

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF WEST TERRE HAUTE

VIGO COUNTY, INDIANA

January 1, 2020 to December 31, 2020



FILED
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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Lisa Marie McCalister	01-01-20 to 12-31-22
President of the Town Council	Chuck Stranahan Shane Smith	01-01-20 to 12-31-21 01-01-22 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF WEST TERRE HAUTE, VIGO COUNTY, INDIANA

This report is supplemental to our audit report of the Town of West Terre Haute (Town), for the period from January 1, 2020 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.

Beth Kelley, CPA, CFE
Deputy State Examiner

March 14, 2022

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CLERK-TREASURER
TOWN OF WEST TERRE HAUTE

CLERK-TREASURER
TOWN OF WEST TERRE HAUTE
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 separated incompatible activities related to financial reporting.

The Town did not have an effective system of internal control in place to prevent, or detect and correct, errors in the Annual Financial Report (AFR) entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statement.

The AFR contained errors and did not properly reflect the financial activity of the Town. The Payroll Clearing, Storm Water B&I, Storm Water Debt Svc, Sewer B&I, Sewer Debt Service, and Water B&I (USDA Funds) funds were omitted from the AFR, in addition, reporting errors were noted in several funds. In total, the beginning cash and investments balance, receipts, disbursements, and ending cash and investments balance reported were understated as follows:

Cash and Investments <u>01-01-20</u>	<u>Receipts</u>	<u>Disbursements</u>	Cash and Investments <u>12-31-20</u>
<u>\$ 685,758</u>	<u>\$ 237,499</u>	<u>\$ 917,300</u>	<u>\$ 5,957</u>

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. . . ."

CLERK-TREASURER
TOWN OF WEST TERRE HAUTE
AUDIT RESULTS AND COMMENTS
(Continued)

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](#)."

CAPITAL ASSETS

Condition and Context

The Town did not maintain a detailed listing of capital assets owned at their acquisition value. In addition, a physical inventory was not completed every two years as required.

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)

MONTHLY AND ANNUAL UPLOADS

Condition and Context

The Town did not comply with State Examiner Directive 2018-1 and Amended State Examiner Directive 2018-1 and failed to upload timely the 2020 monthly and annual files on the Indiana Gateway for Government Units (Gateway) financial reporting system. The only files uploaded were the monthly fund ledgers for January through April, which were uploaded on February 18, 2021.

Criteria

Beginning with July 2018 files, which will be due September 15, 2018, **all** cities, towns, townships, libraries, and special districts will use the Upload App to upload files containing financial and governmental unit information on Gateway to allow the State Board of Accounts (SBOA) to conduct audit planning and audit processes prior to on-site work at a unit. . . .

Thereafter, monthly files must be uploaded no later than the 15th day of the second succeeding month, i.e. August monthly files are due on October 15. . . .

Annual files are due to be uploaded on Gateway no later than March 1, 2019. Thereafter, annual files must be uploaded no later than March 1 for the prior year end unless the SBOA establishes a different date. (State Examiner Directive 2018-1)

This amended directive is effective starting with December 2020 monthly files. The upload of December 2020 monthly files will be due February 15, 2021, and by the 15th of each month thereafter unless the State Board of Accounts (SBOA) establishes a different date. This is effective for 2020 annual files which will be due for upload March 1, 2021, for calendar year end units. . . .

CLERK-TREASURER
TOWN OF WEST TERRE HAUTE
AUDIT RESULTS AND COMMENTS
(Continued)

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients.

A user guide for the Engagement Uploads is available and located at: <https://gateway.ifionline.org/userguides/engagementguide>. **It is pertinent that this user guide be used in conjunction with this Directive.** It provides critical information to you that will help guide you to uploading the correct documents.

The following files and governmental unit information are required to be uploaded monthly by all units except as noted:

- Bank Reconcilements, Bank Statements, and Outstanding Check Lists
- Approved Board Minutes, please see the user guide for more information and examples
- Funds Ledger, summarizing total receipts, disbursements, and beginning and ending balances by fund . . .

The following files and governmental unit information are required to be uploaded annually (for Counties, these apply to County Auditors unless otherwise noted): . . .

- Detail of Receipts for the year
- Detail of Disbursements for the year
- Current year Salary Ordinance (or Schedule) and Amendments (except Schools)
- Annual Vendor History Report
- Annual Payroll History Report, without social security numbers
- Annual Funds Ledger, summarizing year-to-date total receipts, year-to-date disbursements, and beginning and ending balances by fund . . .
- Optional: Excel Data Capture/Data Dump (in lieu of Detail of Receipts and Disbursements)
- . . .

(Amended State Examiner Directive 2018-1)

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)

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

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 WEST TERRE HAUTE
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

The purpose of this Directive is to authorize and require counties, 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.

The sub-fund . . . will be used to account for MVH monies which have been statutorily restricted for construction, reconstruction, and preservation purposes.

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 50 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)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Clerk-Treasurer incorrectly certified, in the Indiana Gateway for Government Units financial reporting system, that required personnel had received training regarding internal control standards.

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](#)."

CLERK-TREASURER
TOWN OF WEST TERRE HAUTE
AUDIT RESULTS AND COMMENTS
(Continued)

CONDITION OF RECORDS - CUSTOMER DEPOSITS

This same comment appeared in a Management Letter addressed to the Clerk-Treasurer and Town Council for the audit periods ending December 31, 2017, 2018, and 2019.

Condition and Context

The detailed customer deposit registers did not reconcile with the amounts recorded on the Clerk-Treasurer's ledger as Sewer Deposits and Water Customer Deposits. The variance was \$13,746 for Sewer Deposits and (\$17,298) for Water Customer Deposits.

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)

CLERK-TREASURER
TOWN OF WEST TERRE HAUTE
EXIT CONFERENCE

The contents of this report were discussed on March 14, 2022, with Lisa Marie McCalister, Clerk-Treasurer; Larry Cassagne, Town Council member; and Emilee Woolley, Chief Deputy Clerk.

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TOWN COUNCIL
TOWN OF WEST TERRE HAUTE

TOWN COUNCIL
TOWN OF WEST TERRE HAUTE
AUDIT RESULTS AND COMMENT

CAPITAL ASSETS

Condition and Context

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

Criteria

The governing body of a unit must have a written policy concerning capital assets that includes at a minimum, the threshold at which an item is considered a capital asset. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

The Clerk-Treasurer had not received training on internal control standards.

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."

TOWN COUNCIL
TOWN OF WEST TERRE HAUTE
EXIT CONFERENCE

The contents of this report were discussed on March 14, 2022, with Lisa Marie McCalister, Clerk-Treasurer; Larry Cassagne, Town Council member; and Emilee Woolley, Chief Deputy Clerk.