

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF WINCHESTER

RANDOLPH COUNTY, INDIANA

January 1, 2019 to December 31, 2020



FILED
12/22/2021

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Vicki Haney Kerry Sayre	01-01-19 to 12-31-19 01-01-20 to 12-31-21
Mayor	Honorable Shon I. Byrum Honorable Bob McCoy	01-01-19 to 12-31-19 01-01-20 to 12-31-21
President of the Board of Public Works and Safety	Honorable Shon I. Byrum Honorable Bob McCoy	01-01-19 to 12-31-19 01-01-20 to 12-31-21
President Pro Tempore of the Common Council	Tom Sells Leesa Friend-Teale Jim Nunez, Jr.	01-01-19 to 12-31-19 01-01-20 to 12-31-20 01-01-21 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 CITY OF WINCHESTER, RANDOLPH COUNTY, INDIANA

This report is supplemental to our audit report of the City of Winchester (City), 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 City. It should be read in conjunction with our Financial Statement Audit Report of the City, which provides our opinions on the City'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 13, 2021

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CLERK-TREASURER
CITY OF WINCHESTER

CLERK-TREASURER
CITY OF WINCHESTER
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Condition and Context

There were deficiencies in the internal control system of the City related to disbursements and financial close and reporting. Without a system of internal controls in place that operated effectively, material misstatements could have remained undetected.

Disbursements

The City had not implemented adequate internal controls over the approval of claims. Approval of the claims by the Common Council and the Board of Public Works and Safety is noted in the minutes and is documented by signatures of the meeting attendees on the Accounts Payable Voucher Registers (claims dockets). However, the claims dockets from November 17, 2020 through December 18, 2020, were observed approved in the applicable Common Council's and Board of Public Works and Safety minutes, but were not signed by the Clerk-Treasurer or Common Council members.

Financial Close and Reporting

The City had not established adequate internal controls over the financial information entered in the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the City's Annual Financial Report (AFR) and the financial statement. The Clerk-Treasurer prepared and submitted the AFR into Gateway with no oversight, review, or approval in place to prevent, or detect and correct, errors on the AFR.

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
CITY OF WINCHESTER
AUDIT RESULTS AND COMMENTS
(Continued)

ACCOUNTING FOR CORONAVIRUS RELIEF FUNDS

Condition and Context

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

The City did not properly establish a separate CARES grant fund for the CRF grant that followed the uniform chart of accounts. The City established fund 56 - Cares Act II fund instead of following the *Accounting and Appropriation of COVID-19 Grants* memo dated April 29, 2020, which indicated the City could utilize any fund number between 150-175.

The City receipted payroll related reimbursements into its Cares Act II fund. Expenditures were then inappropriately paid directly from the Cares Act II fund. The expenditures upon which the reimbursement was based should have been 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 subsequent expenditures.

The City had a balance of \$64,786 in the Cares Act II fund at December 31, 2020.

Criteria

Each local unit of government that receives an allocation from the Coronavirus Relief Fund administered by IFA shall- establish a separate CARES grant fund with a fund number consistent with memorandum *Accounting and Appropriation of COVID-19 Grants, April 29, 2020 (updated September 29, 2020)*. . . .

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.

CLERK-TREASURER
CITY OF WINCHESTER
AUDIT RESULTS AND COMMENTS
(Continued)

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)

In anticipation of several separate funds being necessary, the following fund system should be followed: . . .

Cities/Towns: 150 - 175 (*Accounting and Appropriation of COVID-19 Grants*, April 29, 2020 [updated September 29, 2020] memorandum)

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

In the City's records, the Motor Vehicle Highway (MVH) Restricted fund is named the "MVH Sub Fund" using fund number 41. The MVH distributions posted during 2019 were not split 50/50 between the MVH fund and the MVH Sub Fund. Before considering adjustments made from the prior audit, the total posted to the MVH fund was \$111,588, and the total posted to MVH Sub Fund was \$100,820 during 2019.

Criteria

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. . . . (State Examiner Directive 2018-2)

City of Winchester

Kerry Sayre, Clerk-Treasurer
113 E Washington Street
Winchester, Indiana 47394
Phone - 765. 584.1351 ext. 2300
Fax 765.584.6171

OFFICIAL RESPONSE

Date:12-16-2021

Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: Official Response City of Winchester

INTERNAL CONTROLS

Condition and Context

There were deficiencies in the internal control system of the City related to disbursements and financial close and reporting. Without a system of internal control in place that operated effectively, material misstatements could have remained undetected.

Disbursements

The City had not implemented adequate internal controls over the approval of claims. Approval of the claims by the City Council and the Board of Public Works and Safety is noted in the minutes and is documented by signatures of the meeting attendees on the claims docket. However, the account payable voucher dockets from November 17, 2020 through December 18, 2020 were observed approved in the applicable City Council's and Board of Public Works and Safety minutes but were not signed by the Clerk-Treasurer or City Council members. **This will be better regulated by the Clerk-Treasurer.**

Financial Close and Reporting

The City had not established adequate internal controls over the financial information entered in the Indiana Gateway for Government Units (Gateway) financial reporting system which was the source of the City's Financial Statement. The Clerk-Treasurer prepared and submitted the Annual Financial Report (AFR) into Gateway with no oversight, review, or approval in place to prevent, or detect and correct errors on the AFR. **The Deputy Clerk-**

Treasurer will be reviewing the Annual Financial Report prior to submission. The Deputy Clerk-Treasurer will initial, date & time stamp the Annual Financial report prior to myself, the Clerk-Treasurer submitting it.

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. . . ."

ACCOUNTING FOR CORONAVIRUS RELIEF FUNDS

Condition and Context

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

The City did not properly establish a separate CARES grant fund for the CRF grant that followed the uniform chart of accounts. The City established fund 56 - Cares Act II instead of following the *Accounting and Appropriation of COVID-19 Grants* memo dated April 29, 2020, which indicated the City could utilize any fund number between 150-175.

The City receipted payroll related reimbursements into their CARES Act II fund. Expenditures were then inappropriately paid directly from the CARES Act II fund. The expenditures upon which the reimbursement was based should have been 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 subsequent expenditures.

The City had a year-end balance of \$64,786 in the CARES Act II fund.

Criteria

State Examiner Directive 2020-3 states in part: "Each local unit of government that receives an allocation from the Coronavirus Relief Fund administered by IFA shall- establish a separate CARES grant fund with a fund number consistent with memorandum *Accounting and Appropriation of COVID-19 Grants*, April 29, 2020 (updated September 29, 2020). . . .

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...."

The *Accounting and Appropriation of COVID-19 Grants*, April 29, 2020 (updated September 29, 2020) memorandum states in part:

"In anticipation of several separate funds being necessary, the following fund system should be followed:

... Cities/Towns: 150 – 175..."

In 2021 we are correcting this by moving the \$64,785.72 to the General fund to use the remainder.

MOTOR VEHICLE HIGHWAY - RESTRICTED FUND

Condition and Context

The MVH Restricted fund is named the "MVH Sub Fund" using fund number 41. The Motor Vehicle Highway distributions posted during 2019 were not split 50/50 between MVH

and MVH Sub Fund (Restricted Fund). Before considering adjustments made from the prior audit, the total posted to MVH was \$111,588 and the total posted to MVH Sub Fund (Restricted Fund) was \$100,820 during 2019.

Criteria

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. (State Examiner Directive 2018-2)

We are changing all Fund numbers to follow SBOA guidelines effective 2022. We are changing the name of our fund to the MVH Restricted as requested. Our distributions in 2020 were 50% so that has been corrected.

CLERK-TREASURER
CITY OF WINCHESTER
EXIT CONFERENCE

The contents of this report were discussed on December 13, 2021, with Kerry Sayre, Clerk-Treasurer; Vicki Haney, former Clerk-Treasurer; Honorable Bob McCoy, Mayor; and Jim Nunez, Jr., President Pro Tempore of the Common Council.