

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF SPENCER

OWEN COUNTY, INDIANA

January 1, 2020 to December 31, 2020



FILED
03/29/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Cheryl Moke	01-01-20 to 12-31-22
President of the Town Council	Michael Spinks Jon C. Stantz	01-01-20 to 12-31-20 01-01-21 to 12-31-22
Superintendent of Wastewater Utility	John Hodge	01-01-20 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF SPENCER, OWEN COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Spencer (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 10, 2022

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CLERK-TREASURER
TOWN OF SPENCER

CLERK-TREASURER
TOWN OF SPENCER
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

The same comment also appeared in prior Reports B53792 and B55519.

Condition and Context

The Town had not established an adequate system of internal control related to financial transactions and reporting. The Town had not separated incompatible activities related to cash and investments and financial close and reporting.

Cash and Investments

There were no internal controls in place to ensure that monthly bank reconciliements were being prepared accurately. There was no segregation of duties, such as an oversight, review, or approval process.

Financial Close and Reporting

The Clerk-Treasurer entered and submitted the 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 an internal control, such as an oversight, review, or approval process to ensure the accuracy of the information entered and submitted.

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. . . ."

ANNUAL FINANCIAL REPORT ERRORS

The same comment also appeared in prior Report B55519, and a similar comment appeared in prior Reports B47374 and B53792, entitled *ANNUAL FINANCIAL REPORTS*.

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

Condition and Context

The Town made transfers within the software system that were not reflected on the detail of receipts and disbursement reports. The receipt and disbursement amounts reported on the Annual Financial Report in the Indiana Gateway for Government Units (Gateway) financial reporting system included these transfers, and, therefore, did not match what was reported in the ledger.

The errors in the Gateway reporting resulted in a net variance for both receipts and disbursements of \$35,509 and the ending cash balance being overstated by \$5,340.

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](#)."

BANK ACCOUNT RECONCILIATIONS

Condition and Context

The Clerk-Treasurer performed a monthly proof of cash for each bank account, but did not perform a bank reconciliation to balance the bank accounts to the total cash and investment balance. As a result, errors, unposted transfers, and adjustments that could have resulted in material errors were not always identified.

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."

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

The Town created the Motor Vehicle Highway (MVH) - Restricted fund as required. However, the Town did not allocate or deposit at least 50 percent of the distribution from the State Motor Vehicle Highway Account at the time of the receipt into the MVH Restricted fund for five of the monthly distributions received in 2020.

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)

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

FUND SOURCES AND USES

Condition and Context

A Commercial Vehicle Excise Tax distribution in June 2020 that totaled \$2,872 was recorded to incorrect funds.

Criteria

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

Condition and Context

The Town received funding for the Community Crossing State Grant. The distribution was receipted to the General fund rather than being posted to a separate grant fund.

The Town received funding from Community Development Block Grant for its wastewater project. The funds were receipted into the Sewage Utility Deprec fund rather than being posted to a separate grant fund.

Criteria

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)

CAPITAL ASSETS

Condition and Context

The Town presented for audit a capital asset record with summary totals as of 2015 and additions noted for the years 2015 through 2020. There was no detail presented to support the capital assets totals reported by category. There was no evidence of an inventory being performed every two years or a review of the schedule.

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)

CLERK-TREASURER
TOWN OF SPENCER
EXIT CONFERENCE

The contents of this report were discussed on March 10, 2022, with Cheryl Moke, Clerk-Treasurer; Jon C. Stantz, President of the Town Council; and Dean Bruce, Town Council member.

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TOWN COUNCIL
TOWN OF SPENCER

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AUDIT RESULT AND COMMENT

SEVERANCE PAY

Condition and Context

On February 21, 2020, a payment for 200 hours totaling \$3,078 was paid to an employee that was terminated due to a reorganization. The payment was calculated by using one week's pay for each of the employee's five years of service. The severance pay was not addressed in a resolution or in the Town Council minutes. Without an approved resolution addressing severance pay, it could not be determined if the severance pay was calculated in accordance with the Council approved guidelines.

Criteria

Unless specifically authorized by law, severance pay, or other payments to employees upon separation from employment, must be supported by the written opinion of the attorney for the unit stating that the payments are in accordance with all laws, including IC 35-44.1-1-3, and a properly enacted Home Rule ordinance/resolution. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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TOWN OF SPENCER
EXIT CONFERENCE

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