

**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, 2015 to December 31, 2018



**FILED**  
12/04/2019



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Marilyn J. Morrison	01-01-12 to 12-31-19
President of the Town Council	Julia J. Glessner	01-01-15 to 12-31-19
Superintendent of Utilities	Lee E. Poulson	01-01-15 to 12-31-19



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
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INDIANAPOLIS, INDIANA 46204-2769

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TO: THE OFFICIALS OF THE TOWN OF WARREN, HUNTINGTON COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Warren (Town), for the period from January 1, 2015 to December 31, 2018. 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 our Financial Statements Audit Report of the Town, which provides our opinion on the Town's financial statements. This report may be found at [www.in.gov/sboa/](http://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.

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

October 23, 2019

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CLERK-TREASURER  
TOWN OF WARREN

CLERK-TREASURER  
TOWN OF WARREN  
AUDIT RESULTS AND COMMENTS

**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. There were no controls in place, such as an oversight, review, or approval process of the bank reconciliations. There was no review of the bank reconciliation after it was completed by the Clerk-Treasurer.

*Receipts*

The Town did not have segregation of duties to ensure the accuracy of the receipts. A Clerk-Treasurer's office employee could collect receipts, post them to the ledger, and make deposits.

*Disbursements*

There were no controls in place over the payment of payroll expenditures. There was no review of payroll prior to disbursement and posting. Additionally, time cards did not have departmental approval signatures.

There were no controls in place over the advance payments of Town funds. No review was done by Town management to ensure payments were allowed to be paid in advance.

*Financial Close and Reporting*

The Town did not have a proper system of internal control in place to ensure transactions in the records were accurately reported into the Indiana Gateway for Government Units (Gateway) financial reporting system, which is the source of the Annual Financial Report (AFR) and financial statements. The Clerk-Treasurer entered information into Gateway based on yearly accounting reports generated from the Town's accounting software. These reports were reviewed by a local financial consultant; however, there was no documentation to verify the review process. Due to the lack of controls, errors in the Town's financial statements occurred and remained undetected.

An audit adjustment of \$196,852 was proposed, accepted by the Town, and made to the AFR and financial statements to reduce the 2016 Clearing fund disbursements to reconcile with the Town's funds ledger. In addition, an audit adjustment of \$18,000 was proposed, accepted by the Town, and made to the AFR and financial statements to reduce the 2018 Electric Reserve fund receipts to reconcile with the Town's funds ledger.

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

*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. . . ."

**CERTIFICATION AND TRAINING ON INTERNAL CONTROL STANDARDS**

*Condition and Context*

The Clerk-Treasurer incorrectly certified on the 2016 and 2017 AFR that all personnel defined by Indiana Code 5-11-1-27(c) had received training concerning the internal control standards. The Clerk-Treasurer incorrectly certified on the AFR that the Town did not adopt the minimum internal control standards as required by Indiana Code 5-11-1-27(e). The Town did adopt Ordinance 2016-04, which established the minimum level of internal control standards and procedures pursuant to Indiana Code 5-11-1-27.

*Criteria*

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality 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](#)."

**CONDITION OF RECORDS**

*Condition and Context*

The following errors with receipts were noted during the audit period:

1. State distributions recorded in the ledger on December 2, 2015, were all labeled as "Hgtm Co Treas" instead of the Auditor of Indiana.

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

2. On February 7, 2017, the Town received a state distribution of \$1,084 that was deposited in the Town's bank account, but could not be found in the Town's fund ledger. All other state distributions received in 2017 were recorded in the funds ledger, but were not always posted timely.
3. On October 25, 2017, and November 3, 2017, the Town received total state distributions of \$8,382 that were not receipted into the Town's ledger until November 30, 2017.
4. On December 5, 2017, the Town received a state cigarette tax distribution of \$1,583 that was recorded in the General fund instead of the Cumulative Capital Improvement fund. The Town was requested to make a correcting entry to move the tax to the proper fund.
5. On February 5, 2018, and June 29, 2018, the Town received three state distributions totaling \$5,759 that were deposited in the Town's bank account, but could not be found in the Town's fund ledger. One state distribution dated September 17, 2018, was posted untimely on October 1, 2018.
6. Local Motor Vehicle Highway tax of \$31,920 distributed to the Town in December 2015 was recorded in the General fund instead of the Motor Vehicle Highway fund. The Town was requested to make a correcting entry to move the tax to the proper fund.
7. Local Cumulative Capital Development tax of \$87 distributed to the Town in December 2015 was recorded in the Cumulative Fire fund instead of the Cumulative Capital Development fund.
8. Local Cumulative Fire tax of \$187 distributed to the Town in December 2015 was recorded in the Cumulative Capital Development fund instead of the Cumulative Fire fund.
9. Local Cumulative Fire tax of \$3,652 distributed to the Town in December 2015 was recorded in the Cumulative Fire fund, but only \$3,253 could be verified.
10. A customer deposit in the amount of \$55 was collected in November of 2017, but was not receipted into the funds ledger until March of 2018.

In addition, of 114 vendor claims sampled, 12 vendor claims did not have sufficient supporting documentation. A \$7,113 transfer from the Water Building Corp fund to the Water Utility-Operating fund could not be traced to supporting documentation or an Accounts Payable Voucher.

The Consumer's Guarantee Deposits Receipts (Form No. 310) for the Water and Wastewater Utility from January through August of 2015, and the February 2016 General fund bank statement were not presented for audit. Furthermore, the Clerk-Treasurer's Receipts (Form No. 217) for January 2018 were not presented for audit.

*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)

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

**BANK ACCOUNT RECONCILIATIONS**

A similar comment also appeared in prior Reports B39853 and B45860.

*Condition and Context*

There was no reconciliation of the combined cash and investment balances to the total funds balance prepared by the Town. A separate depository reconciliation for each bank account was prepared, except for the Clearing fund bank account. In some instances, depository reconciliations of the fund balances to the bank account balances were incomplete and incorrect. Some amounts used in the reconciliations could not be verified to supporting documentation. The ledger balance exceeded the bank balance for each year at December 31 as follows:

Years	Amount
2015	\$ 986
2016	15,461
2017	17,646
2018	16,194

*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."

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, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

**INVESTMENTS**

*Condition and Context*

Investment transactions and balances were not properly recorded on the Town's financial accounting system. As of December 31, 2018, investments totaling \$2,646,674 were not recorded in the Town's Fund Report.

*Criteria*

1. At the time investments are purchased, the fiscal officer and/or bookkeeper should enter the full cost of the securities (purchase price plus accrued interest) as a disbursement from the fund or funds from which the investment is made. Where investment is made from "total monies on deposit," the warrant or check issued will not be posted in the ledger, but a memorandum account should be set up in a separate section of the ledger to which investment transactions will be posted.
2. When investment is made from a specific fund, a new fund entitled "Investments Fund" should be set up on the records. The net price (purchase price less accrued interest) should be entered as a receipt to this fund. The Investment Register, General Form 350, or an alternative form providing the same information should be used for keeping a record of all investments purchased by the political subdivision.
3. Interest received in such investments by fund should be entered as a receipt to the fund from which the investment was purchased. Interest received from investment of "total monies on deposit" should be receipted to the general fund or the fund specified by the governing board.
4. When the investments by fund are sold, the full amount of such sale should be entered as receipt to the fund from which the investment was made. The receipt should show separately the principal (purchase price) received and the interest received from the investment. At this time, the net purchase price (purchase price less accrued interest) should also be entered as a disbursement from the "Investments Fund." When the investment from "total monies on deposit" is sold the principal (purchase price) will not be posted as a receipt to the ledger but the interest thereon will be posted as a receipt to the general fund or fund designated by governing board. Proper entry shall be made also in the memorandum account, as well as in the Investment Register.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**USE OF INVESTMENT REGISTER**

*Condition and Context*

The Town used an Excel worksheet to document the investment activity during the audit period; however, it was not an exact replica of the prescribed form, Investment Register (General Form No. 350), and it did not properly report the purchase and redemption dates of investments.

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

*Criteria*

The Investment Register, General Form 350, or an alternative form providing the same information should be used for keeping a record of all investments purchased by the political subdivision. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**OVERDRAWN CASH BALANCES**

A similar comment also appeared in prior Report B45860.

*Condition and Context*

The financial statements presented for audit included the following funds with an overdrawn cash balance:

Fund	Date	Amount Overdrawn
Payroll	12-31-15	\$ 7,516
Payroll	12-31-16	7,516
Payroll Med Ins	12-31-16	8,737
Payroll State	12-31-17	586
Payroll Med Ins	12-31-17	7,507
Payroll Aflac	12-31-17	144
Payroll State	12-31-18	924
Payroll Aflac	12-31-18	216

*Criteria*

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**DELINQUENT ACCOUNTS RECEIVABLE**

A similar comment also appeared in prior Reports B39853 and B45860.

*Condition and Context*

The Town did not terminate utility services for nonpayment until after 30 days had expired and, therefore, was not following their local ordinance.

Additionally, the Town was not recording delinquent wastewater fees and penalties with the County Recorder and was not certifying them to the County Auditor. The Town pursued delinquent accounts receivable through their local attorney.

The Warren Code of Ordinances, Section 52.52 (A), established the shutoff policy for delinquent customers and states in part: "If not paid within 15 days of the due date, the water shall be turned off and not turned on again until all bills and penalties have been paid."

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

*Criteria*

Each governmental 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)

Indiana Code 36-9-23-33 states in part:

". . . (c) Except as provided in subsection (m), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) a list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
  - (A) the name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;
  - (B) a description of the premises, as shown by the records of the county auditor; and
  - (C) the amount of the delinquent fees, together with the penalty;
- (2) an individual instrument for each lot or parcel of real property on which the fees are delinquent.

(d) The officer shall record a copy of each list or each individual instrument with the county recorder. . . .

(f) . . . Using the lists and instruments prepared under subsection (c) and recorded under subsection (d), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (d), certify to the county auditor a list of the unpaid liens for collection with the next May installment of property taxes. . . ."

**UNCOLLECTIBLE UTILITY ACCOUNTS**

*Condition and Context*

There were no write off of bad debts during the audit period. The Town does not have a formal policy to address the write off of uncollectible utility accounts.

*Criteria*

The governing body of a unit must have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balance. Documentation must exist for all efforts made by the unit to collect amounts owed prior to any write-offs. Write-offs or adjustments to records which are not documented or warranted 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 WARREN  
AUDIT RESULTS AND COMMENTS  
(Continued)

***PUBLIC RECORDS RETENTION - ACCOUNTS PAYABLE VOUCHER REGISTER***

A similar comment also appeared in prior Reports B39853 and B45860.

*Condition and Context*

Town Council's approval of claims (Accounts Payable Voucher Register) was not presented for May 2016 and July and October 2017.

*Criteria*

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

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- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation 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 WARREN  
EXIT CONFERENCE

The contents of this report were discussed on October 23, 2019, with Marilyn J. Morrison, Clerk-Treasurer; Julia J. Glessner, President of the Town Council; Steve Buzzard, Town Council member; Carrie Miller, Town Council member; and Ethan Stivers, Town Council member.

TOWN COUNCIL  
TOWN OF WARREN

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AUDIT RESULTS AND COMMENTS

***INTERNAL CONTROLS***

*Condition and Context*

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*Disbursements*

There were no controls in place over the payment of payroll expenditures. There were no review of payroll prior to disbursement and posting. Additionally, time cards did not have departmental approval signatures.

There were no controls in place over the advance payments of Town funds. No review was done by Town Management to ensure payments were allowed to be paid in advance.

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TOWN COUNCIL  
TOWN OF WARREN  
AUDIT RESULTS AND COMMENTS  
(Continued)

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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. . . ."

**TRAINING ON INTERNAL CONTROL STANDARDS**

*Condition and Context*

The Town Council adopted Internal Control Standards on June 13, 2016. The Town Council did not ensure that all officers, elected officials, and employees had received training concerning the internal control standards and procedures.

*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 October 23, 2019, with Marilyn J. Morrison, Clerk-Treasurer; Julia J. Glessner, President of the Town Council; Steve Buzzard, Town Council member; Carrie Miller, Town Council member; and Ethan Stivers, Town Council member.