

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF LAFONTAINE

WABASH COUNTY, INDIANA

January 1, 2017 to December 31, 2019



FILED
05/18/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Cynthia Erb Diana Heath	01-01-17 to 08-13-18 08-14-18 to 12-31-20
President of the Town Council	Jay Gillespie	01-01-17 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF LAFONTAINE, WABASH COUNTY, INDIANA

This report is supplemental to our audit report of the Town of LaFontaine (Town), for the period from January 1, 2017 to December 31, 2019. 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 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.

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

May 13, 2020

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CLERK-TREASURER
TOWN OF LAFONTAINE

CLERK-TREASURER
TOWN OF LAFONTAINE
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were several deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not established an effective system of internal controls related to cash and investments, receipts, disbursements, and financial close and reporting.

Cash and Investments

The Town had implemented controls related to the bank reconciliations; however, the controls were not effective. Bank reconciliations contained unidentified variances and did not properly reconcile to the records.

Receipts

The Town had not established proper controls or separated incompatible activities related to all areas of receipts. There was no documented oversight, review, or approval process, or other compensating control in place by another employee to ensure receipts were processed, recorded, and reported accurately.

Disbursements

Claims for recurring expenses, such as utility expenses, were not approved by the Town Council before or after payment was made. Payroll claims were not approved by the Town Council. Time records prepared by employees were not always reviewed and approved through a documented oversight, review, or approval process.

Financial Close and Reporting

The Clerk-Treasurer independently entered the Town's financial information into the Indiana Gateway for Government Units financial reporting system, which was the source of the Town's financial statement; however, the process was completed without a documented oversight, review, or approval process, or other compensating control in place to ensure that information was submitted accurately.

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.

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

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. . . ."

ERRORS ON CLAIMS (VENDOR AND PAYROLL)

Condition and Context

Claims tested revealed the following issues:

1. Claims did not always have proper documentation to establish which fund the disbursement should have been posted to. These claims were primarily related to payroll or insurance related disbursements.
2. Claims did not always contain a detailed invoice.
3. Vendor and payroll claims did not always have documented Town Council or Clerk-Treasurer approval to be paid.
4. Two employees tested were paid more than the approved rate on the Salary Ordinance.
5. Sales tax was paid on some purchases.
6. Mileage reimbursement rate paid was different than rate contained in the Town's Travel Policy.

Criteria

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

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

RECEIPT ISSUANCE

Condition and Context

Receipts tested did not always have proper documentation to establish which fund and date the receipt should have been posted to. None of the prescribed forms for receipts (352, 217 or 203A) were in use by the Town.

Criteria

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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)

BANK ACCOUNT RECONCILIATIONS

The same comment also appeared in prior Report B48183.

Condition and Context

Although depository reconciliations of the fund balances to the bank account balances were prepared; the reconcilments were not prepared in a timely manner and contained unidentified differences.

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."

APPROPRIATIONS

The same comment also appeared in prior Report B48183.

Condition and Context

Expenditures were in excess of budgeted appropriations for the following funds in the years shown below:

Fund	Years	Excess Amount Expended
Fire	2017	\$ 10,586
Motor Vehicle Highway	2019	39,438

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

Criteria

Indiana Code 36-5-4-2 states in part: "Unless a statute provides otherwise, town monies may be disbursed only after an appropriation made by ordinance of the town legislative body . . ."

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Clerk-Treasurer incorrectly certified in the Town's Annual Financial Report within the Indiana Gateway for Government Units financial reporting system, that Town personnel had received training regarding internal control standards for the years of 2017, 2018, and 2019. Signed training certifications could not be located or presented for audit.

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](#)."

CLERK-TREASURER
TOWN OF LAFONTAINE
EXIT CONFERENCE

The contents of this report were discussed on May 13, 2020, with Diana Heath, Clerk-Treasurer; Jay Gillespie, President of the Town Council; and John Krhin, Town Council member. A separate exit conference was also held with the former Clerk-Treasurer, Cynthia Erb.

TOWN COUNCIL
TOWN OF LAFONTAINE

TOWN COUNCIL
TOWN OF LAFONTAINE
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

Required training regarding internal control standards and procedures had not been provided to all applicable Town personnel.

Criteria

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

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

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

TOWN COUNCIL
TOWN OF LAFONTAINE
EXIT CONFERENCE

The contents of this report were discussed on May 13, 2020, with Jay Gillespie, President of the Town Council, and John Krhin, Town Council member.