

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF INGALLS

MADISON COUNTY, INDIANA

January 1, 2016 to December 31, 2018



FILED

12/11/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kip Golden	01-01-16 to 12-31-23
President of the Town Council	Tim Green	01-01-16 to 07-08-18
	Chris Bradshaw	07-09-18 to 07-22-19
	(Vacant)	07-23-19 to 08-07-19
	Justin Gardner	08-08-19 to 12-31-19
	Scot Lawyer	01-01-20 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF INGALLS, MADISON COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Ingalls (Town), for the period from January 1, 2016 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 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

April 15, 2020

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CLERK-TREASURER
TOWN OF INGALLS

CLERK-TREASURER
TOWN OF INGALLS
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not established an effective internal control system that separated incompatible activities. No monitoring procedures were in place to properly identify and address the deficiencies in internal control. The failure to establish these controls could have enabled material misstatements to occur and remain undetected.

Cash and Investments

The Clerk-Treasurer prepared monthly bank reconciliations with no documented oversight, review, or approval process in place. In addition, cash-on-hand for both the Town and Water Utility was not included in the bank reconciliations, and the current cash-on-hand for the Town did not agree to the \$100 authorized by Ordinance 2010-3.

Receipts

The Clerk-Treasurer was responsible for collecting, depositing, recording, and reconciling receipts for the Town with no documented oversight, review, or approval process in place. In addition, the Town did not have proper information and communication processes in place to ensure the proper billing and collection of public safety fees could be performed.

Vendor Disbursements

One individual collected invoices, posted the invoices to the ledger, issued claims, prepared checks, signed checks, and performed the bank reconciliations. Debit card disbursements for the Town and Water Utility were paid without prior approval. There was no debit card log maintained.

Payroll Disbursements

There was no approval of time records for Town and Water Utility employees, other than police officers. In addition, the preparation of payroll transactions and inputting the data into the accounting software was handled solely by the Clerk-Treasurer without any additional review or oversight.

Financial Close and Reporting

Annual Financial Reports were prepared and submitted by the Clerk-Treasurer. The Town Accountant reviewed the prepared reports; however, there was no documentation to support the review.

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:

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

"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. . . ."

"Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information. Internal communication enables personnel to receive a clear message that control responsibilities are taken seriously by the organization. External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . ."

APPROPRIATIONS

Condition and Context

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Years	Excess Amount Expended
Rainy Day	2016	\$ 18,428
Motor Vehicle Highway	2017	17,687
Motor Vehicle Highway	2018	114,694
Local Road And Street	2018	16,622
Rainy Day	2018	11,190
Racino/Riverboat	2018	85,005

Criteria

Indiana Code 6-1.1-18-4 states in part: ". . . 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."

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

CAPITAL ASSETS

Condition and Context

The Town had not properly maintained a complete inventory of capital assets owned. The most recent update of capital assets occurred in 2013.

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)

COMPENSATION AND BENEFITS

Condition and Context

The following issues were found during the testing of payroll:

1. The Police Deputy (Deputy) was paid at a higher rate than established by the salary ordinance from April 14, 2016 to December 29, 2016. The Town Council had approved Ordinances 012516 and 080816 (amended), both of which set the Deputy's salary at \$43,000. During this time, the Deputy continued to be paid gross weekly pay of \$841.83. The correct gross weekly pay should have been \$826.92.
2. The salary ordinance stated that the Fire Fighter/EMT position should receive \$60,000 in compensation. This was supposed to be for the Chief of the Fire Department. It was later determined that the Fire/EMT crew would be paid \$10/hour up to \$60,000 in total. This change was not approved by the Town Council and the salary ordinance was not amended to reflect this change.
3. In 2018, the Town Council approved the formation of a UDO Committee to review ordinances passed by the Town Council, with each member to be paid \$100 per meeting attended. No minutes of the meetings were kept to verify the attendance of the members.

Criteria

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)

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)

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

DEBIT CARDS

Condition and Context

Internal controls over the receipting, disbursing, recording, and accounting for debit card transactions were insufficient. Debit card disbursements were not included within the Town Council approved claims docket. The Town's policy states the Clerk-Treasurer shall maintain a log, which includes, among other things, the time, date, and individual authorized to make a purchase via the Town's debit card. No maintenance log was kept during the audit period.

Criteria

The SBOA will not take exception to the use of debit/procurement cards by a unit provided the following criteria are observed:

1. The governing board must authorize debit/procurement card use through an ordinance/resolution, which has been approved in a meeting and documented in the minutes.
2. Issuance and use should be handled by an official or employee designated by the governing body.
3. The purposes for which the debit/procurement card may be used must be specifically stated in the ordinance/resolution.
4. When the purpose for which the debit/procurement card has been issued has been accomplished, the card must be returned to the custody of the responsible person.
5. The designated responsible official or employee must maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned.
6. Debit/procurement cards must not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing body and other officials with timely and accurate accounting information and monitoring of the accounting system.

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

PAYMENTS IN LIEU OF TAXES

Condition and Context

The Town established a Cash Reserve Fund in April 2014; however, the fund was not utilized for making payments in lieu of taxes. The Town transferred \$25,000 for payments in lieu of taxes from the Water Utility-Operating fund directly to the Town's General fund in December 2016 and 2017, and transferred \$50,000 for payments in lieu of taxes from the Water Utility-Operating fund to the Town's General fund in December 2018.

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

Criteria

Indiana Code 8-1.5-3-11 states in part:

"(a) The money belonging to each municipally owned utility shall be kept by the municipal fiscal officer as separate funds as required by any bond ordinance or accounting procedures established by the commission or the state board of accounts. The municipal legislative body, with the approval of the board, may transfer surplus earnings of the utility to the general fund. The money may not, however, be transferred unless the terms and conditions of any bond ordinance, resolution, indenture, contract under [IC 8-1-2.2](#), or similar instrument binding upon the utility are complied with.

(b) A cash reserve fund shall be created by ordinance and carried on the records of the utility or utilities by providing for monthly contributions or transfers to the cash reserve fund of surplus earnings of the utility or utilities.

(c) 'Surplus earnings' are those cash earnings remaining after provision has been made to take care of current obligations, including:

- (1) operating expense;
- (2) depreciation or replacement fund;
- (3) bond and interest sinking fund;
- (4) retirement fund; or
- (5) any other priority fund requirements fixed by law.

(d) After creation of the cash reserve fund, the legislative body may include in the municipal general fund budget, as revenue in lieu of taxes, an amount equal to the actual balance in the cash reserve fund as of June 30 of the current year. However, the available cash reserve fund balance may be transferred to the municipal general fund only during the calendar year for which the budget was adopted, and transfers may not be made from any utility funds to the general fund except from the cash reserve fund.

(e) If at any time after the final approval of the budget an emergency should arise for further appropriations from the general fund, the legislative body may, by ordinance, transfer additional money from the cash reserve fund to the general fund to provide for the additional appropriations, the transfer to be limited to the accretions to the cash reserve fund since the preceding June 30. . . ."

PENALTIES, INTEREST, AND OTHER CHARGES

Condition and Context

The Town paid \$64,967 to the Indiana Department of Revenue for past due Utility Receipt Taxes unpaid from 2013 to 2015. Due to a lack of supporting documentation, we could not determine the amount of penalties and interest included within this payment. In addition, we noted the Town paid \$25,476 to Ice Miller for special attorney fees regarding the nonpayment of the Utility Receipt Taxes.

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

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)

SUPPORTING DOCUMENTATION

Condition and Context

Three vendor claims tested, totaling \$298, did not include documentation to support the purchase. In addition, travel and debit card claims were tested for compliance with the Town's travel and credit card policies. Seven of ten travel and credit card disbursements totaling \$1,517 did not include supporting documentation. Due to the lack of supporting documentation, we could not verify the purpose of these disbursements.

Criteria

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)

TRANSFERS FROM RAINY DAY FUND

Condition and Context

The Clerk-Treasurer made the following transfers from the Rainy Day fund without an ordinance or resolution: \$125,833 to the RACINON/RIVERBOAT fund in 2016, \$1,000 to the FESTIVAL FUND in 2017, and \$38,822 to the LOIT SPECIAL DISTRIBUTION fund in 2018.

Criteria

Indiana Code 36-1-8-5.1(g) states in part:

"A . . . town may at any time, by ordinance or resolution, transfer to:

- (1) its general fund; or
- (2) any other appropriated funds of the . . . town; money that has been deposited in the rainy day fund of the . . . town."

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

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Clerk-Treasurer incorrectly certified on the 2016 and 2017 Annual Financial Reports that the Town had provided personnel with training over the minimum internal control standards.

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](#)."

COLLECTION OF AMOUNTS DUE FOR PUBLIC SAFETY FEES

Condition and Context

Town officials stated that agreements were initiated with the Town's engineering firm for developers to pay public safety fees. The engineering firm was to invoice the developers, with amounts to be paid to the Town and used for fire protection. No written agreements were presented for audit. Due to a lack of internal controls over the billing and collection of the fees, the Town could not provide adequate documentation to determine if all required fees had been invoiced and that all monies had been properly received. Public safety fees from three developers were found during 2018 and 2019.

Criteria

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CORRECTION OF ERRORS

Condition and Context

Officials did not correct posting errors identified and communicated to them during the prior engagement.

Criteria

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

FUND SOURCES AND USES

Condition and Context

The Town used LOIT Public Safety funds in the amount of \$40,147 to match an Indiana Department of Transportation grant for road repairs in 2017, which was not allowable.

Subsequent to the audit period, payments were made to a contractor in the amounts of \$35,103, \$42,293, and \$1,800 for the new Town Hall/Water Office parking lot. The entire payment was made out of the Water Utility-Operating fund, with no funds being paid by the Town.

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)

ORDINANCES AND RESOLUTIONS

Condition and Context

The Town did not bill the correct stormwater user fee to nonresidential class users. The Town billed these users at \$5 per month, rather than using the rate calculation outlined in the Town's Stormwater Rate Ordinance.

The Town paid salaries from the Stormwater Utility. Per the Stormwater Ordinance, this was not an accepted use of Stormwater funds.

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)

PURCHASING AND CONTRACTS

Condition and Context

The Town entered into a contract for the paving of the Water Office/Town Hall parking lot. The contract was to be obtained using bidding procedures per the Town's purchasing ordinance. No documentation was presented for audit to show that the invitation for bids was properly advertised. A bid was received and rejected at a Town Council meeting in July 2018. The same bid was subsequently approved at a Town Council meeting in December 2018, with no evidence that an additional invitation for bids was made.

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

Criteria

Indiana Code 36-1-12-6(a) states: "Except as provided in subsections (b) and (c), the board shall award the contract and shall provide the successful bidder with written notice to proceed within sixty (60) days after the date on which bids are opened."

Indiana Code 5-3-1-4 states in part:

"(a) Whenever officers of a political subdivision are required to publish a notice affecting the political subdivision, they shall publish the notice in two (2) newspapers published in the political subdivision. . . .

(c) This subsection applies to notices published by city, town, or school corporation officers. If there is only one (1) newspaper published in the municipality or school corporation, then publication in that newspaper alone is sufficient. If no newspaper is published in the municipality or school corporation, then publication of the notice shall be made in one (1) of the following:

- (1) A locality newspaper that circulates within the municipality or school corporation.
- (2) A newspaper published in the county in which the municipality or school corporation is located and that circulates within the municipality or school corporation. . . ."

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)

CLERK-TREASURER
TOWN OF INGALLS
EXIT CONFERENCE

The contents of this report were discussed on April 15, 2020, with Kip Golden, Clerk-Treasurer; Tim Green, Town Council member; and Scot Lawyer, President of the Town Council.

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TOWN COUNCIL
TOWN OF INGALLS

TOWN COUNCIL
TOWN OF INGALLS
AUDIT RESULTS AND COMMENTS

MOVING TRAFFIC VIOLATIONS

Condition and Context

The Town established an Ordinance Violations Bureau to collect fines; however, the Town used the Ordinance Violations Bureau to collect fines for moving traffic violations. Moving traffic violations must be processed through a county, city, or town court as required by statute. Due to a lack of supporting documentation, the purpose of all fines received and recorded for ordinance violations received could not be determined. However, collections for moving traffic violations of \$7,720 were able to be verified during the audit period. Fines for moving traffic violations were no longer collected after September 2017.

Criteria

Indiana Code 36-1-6-3(c) states: "An ordinance defining a moving traffic violation may not be enforced under [IC 33-36](#) and must be enforced in accordance with [IC 34-28-5](#)."

The accounts of each public official and public office should reflect the proper treatment of fines collected for moving traffic violations as required by Indiana Code § 36-1-6-3(c), Indiana Code Ch. 34-28-5, and this Directive. Failure to do so will result in a civil action against those public officials who are responsible for the improper enforcement and collection of fines for moving traffic violations as allowable by law. (State Examiner Directive 2015-1)

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

Town employees, whose official duties included receiving, processing, depositing, disbursing, or otherwise having access to funds that belonged to the Town, had not received training over the minimum internal control standards as defined by the Indiana State Board of Accounts during the audit period.

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 INGALLS
EXIT CONFERENCE

The contents of this report were discussed on April 15, 2020, with Kip Golden, Clerk-Treasurer; Tim Green, Town Council member; and Scot Lawyer, President of the Town Council.