B57208

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF LEAVENWORTH

CRAWFORD COUNTY, INDIANA

January 1, 2019 to December 31, 2020

FILED
09/10/2021

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SCHEDULE OF OFFICIALS

Office	Official	Term
Clerk-Treasurer	Cynthia C. Kemp	01-01-19 to 12-31-19
	Samantha Lahue	01-01-20 to 12-31-21
President of the Town Council	Whitney Timberlake	01-01-19 to 12-31-19
	Hershel Smith	01-01-20 to 12-31-21
Utilities Superintendent	Jeff Lahue	01-01-19 to 12-31-21

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF LEAVENWORTH, CRAWFORD COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Leavenworth (Town), for the period from January 1, 2019 to December 31, 2020. 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

August 24, 2021

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CLERK-TREASURER
TOWN OF LEAVENWORTH

INTERNAL CONTROLS

A similar comment appeared in prior Report B53729.

Condition and Context

There were deficiencies in the internal control system of the Town related to receipts and financial close and reporting. The Town had not separated incompatible activities related to these areas.

Receipts

The Town established a procedure that the Clerk-Treasurer received payments (or EFT notifications) at the Town Hall, made bank deposits, and posted the receipts to the ledger. There was no oversight to ensure receipts were properly recorded or deposited timely. In addition, the procedure was not effective, as posting errors occurred and went undetected.

Financial Close and Reporting

The Town established procedures that the Deputy Clerk-Treasurer prepared, and the Clerk-Treasurer reviewed and submitted, the Annual Financial Reports (AFRs) through the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statements. Beginning on January 1, 2020, the Clerk-Treasurer prepared and submitted the AFR after the Deputy Clerk-Treasurer reviewed; however, the internal controls were not effective, as errors on the AFRs occurred and went undetected.

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 is not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

CONDITION OF RECORDS

A similar comment also appeared in prior Report B53729.

Condition and Context

Although monthly bank reconcilements were performed, the Town's bank balances did not reconcile to the fund balances with unidentified differences of $20,622, as of December 31, 2019, and $3,736, as of December 31, 2020. During the audit, the following errors were noted in the Town's ledgers and the bank reconcilements:

1. All Motor Vehicle Highway (MVH) fund local tax distributions totaling $10,681 for 2019, and the June 2020 MVH Financial Institutions Tax distribution totaling $59, were posted to the General fund instead of the MVH fund.

2. An MVH state distribution totaling $867, a General fund Cigarette Tax Distribution totaling $72, and a Local Road and Street distribution totaling $235, were all posted to the Cumulative Capital Improvement Cigarette Tax fund in error.

3. Two local tax distribution receipts were not posted timely to the ledger.

4. The bank reconcilements contained several reconciling items such as deposits in transit, outstanding checks, and prior Indiana State Board of Accounts (SBOA) adjustments. Some of these have been carried since 2016. Many of these were a result of uncorrected posting errors and prior SBOA adjustments not being resolved until 2020.

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, 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)

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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)

ANNUAL FINANCIAL REPORTS

A similar comment appeared in prior Reports B45941 and B53729.

Condition and Context

The Annual Financial Report (AFR) for 2019 and 2020 contained a number of errors and did not properly reflect the financial activity of the Town. These errors included:

1. For 2019, the LOIT fund receipts totaling $8,483 were not reported on the AFR.

2. For 2019, the sale of investments totaling $85,000 were reported in the Wastewater Utility Operating fund receipts on the AFR. These investments were already reported in the beginning balance and should not have been reported as receipts when the investment was sold.

3. For 2019, the Wastewater Escrow Account fund balance totaling $4,502 was included as of January 1, 2019, on the AFR. However, the account was closed on July 16, 2018, to the General fund and included in the General fund balance as of January 1, 2019. Therefore, the $4,502 fund balance was reported twice on the AFR.

4. For 2020, the FEMA Damage Reimbursements fund receipts totaling $73 were not included on the AFR.

The net amount of errors resulted in the overstatement of the cash and investment balance of $80,946, and an overstatement of receipts of $76,444. Adjustments were proposed, accepted by the Town, and made to the financial statement.

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 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."

CAPITAL ASSETS

The same comment appeared in prior Report B53729.

Condition and Context

A detailed capital assets ledger was not maintained during the audit period for the Town or its utilities.

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)

MVH RESTRICTED FUND

Condition and Context

Effective January 1, 2019, State Examiner Directive 2018-2 established that 50 percent of state Motor Vehicle Highway (MVH) distributions shall be maintained in a MVH Restricted fund to be allocated for construction, reconstruction, and preservation of the Town's highways. The Town did not create an MVH Restricted fund as required.

Criteria

The purpose of this Directive is to authorize and require . . . 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 and Annual Operational 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)

CLERK-TREASURER
TOWN OF LEAVENWORTH
EXIT CONFERENCE

The contents of this report were discussed on August 24, 2021, with Samantha Lahue, Clerk-Treasurer, and Hershel Smith, President of the Town Council.