

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF WAKARUSA

ELKHART COUNTY, INDIANA

January 1, 2018 to December 31, 2020



**FILED**  
11/05/2021



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Clerk-Treasurer:	
Audit Results and Comments:	
Annual Financial Report.....	6
Bank Account Reconciliations.....	6-7
Internal Controls.....	7
Capital Assets .....	8
MVH Restricted Receipts .....	8
Exit Conference .....	9

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Joyce M. Hartman Fredrick L. Avery Katie J. Fromer	01-01-18 to 12-31-18 01-01-19 to 06-30-19 07-01-19 to 12-31-21
President of the Town Council	Fredrick L. Avery Matthew S. Moyer	01-01-18 to 12-31-18 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 WAKARUSA, ELKHART COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Wakarusa (Town), for the period from January 1, 2018 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 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/](http://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

October 27, 2021

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CLERK-TREASURER  
TOWN OF WAKARUSA

CLERK-TREASURER  
TOWN OF WAKARUSA  
AUDIT RESULTS AND COMMENTS

**ANNUAL FINANCIAL REPORT**

*Condition and Context*

*Certificate of Deposit*

The Water-Debt Reserve fund had a certificate of deposit that matured in January 2020 in the amount of \$102,000. The proceeds were receipted into the Water Operating fund; however, the investment amount was not removed from Water-Debt Reserve fund. This resulted in the ending balance of the Water-Debt Reserve fund being overstated by \$102,000 at December 31, 2020.

A current period correction to the Town's 2021 records was proposed, accepted by the Town, and made to the Town's records. It will be adjusted in its Annual Financial Report (AFR) submitted through the Indiana Gateway for Government Units (Gateway) financial reporting system for 2021.

*Police Department Building Loan*

The Town took out a line-of-credit type loan on December 6, 2019, in the amount of \$695,700, for the purpose of constructing a new police department building. The contracted vendor was paid directly by the bank from the loan account. The Town did not record the financial activity of the loan on its records. The Town also did not report the transactions in their AFR submitted through Gateway. The receipts and disbursements were understated by \$46,230 and \$649,470 for 2019 and 2020, respectively. Audit adjustments were proposed, accepted by the Town, and made to the AFR.

*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](#)."

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)

**BANK ACCOUNT RECONCILIATIONS**

*Condition and Context*

Depository reconcilements of the Town were completed monthly; however, the January 2020 through December 2020 reconcilements were incorrect. On December 31, 2020, the record balance exceeded the reconciled bank balance by \$102,000. The reason for the overstatement was that the proceeds from a certificate of deposit that matured in January 2020 in the amount of \$102,000 were receipted into the Water Operating fund; however, the investment amount was not removed from Water-Debt Reserve fund. This resulted in the ending balance of the Water-Debt Reserve fund being overstated by \$102,000 at December 31, 2020.

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

*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."

**INTERNAL CONTROLS**

A similar comment also appeared in prior Report B50095, entitled *INTERNAL CONTROLS*.

*Condition and Context*

There were deficiencies in the internal control system of the Town related to financial transactions and reporting.

*Cash and Investments*

Bank reconcilements were performed by either the Clerk-Treasurer or the Deputy Clerk-Treasurer with a review process in place by the Clerk-Treasurer or Deputy Clerk-Treasurer to ensure the accuracy of cash and investment balances. However, the internal controls in place were not sufficient to prevent, or detect and correct, errors.

*Financial Close and Reporting*

Year-end fund reports were not approved by the Town Council prior to submission to the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source for the Annual Financial Report. The Clerk-Treasurer initiated transmission of the financial statement information into Gateway directly from her computer software without an oversight, approval, or review process in place to ensure the accuracy of the information submitted. The lack of oversight allowed material errors to remain 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 are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

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

**CAPITAL ASSETS**

*Condition and Context*

The Town provided a detailed listing of capital assets; however, the detailed listing provided was not properly maintained. Of the 10 additions and deletions tested, 4 of these were not properly recorded. In addition, the Town did not provide evidence that a complete physical inventory was taken at least every two years to verify account balances.

*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 RECEIPTS**

*Condition and Context*

The Town did not allocate the required 50 percent of the State Motor Vehicle Highway (MVH) distribution to the MVH Restricted fund in 2019. The additional amount needed to transfer was \$17,958.

Although the Town made a transfer from the MVH fund to the MVH Restricted fund in 2020, the percentage transferred was less than 50 percent. The additional amount needed to transfer was \$5,930.

*Criteria*

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."

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER  
TOWN OF WAKARUSA  
EXIT CONFERENCE

The contents of this report were discussed on October 27, 2021, with Katie J. Fromer, Clerk-Treasurer; Matthew S. Moyer, President of the Town Council; Lisa Marker, Deputy Clerk-Treasurer; and Tim Hershberger, Town Marshal.