B58048

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF SOUTH WHITLEY

WHITLEY COUNTY, INDIANA

January 1, 2019 to December 31, 2020

FILED
12/15/2021

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SCHEDULE OF OFFICIALS

Office	Official	Term
Clerk-Treasurer	Janet Howard	01-01-19 to 12-31-19
	Pamela Hoffman	01-01-20 to 12-31-21
President of the Town Council	Randall C. Cokl	01-01-19 to 12-31-19
	Les Hoffman	01-01-20 to 12-31-20
	Randall C. Cokl	01-01-21 to 12-31-21

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF SOUTH WHITLEY, WHITLEY COUNTY, INDIANA

This report is supplemental to our audit report of the Town of South Whitley (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 9, 2021

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CLERK-TREASURER
TOWN OF SOUTH WHITLEY

INTERNAL CONTROLS

A similar comment also appeared in prior Report B54094, entitled *INTERNAL CONTROLS*.

Condition and Context

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

Financial Close and Reporting

The Clerk-Treasurer entered and submitted financial information for the Town into the Indiana Gateway for Government Units financial reporting system, which was the source of the Annual Financial Report and financial statement. There was no evidence of internal controls, such as an oversight, review, or approval process, to ensure accuracy of the information entered and submitted.

Receipts

The Clerk-Treasurer entered receipts into the financial software without evidence of internal controls, such as an oversight, review, or approval process, to ensure accuracy of the information entered.

Payroll Disbursements

The Clerk-Treasurer entered gross payroll and employee deductions into the financial software without evidence of internal controls, such as an oversight, review, or approval process, to ensure accuracy of the information entered.

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. . . ."

CAPITAL ASSETS

Condition and Context

The Town did not have a capital assets policy to determine a threshold for capitalizing assets. In addition, the Town did not maintain a Capital Asset Ledger (Form 369) to document all capital assets owned. A physical inventory of capital assets had not been taken.

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)

OVERPAYMENT COLLECTIONS

A similar comment also appeared in prior Reports B46466 and B54094, entitled *OVERPAYMENT COLLECTIONS*.

Condition and Context

In 2013, sales tax remittances on Electric and Water Utility billings exceeded amounts due by approximately $20,000. Sales tax remittances for the years 2011 and 2012 exceeded amounts due by approximately $11,000 and $10,000, respectively.

As of December 9, 2021, the amounts listed above have not been resolved or refunded.

Criteria

Units must collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Town certified on the Indiana Gateway for Government Units financial reporting system that the Town had provided training on internal control standards; however, employees hired in 2020 that handled cash, had not received training over internal control standards that were developed or approved by the Indiana State Board of Accounts.

Context

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."

ANNUAL FINANCIAL REPORTS

A similar comment appeared in prior Report B54094, entitled *ANNUAL FINANCIAL REPORT*.

Condition and Context

The Annual Financial Reports (AFR) submitted during the audit period had the following errors:

1. The Town did not report all of the federal grants received and expended during the audit period in its Schedule of Expenditures of Federal Awards.

2. The supplementary information for the Schedule of Capital Assets for 2020 was comprised of insurance replacement values and estimates instead of actual or historical cost.

3. The Town took out multiple State Revolving Fund loans for the purpose of updating utility systems. The contracted vendors were paid directly by the Bank of New York from the loan accounts. The Town did not record the financial activity of the loans within the financial software, and, therefore, did not report the activity in the Indiana Gateway for Government Units financial reporting system, which is the source of the AFR and the financial statement. Receipts and disbursements were understated by $1,940,638 in 2019 and $2,675,802 in 2020. Audit adjustments were proposed, accepted by the Town, and made to the AFR and 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."

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

The Town did not complete monthly bank reconcilements for the State Revolving Fund accounts held at the Bank of New York.

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."

ACCOUNTING FOR CORONAVIRUS RELIEF FUND

Condition and Context

The Town did not properly account for the Coronavirus Relief Fund (CRF) in accordance with the options outlined in the State Examiner Directive 2020-3.

The Town created a fund entitled "Disaster Relief" for the CRF reimbursement of expenses from the Indiana Finance Authority (IFA). The Town receipted the IFA reimbursement of $57,068 for health and safety payroll costs into the designated fund. The expenditures upon which the reimbursement was based should have been reversed and recorded in the CARES fund, or the reimbursed amount transferred through the claims process to the General fund, which would have allowed the money to be expended for any general unit purpose. Either of these two methods would have allowed for the proper processing and recording of the CRF reimbursement.

The designated fund had a balance of $57,068 at December 31, 2020.

Criteria

Transactions for public health and safety payroll costs must be accounted for through one of these two prescribed options.

Option One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. The reimbursed amount for public health and safety payroll costs originally incurred in the general fund (or other fund) will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the general fund (or other fund) cash balance and re-appropriate the general fund (or other fund) in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the general fund (or other fund), it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once option one is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

Option Two. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. A claim will be created against the separate CARES grant fund for the reimbursed amount in favor of the general fund. This claim must be supported by documentation of the public health and safety payroll costs that have been expensed from the general fund or other funds.

The amount of the claim will be receipted into the general fund cash balance. Normal appropriation procedures will apply to these funds.

Once option two is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. This option requires a resolution or ordinance as detailed in the memorandum *CARES Reimbursement of Public Health and Safety Payroll Costs*, September 30, 2020.** . . . (State Examiner Directive 2020-3)

MVH RESTRICTED FUND ALLOCATIONS

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 2020. The additional amount needed to transfer was $7,856.

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 SOUTH WHITLEY
EXIT CONFERENCE

The contents of this report were discussed on December 9, 2021, with Pamela Hoffman, Clerk-Treasurer; Randall C. Cokl, President of the Town Council; and Les Hoffman, Town Council member.

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TOWN COUNCIL
TOWN OF SOUTH WHITLEY

TOWN COUNCIL
TOWN OF SOUTH WHITLEY
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

Town employees hired in 2020 that handled cash, had not received training over internal control standards that was developed or approved by the Indiana State Board of Accounts.

Criteria

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

(2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

CAPITAL ASSETS

Condition and Context

The Town did not have a capital assets policy to determine a threshold for capitalizing assets. In addition, the Town did not maintain a Capital Asset Ledger (Form 369) to document all capital assets owned. A physical inventory of capital assets had not been taken.

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)

TOWN COUNCIL
TOWN OF SOUTH WHITLEY
EXIT CONFERENCE

The contents of this report were discussed on December 9, 2021, with Pamela Hoffman, Clerk-Treasurer; Randall C. Cokl, President of the Town Council; and Les Hoffman, Town Council member.