

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF WALKERTON

ST. JOSEPH COUNTY, INDIANA

January 1, 2019 to December 31, 2020



FILED
09/20/2021

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Internal Controls	6-7
Motor Vehicle Highway Restricted Fund	7-8
Overdrawn Cash Balance	8
Exit Conference	9

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Theresa Buckmaster	01-01-19 to 12-31-21
President of the Town Council	Karol Jackson Gene Reese	01-01-19 to 12-31-20 01-01-20 to 12-31-21



STATE OF INDIANA
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TO: THE OFFICIALS OF THE TOWN OF WALKERTON, ST. JOSEPH COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Walkerton (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

September 7, 2021

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CLERK-TREASURER
TOWN OF WALKERTON

CLERK-TREASURER
TOWN OF WALKERTON
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

A similar comment also appeared in prior Report B54185, entitled *INTERNAL CONTROLS*.

Condition and Context

There were deficiencies in the internal control system of the Town related to cash and investments and transfers between funds. The failure to establish internal controls could have enabled material misstatements to occur and remain undetected.

Cash and Investments

The Town established a procedure that the monthly bank reconciliations were performed by the Clerk-Treasurer and reviewed by the President of the Town Council. However, this procedure was not effective, as the following errors on the reconciliations occurred and remained undetected:

1. Town investments were not included in monthly bank reconciliations.
2. The bank balance exceeded the record cash balance by \$104,711 at December 31, 2020.

Transfers Between Funds

The Town had not established internal controls over transfers between funds. Of the nine transfers tested, seven transfers totaling \$332,348 were not properly supported by an Accounts Payable Voucher (APV) with supporting documentation as required by law. Due to the lack of APV with supporting documentation, we were unable to determine if the transfers were allowable, accurate, and completed in a timely manner.

In addition, the transfers were not certified by the fiscal officer or allowed by the governing board as required.

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. . . ."

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

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."

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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. . . ."

MOTOR VEHICLE HIGHWAY RESTRICTED FUND

Condition and Context

The Town did not report the Motor Vehicle Highway (MVH) fund and Motor Vehicle Highway Restricted (MVH-R) fund as separate funds in the Annual Financial Report (AFR) as required.

The AFR entered into the Indiana Gateway for Government Units financial reporting system was the source of the financial statement. An audit adjustment to report the MVH and MVH-R funds separately was proposed, accepted, and made to the financial statement.

In addition, the Town did not establish the correct fund numbers for the MVH fund and the MVH-R sub-fund. The MVH fund number in the ledger was 708 rather than the required fund number 201.

Furthermore, the Town did not allocate or deposit at least 50 percent of the distribution from the State Motor Vehicle Highway Account at the time of the receipt into the MVH-R fund. The \$8,196 MVH distribution received on March 13, 2019, was only receipted to the MVH fund. The \$5,762 MVH distribution received on July 14, 2020, was receipted into the General fund instead of split between the MVH and MVH-R funds.

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

Criteria

State Examiner Directive 2018-2 states in part:

"The purpose of this Directive is to authorize and require counties, 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.

The sub-fund will be referred to throughout this Directive as 'MVH Restricted' and will be used to account for MVH monies which have been statutorily restricted for construction, reconstruction, and preservation purposes.

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. . . ."

OVERDRAWN CASH BALANCE

Condition and Context

The Motor Vehicle Highway (MVH) fund had an overdrawn cash balance of \$15,018 at December 31, 2020. The MVH fund still had an overdrawn cash balance as of July 2021.

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

CLERK-TREASURER
TOWN OF WALKERTON
EXIT CONFERENCE

The contents of this report were discussed on September 7, 2021, with Theresa Buckmaster, Clerk-Treasurer, and Tommi Weeks, Town Council member.