

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF GALVESTON

CASS COUNTY, INDIANA

January 1, 2019 to December 31, 2020



FILED

12/20/2021

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 |
| Accounting for the Coronavirus Relief Funds | 7-8 |
| Motor Vehicle Highway (MVH) Restricted..... | 9 |
| Exit Conference | 10 |

SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|--------------------------------|--|
| Clerk-Treasurer | Rose Jackson Heather Gilvin | 01-01-19 to 12-31-19 01-01-20 to 12-31-21 |
| President of the Town Council | John Hart Wesley Hull | 01-01-19 to 12-31-19 01-01-20 to 12-31-21 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE TOWN OF GALVESTON, CASS COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Galveston (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 16, 2021

(This page intentionally left blank.)

CLERK-TREASURER
TOWN OF GALVESTON

CLERK-TREASURER
TOWN OF GALVESTON
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Repeat Comment

A similar comment appeared in the prior Report B53779, entitled *INTERNAL CONTROL OVER FINANCIAL REPORTING*.

Condition and Context

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

Financial Close and Reporting

The Clerk-Treasurer entered and submitted financial information for the Town in the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Annual Financial Report (AFR) and financial statement. The financial statement presented for audit contained material misstatements. The misstatements were the result of the Town's decision to combine the bank accounts established for Wastewater, Water, and the Town into one bank account in December 2020. The bank transfers were shown on the Town's financial statement as a disbursement from the Water Utility Operating fund for \$237,767 and the Wastewater Utility Operating fund for \$153,624. The amounts transferred were receipted into the General Fund, causing the financial statement receipts and disbursements to be overstated by \$391,391.

Receipts

The internal controls established by the Town over receipts were not operating effectively. The Clerk-Treasurer reviewed the receipts entered into the accounting system; however, 5 of 41, or 12 percent, were not properly reported in the correct fund in the financial statement.

Disbursements

The internal controls established by the Town for disbursements were not operating effectively. The Town Council approves the disbursements entered into the accounting system; however, 4 of 29 claims were not listed on a claims docket to be approved by the Town Council. Of the 4 claims, 1 occurred in 2019 and 3 occurred in 2020. The sum of the claims not approved by the Town's governing board amounted to \$679,412.

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:

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

"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. . . ."

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. . . ."

ACCOUNTING FOR CORONAVIRUS RELIEF FUNDS

Condition and Context

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

The Town requested \$50,499 in public safety payroll costs incurred during the period of March 1, 2020 through December 31, 2020, for the gross wages of the Town Marshall and Deputy Town Marshall. A reimbursement from the Indiana Finance Authority (IFA) in the amount of \$41,008 was receipted into the established CARES Grant 2020 fund on December 14, 2020. A reversing entry was not made from the General Fund for the expenses reimbursed to reinstate the General Fund's cash balance and zero out the CARES Grant 2020 fund balance.

In addition, a claim was not prepared against the separate CARES Grant 2020 fund for the reimbursed amount in favor of the General Fund. The ending cash balance at December 31, 2020, in the CARES Grant 2020 fund was \$41,008.

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

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. . . .**

Framework Three. If you have created a negative balance in your CARES fund based on expenditures made in anticipation of receipt of reimbursement for allowable expenditures where invoices have already been submitted to IFA then leave as is and receipt reimbursement when received, bringing the balance in the separate CARES grant fund to zero. Going forward, expend any anticipated allowable expenditures from a fund with an appropriation and follow framework one. If a negative balance in the CARES grant fund is not fully reimbursed, then the unreimbursed amount will require a reverse entry and posting of the expenditure to the general or other appropriate fund within an appropriated line item.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .** (State Examiner Directive 2020-3)

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

MOTOR VEHICLE HIGHWAY (MVH) RESTRICTED

Condition and Context

The Town did not comply with State Examiner Directive 2018-2 (Directive) by adopting an ordinance or resolution allocating more than 50 percent of the state distributions from the Motor Vehicle Highway (MVH) fund to the MVH Restricted fund. The Town transferred \$63,037 of the MVH distribution on May 13, 2019, to the MVH Restricted fund because the Town did not allocate 50 percent in January, February, or March 2019. The amount transferred was more than the 50 percent required by the Directive and a resolution or ordinance was not passed. As a result of this error, the Town recorded 71 percent of the distributions in 2019 instead of 50 percent.

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.

The political subdivision, by ordinance or resolution, may elect to allocate more than fifty percent (50%) of the distributions to MVH Restricted. During the same fiscal year, the political subdivision may transfer, by ordinance or resolution, the amount allocated in excess of the 50% requirement from MVH Restricted to MVH. . . . (State Examiner Directive 2018-2)

CLERK-TREASURER
TOWN OF GALVESTON
EXIT CONFERENCE

The contents of this report were discussed on December 16, 2021, with Heather Gilvin, Clerk-Treasurer; Rose Jackson, former Clerk-Treasurer; Cindy Leduc, Town Council member; Sunny Saylor Gordon, Town Council member; and Wesley Hull, President of the Town Council.