

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF WHEATLAND

KNOX COUNTY, INDIANA

January 1, 2019 to December 31, 2020



FILED
02/08/2022

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Internal Controls over Financial Transactions and Reporting.....	6-7
Prescribed Forms.....	7
Condition of Records.....	7-8
Capital Assets	8
Motor Vehicle Highway (MVH) - Restricted Fund	8-9
Overdrawn Cash Balances	9-10
Payroll Expenses	10
Exit Conference	11
Town Council:	
Audit Result and Comment:	
Capital Assets	14
Exit Conference	15

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Angie Elkins Jean Hamm Mildred Rice	01-01-19 to 09-15-19 09-16-19 to 12-31-19 01-01-20 to 12-31-22
President of the Town Council	Danny Wathen Brett Dawson	01-01-19 to 12-31-19 01-01-20 to 12-31-22
Superintendent of Water Utility	Earl Horst	01-01-19 to 12-31-22



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 WHEATLAND, KNOX COUNTY, INDIANA

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

January 25, 2022

(This page intentionally left blank.)

CLERK-TREASURER
TOWN OF WHEATLAND

CLERK-TREASURER
TOWN OF WHEATLAND
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not established an effective internal control system that separated incompatible activities related to cash receipts, cash and investments, and financial close and reporting.

Cash Receipts

The Town did not issue receipts during 2020. The Town maintained supporting documentation of funds received; however, no receipts were created for audit trail. Either the Clerk-Treasurer or the Deputy Clerk-Treasurer prepared the deposit slip and deposited funds. There was no documented oversight, review, or approval process over the receipting, depositing, and posting of receipts.

Cash and Investments

Either the Clerk-Treasurer or the Deputy Clerk-Treasurer performed the monthly bank reconciliations. There were no documented internal controls in place to prevent, or detect and correct, errors in cash and investments, such as an oversight, review, or approval process of the bank reconciliations.

Financial Close and Reporting

The Town did not have a proper system of internal controls in place over financial close and reporting to prevent, or detect and correct, errors. Due to the lack of effective internal controls over the input of financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Annual Financial Report (AFR) and the financial statement, material errors remained undetected.

The AFR and financial statement for 2019 and 2020 were materially incorrect and did not accurately reflect the transactions and balances of the Town funds. As a result, 2019 receipts were understated by \$31,922; disbursements were understated by \$38,621; and the beginning cash and investments balance was overstated by \$63,183. In 2020, receipts were overstated by \$10,638 and disbursements were overstated by \$11,091.

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:

CLERK-TREASURER
TOWN OF WHEATLAND
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 5-11-1-4(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](#)."

PRESCRIBED FORMS

Condition and Context

Prescribed form Receipt (General Form No. 352) was not prepared or used during 2020, nor were receipts assigned an identifying number in the Town's general ledger. Prescribed form Accounts Payable Voucher (Town Form No. 39) was used during the audit period, but was not assigned an identifying number in the Town's general ledger.

Criteria

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CONDITION OF RECORDS

Condition and Context

The Annual Financial Reports (AFR) filed for 2019 and 2020 contained numerous errors and did not agree to the Town's records. The AFR was used to compile the financial statement. The Town's general ledger did not include receipt numbers, check numbers, dates, or a description of the transaction; only the amount was recorded in each fund.

Reporting and recording deficiencies included:

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

1. A \$35,000 interfund loan from the General fund to the Water Utility-Operating fund was not reported on the AFR, but was included in the Town's records.
2. Beginning balances of the General, Motor Vehicle Highway, NRWA-RL, Donations, Water Utility-Operating, and Water Utility-Customer Deposit funds did not agree to reported ending balances in the prior audit report or the Town's records provided for audit.
3. Two transfers in the amount of \$7,398 and \$3,488 were reported on the AFR, but not supported by the Town's records.
4. A fire protection contract disbursement, in the amount of \$7,600, was not reported on the AFR, but was included in the Town's records.

Criteria

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CAPITAL ASSETS

Condition and Context

The Town did not maintain a complete detailed listing of all capital assets owned at their acquisition value. In addition, a physical inventory was not completed at least every 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 (MVH) - RESTRICTED FUND

Condition and Context

In 2019, the Town failed to create and report the MVH Restricted sub-fund as directed by the State Examiner. Therefore, the Town failed to allocate or deposit at least 50 percent of the distributions from the State Motor Vehicle Highway (MVH) Account, at the time of receipt, into an MVH Restricted sub-fund. Since the MVH Restricted sub-fund had not been created, we were not able to determine if the Town used at least 50 percent for the purposes specified in Indiana Code 8-14-1-5(c).

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

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 . . .

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)

OVERDRAWN CASH BALANCES

A similar comment appeared in a Management Letter addressed to the Officials of the Town for the review period ending December 31, 2018.

Condition and Context

The financial statement presented included the following funds with an overdrawn cash balance at December 31, 2019 and 2020:

Fund	2019 Amount Overdrawn	2020 Amount Overdrawn
Donations	\$ (1,088)	\$ (1,088)
Water Utility-Operating	(11,737)	(23,745)

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

Criteria

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

PAYROLL EXPENSES

Condition and Context

The Water Utility-Operating fund was used to pay for expenses related to the Town. The salaries for the Clerk-Treasurer and the Town Council members were allocated between the Town and Water Utility. Documentation of how the Town determined the allocations was not presented for audit to determine if the amounts were reasonable.

Criteria

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, utility funds should not be used to pay for personal items. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CLERK-TREASURER
TOWN OF WHEATLAND
EXIT CONFERENCE

The contents of this report were discussed on January 25, 2022, with Mildred Rice, Clerk-Treasurer; Brett Dawson, President of the Town Council; and Erika Goble, Deputy Clerk-Treasurer.

(This page intentionally left blank.)

TOWN COUNCIL
TOWN OF WHEATLAND

TOWN COUNCIL
TOWN OF WHEATLAND
AUDIT RESULT AND COMMENT

CAPITAL ASSETS

Condition and Context

The Town had not adopted a capital asset policy that details the threshold at which an item is considered a capital asset.

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 WHEATLAND
EXIT CONFERENCE

The contents of this report were discussed on January 25, 2022, with Mildred Rice, Clerk-Treasurer; Brett Dawson, President of the Town Council; and Erika Goble, Deputy Clerk-Treasurer.