFERENCE

The contents of this report were discussed on February 4, 2025, with Sally J. Hattabaugh, Clerk-Treasurer; Justin Green, Mayor; and Dylan M. Moore, President Pro Tempore of the Common Council.

CITY WATER UTILITY
CITY OF SALEM

CITY WATER UTILITY
CITY OF SALEM
AUDIT RESULT AND COMMENT

ORDINANCES AND RESOLUTIONS - UTILITY BILLINGS

Condition and Context

Internal controls were not in place to ensure the City complied with laws and regulations pertaining to its Water Utility rate ordinance. The City adopted Ordinance 2021-23 establishing Water Utility rates, which were effective January 1, 2022. Water service rates are based on metered consumption.

A sample of 25 bills during the audit period indicated customers were charged a water service rate that did not agree to Ordinance 2021-23. The water customer bills tested included the following errors:

- The minimum monthly charge was set at \$16.46 per the Ordinance, and customers for which the minimum monthly charge applied were charged \$16.33.
- The rate for the first 11,220 gallons used is \$8.80 per the Ordinance, but customers were charged \$8.73 for the first 11,220 gallons.

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. . . ."

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)

CITY WATER UTILITY
CITY OF SALEM
EXIT CONFERENCE

The contents of this report were discussed on February 4, 2025, with Sally J. Hattabaugh, Clerk-Treasurer; Justin Green, Mayor; Dylan M. Moore, President Pro Tempore of the Common Council; and Melissa Burton, Utility Office Manager.