

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF LANESVILLE

HARRISON COUNTY, INDIANA

January 1, 2019 to December 31, 2020



FILED
12/08/2021

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Elizabeth A. Blocker Amanda Ballew	01-01-19 to 02-28-21 03-01-21 to 12-31-21
President of the Town Council	Herbert L. Schneider	01-01-19 to 12-31-21
Superintendent of Utilities	Matthew Beckman	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 LANESVILLE, HARRISON COUNTY, INDIANA

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

December 2, 2021

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CLERK-TREASURER
TOWN OF LANESVILLE

CLERK-TREASURER
TOWN OF LANESVILLE
AUDIT RESULTS AND COMMENTS

CAPITAL ASSETS

A similar comment also appeared in prior Report B54947, entitled *CAPITAL ASSET RECORDS*.

Condition and Context

The Town had a capital asset policy; however, there was not a detailed listing of all capital assets, which reflected acquisition value. A complete physical inventory of capital assets was not taken in the last two years.

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)

MOTOR VEHICLE HIGHWAY RESTRICTED FUND

Condition and Context

Effective January 1, 2019, State Examiner Directive 2018-02 established that 50 percent of State Motor Vehicle Highway distributions shall be maintained in a Motor Vehicle Highway Restricted Fund to be allocated for construction, reconstruction, and preservation of the Town's highways.

As of December 31, 2020, the Town had not created the Motor Vehicle Highway Restricted Fund and was not allocating fifty percent of State Motor Vehicle Highway distributions for construction, reconstruction, and preservation of the Town's highways.

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 . . .

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

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 8-14-1-4(b) states: "For funds distributed to a county from the motor vehicle highway account, the county shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the county's highways."

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

A similar comment appeared in prior Report B54947, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

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

Internal Controls over Financial Close and Reporting

The Clerk-Treasurer entered the financial information in the Indiana Gateway for Government Units financial reporting system, which is the source of the Annual Financial Report (AFR) and the financial statement. The Town Council reviewed and approved the AFR prior to the Clerk-Treasurer's submission; however, the review process was not documented.

Internal Controls over Receipts and Disbursements

The Town did not have effective internal controls over receipts and disbursements. During 2020, financial activity associated with the Water Utility 2020 SRF Refunding Revenue Bonds, and the monies held in trust accounts with the Bank of New York for those bonds, were either not recorded or were recorded improperly in the fund ledger. This resulted in the Water Utility-Operating, Water Utility-Sinking/Opr, and Water Utility-Debt Reserve funds' SRF bond activity either not being reported, or being reported incorrectly in the financial statement. Due to the errors, receipts were understated by \$133,584, and disbursements were overstated by \$12,089 in the 2020 financial statement.

Audit adjustments were proposed, accepted by the Town, and made to the financial statement.

Internal Controls over Cash and Investments

The Clerk-Treasurer prepared the monthly bank reconciliations of the fund ledger to the bank accounts. The Town Council reviewed and approved the monthly reconciliations; however, the internal controls were not effective, as the following items were noted:

- During 2020, monthly reconciliation of the Trust Accounts related to the 2020 SRF Refunding Bonds were not performed.

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

- Investments were not being accounted for in the fund ledger and were not included as part of the monthly reconciliation process.
- During 2019, two certificate of deposits (CD) for the Water Utility-Customer Deposit fund were redeemed; however, proceeds of \$854 from one CD was not posted to the fund ledger until 2020. The proceeds from both CDs were incorrectly receipted into the Water Utility-Operating fund instead of the Water Utility-Customer Deposit fund. Additionally, we noted that interest was being accrued on the Town's investments and not being properly recorded.

Audit adjustments were proposed, accepted by the Town, and made to the financial statement.

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. . . ."

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

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](#)."

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."

Interest on investments should not be added automatically to the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

PROCEDURE FOR POSTING RECORDS AT THE TIME INVESTMENTS ARE PURCHASED OR SOLD

1. At the time investments are purchased, the fiscal officer and/or bookkeeper should enter the full cost of the securities (purchase price plus accrued interest) as a disbursement from the fund or funds from which the investment is made. Where investment is made from "total monies on deposit," the warrant or check issued will not be posted in the ledger, but a memorandum account should be set up in a separate section of the ledger to which investment transactions will be posted.
2. When investment is made from a specific fund, a new fund entitled "Investments Fund" should be set up on the records. The net price (purchase price less accrued interest) should be entered as a receipt to this fund. The Investment Register, General Form 350, or an alternative form providing the same information should be used for keeping a record of all investments purchased by the political subdivision.
3. Interest received in such investments by fund should be entered as a receipt to the fund from which the investment was purchased. Interest received from investment of "total monies on deposit" should be receipted to the general fund or the fund specified by the governing board.
4. When the investments by fund are sold, the full amount of such sale should be entered as receipt to the fund from which the investment was made. The receipt should show separately the principal (purchase price) received and the interest received from the investment. At this time, the net purchase price (purchase price less accrued interest) should also be entered as a disbursement from the "Investments Fund." When the investment from "total monies on deposit" is sold the principal (purchase price) will not be posted as a receipt to the ledger but the interest thereon will be posted as a receipt to the general fund or fund designated by governing board. Proper entry shall be made also in the memorandum account, as well as in the Investment Register.

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

CLERK-TREASURER
TOWN OF LANESVILLE
EXIT CONFERENCE

The contents of this report were discussed on December 2, 2021, with Amanda Ballew, Clerk-Treasurer; Herbert L. Schneider, President of the Town Council; and Elizabeth A. Blocker, former Clerk-Treasurer.