

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF DEMOTTE

JASPER COUNTY, INDIANA

January 1, 2019 to December 31, 2019



FILED

05/04/2021

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Margaret Michelin	01-01-19 to 12-31-21
President of the Town Council	Jeffrey Cambe	01-01-19 to 12-31-21



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE TOWN OF DEMOTTE, JASPER COUNTY, INDIANA

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

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

February 2, 2021

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CLERK-TREASURER
TOWN OF DEMOTTE

CLERK-TREASURER
TOWN OF DEMOTTE
AUDIT RESULTS AND COMMENTS

MVH RESTRICTED

Condition and Context

The Town had not established a separate MVH Restricted sub-fund.

Criteria

The purpose of this Directive is to authorize and require . . . cities, and towns that receive distributions from the State Motor Vehicle Highway Account to **create a new sub-fund within the MVH Fund** to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018. . . .

On the chart of accounts, the MVH Fund and MVH Restricted sub-fund shall be shown as follows:

...

Cities and Towns

Fund 201	MVH
Fund 203	MVH Restricted.

Together, MVH and MVH Restricted shall constitute the total MVH Fund. MVH and MVH Restricted will be shown separately on the Annual Financial Report . . .

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted. (State Examiner Directive 2018-2)

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

UTILITY BILLING

Condition and Context

The Town provides water billing services for the Northwest Jasper Regional District (NORWEJ), but did not comply with the NORWEJ's Water Utility Rate Ordinance when billing 3 of the 26 customers tested. Documentation for computing the minimum rate charges for these customers was not presented for audit.

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)

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

COLLECTION OF AMOUNTS DUE

Condition and Context

The Northwest Jasper Regional District (NORWEJ) was organized in 2004 for the purpose of constructing and operating a water utility for the Town. In order for the NORWEJ to apply for grant money necessary to fund the construction of the NORWEJ's facilities, the Wastewater Utility (Utility) paid for various expenses related to the planning stage of the project. The Utility then secured promissory notes for \$141,872 in 2004, \$4,663 in 2006, \$300 in 2007, and \$76,982 in 2008 from the NORWEJ to provide for the reimbursement of these advances when the NORWEJ received their grant funds. The Utility provided additional funds to the NORWEJ of \$1,732 in 2009, \$852 in 2010, \$3,828 in 2011, \$905 in 2012, and \$100,000 in 2014 for which no promissory notes were secured. The total due to the Utility as of December 31, 2020, was \$416,801. As of December 31, 2020, the NORWEJ has not made any payments on these loans.

Subsequent to the audit period on January 25, 2021, the Town passed Resolution 01252021-1, stating in part, "WHEREAS, due to the passage of time, the Town is not certain but believes that NORWEJ paid the value equal to the total amount reflected in the Notes and the Notes should be deemed satisfied."

Indiana Code 13-26-7-2 authorizes a local unit to advance money to a regional district for "(1) the preparation of a plan for the operation of the district" or "(2) Other purposes of the district until the district is in receipt of revenue from its operations or proceeds from the sale of bonds." According to Indiana State Board of Accounts Audit Report B38699, the NORWEJ issued bonds and began receiving revenue from its operations in 2008. The advance payments by the Town totaling \$184,299 after the NORWEJ began receiving revenue were not authorized under Indiana Code 13-26-7-2.

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)

Town of DeMotte

112 Carnation Street S.E.
DeMotte, Indiana 46310
www.townofdemotte.com

Council Members

MARK W. BOER
ALANA BAUMAN
JEFFREY CAMBE
DALE EENIGENBURG
TERRY SCHULTZ

Peggy Woods
CLERK-TREASURER
Heather Tokarz
TOWN MANAGER
Donna Shear
OFFICE MANAGER

OFFICIAL RESPONSE

Date: February 15, 2021

Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: 2019 Audit

MVH RESTRICTED

Condition and Context

The Town has not established a separate MVH Restricted sub-fund.

Town of DeMotte response: In 2021 the restricted MVH fund 203 is set up in Keyfund and will be reflected on the future financial reports.

UTILITY BILLING

Condition and Context

The Town of Demotte provides water billing services for the Northwest Jasper Regional District (NORWEJ); but did not comply with the District's Water Utility Rate Ordinance when billing 3 of the 26 customers tested. Documentation for computing the minimum rate charges for these customers was not presented for audit.

Town of DeMotte response: NORWEJ will work on creating an ordinance that is more clear. The ordinance will be introduced in April 2021 board meeting.

COLLECTION OF AMOUNTS DUE

Condition and Context

The Northwest Jasper Regional District (NORWEJ) was organized in 2004 for the purpose of constructing and operating a water utility for the Town of DeMotte. In order for the NORWEJ to apply for grant money necessary to fund the construction of the District's facilities, the DeMotte Wastewater Utility paid for various expenses related to the planning stage of the project. The Utility then secured promissory notes for \$141,872 in 2004, \$4,663 in 2006, \$300 in 2007 and \$76,982 in 2008 from the District to provide for the reimbursement of these advances when the District received their grant funds. The Utility provided additional funds to the District of \$1,732 in 2009, \$852 in 2010, \$3,828 in 2011, \$905 in 2012, and \$100,000 in 2014 for which no promissory notes were secured. The total due the DeMotte Wastewater Utility as of December 31, 2020, was \$416,801. As of December 31, 2020, the District has not made any payments on these loans.

Subsequent to the audit period on January 25, 2021, the town passed Resolution 01252021-1, stating in part, "WHEREAS, due to the passage of time, the Town is not certain but believes that NORWEJ paid the value equal to the total amount reflected in the Notes and the Notes should be deemed satisfied."

IC 13-26-7-2 authorizes a local unit to advance money to a regional district for (1) "the preparation of a plan for the operation of the district" or (2) "Other purposes of the district until the district is in receipt of revenue from its operations or proceeds from the sale of bonds." According to State Board of Accounts Audit Report B38699, NORWEJ issued bonds—and began receiving revenue from its operations in 2008. The advance payments by the Town totaling \$184,299 after NORWEJ began receiving revenue were not authorized under IC 13-26-7-2.

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)

You have cited Indiana Code § 13-26-7-2 as a basis to disallow certain advances made by the Town after 2008. This statute specifically authorizes advances or loans from the Town to NORWEJ up to the time NORWEJ sold "bonds" or began receiving "revenue from its operations". Based on your understanding that NORWEJ sold bonds and began receiving revenue from its operations in 2008, you concluded that such advances were in violation of Indiana Code § 13-26-7-2. NORWEJ did not, however, sell bonds, begin operations, or receive revenues from operations until 2012-2013.

In 2008, NORWEJ issued a bond anticipation note ("BAN") in the amount of \$825,000 to fund the development costs associated with a new public water system to serve in and around DeMotte. It is not entirely clear due to the passage of time, but NORWEJ believes that the proceeds from the BAN were used to pay for a limited number of items such as engineering and land acquisition costs associated with the project.

At or about the same time, NORWEJ began approaching residents and businesses in and around DeMotte to gauge interest in connecting to NORWEJ's water system. To the extent customers desired service from NORWEJ, DeMotte requested that they pay reservation, meter, or tap fees for their respective properties. While NORWEJ did receive some relatively small amounts for meter or tap fees from the

prospective customers, NORWEJ would not be in operation (and receiving "revenues from its operations") until 2013.

It was not until 2012 that NORWEJ closed on bonds with the United States Department of Agriculture – Rural Development ("RD") and began constructing the water system. Again, the passage of time makes it difficult to determine exactly what occurred almost a decade ago, but NORWEJ and its professionals believe that the RD loan was used to pay off the BAN and may have been used to pay off any advances from DeMotte. Our records indicate that the water system was completed in 2013, and at that time, customers began paying monthly service revenues. For purposes of Indiana Code § 13-26-7-2, NORWEJ believes that it first began receiving "revenues from its operations" sometime in 2013.

DeMotte and NORWEJ have also researched the \$100,000 payment from DeMotte to NORWEJ in 2014. Both DeMotte and NORWEJ believe that the \$100,000 payment was not a loan or advance, but a payment to NORWEJ to pay the cost associated with enlarging NORWEJ's elevated storage tank. At the time of the sale of the bonds (to RD), RD's regulations would only allow NORWEJ to size or build facilities to meet the demand that existed at that time. In other words, RD would not provide funds to construct the facilities necessary to serve any (reasonable or anticipated) growth. DeMotte and its town leaders decided that it was important for the public, health and safety of the Town and its residents to construct a larger elevated storage tank that could accommodate growth from current and future residents and future economic development. For this reason, DeMotte paid NORWEJ \$100,000 to assist in covering the cost of building a larger elevated storage tank.

Despite the passage of time, fading memories, and new personnel, NORWEJ and DeMotte believe they acted in accordance with Indiana law. Accordingly, the Town and NORWEJ would respectfully request that the SBOA eliminate the comments from the final audit report.

Respectfully Submitted,



Margaret M. Michelin
Clerk Treasurer

CLERK-TREASURER
TOWN OF DEMOTTE
EXIT CONFERENCE

The contents of this report were discussed on February 2, 2021, with Jeffrey Cambe, President of the Town Council; Margaret Michelin, Clerk-Treasurer; Heather Tokarz, Town Manager; and Donna Shear, Office Manager.