

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF SHOALS

MARTIN COUNTY, INDIANA

January 1, 2018 to December 31, 2021



FILED
10/05/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Lori Butler Sierra M. Rutledge	01-01-18 to 12-31-18 01-01-19 to 12-31-22
President of the Town Council	Earl Boyd, Jr. Cecil Ragsdale Cary D. Albright	01-01-18 to 12-31-18 01-01-19 to 12-31-20 01-01-21 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF SHOALS, MARTIN COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Shoals (Town), for the period from January 1, 2018 to December 31, 2021. 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 Statements Audit Report of the Town, which provides our opinions on the Town's financial statements. 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

September 21, 2022

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CLERK-TREASURER
TOWN OF SHOALS

CLERK-TREASURER
TOWN OF SHOALS
AUDIT RESULTS AND COMMENTS

ACCOUNTING FOR THE IFA ADMINISTERED CRF MONEY

Condition and Context

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

The Town did not properly establish a separate CARES grant fund for the CRF grant that followed the uniform chart of accounts. The Town established fund 264, entitled Covid Cares IFA (CARES fund), for the reimbursement received from the Indiana Finance Authority (IFA). However, fund number 264 was reserved for a different specified CARES purpose.

The reimbursement for public health and safety payroll costs was receipted into the CARES fund in January 2021. The reimbursement amount should have then been moved by claim to the General fund at that time, leaving a zero balance in the CARES fund; however, the transfer from the CARES fund was made to the General fund and the LOIT fund. The balance at year end was zero.

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).

All Reimbursements received from IFA shall be receipted into a separate CARES grant fund that is specific to IFA reimbursements.

Reimbursed Public Health and Safety Payroll Costs

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. . . .

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. . . .

(State Examiner Directive 2020-3)

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

CLAIMS PAID PRIOR TO TOWN COUNCIL APPROVAL

Condition and Context

Claims, not listed on Ordinance 2001-7 pertaining to the allowance of certain claims prior to board approval, were paid prior to Town Council approval. The Town Council approved all disbursements, including non-allowed claims, in the month after the checks for payment were distributed.

Criteria

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: . . .

(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. . . ."

Indiana Code 36-4-8 and Indiana Code 36-5-4 list various conditions which must be met prior to issuing warrants in cities and towns. Indiana Code 36-4-8-14 and Indiana Code 36-5-4-12 allow a city or town council to adopt an ordinance allowing the city or town fiscal officer to pay certain types of claims prior to board allowance.

The types of claims which could be paid before board allowance include: (1) property or services purchased from the U.S. Government, (2) License or permit fees, (3) Insurance premiums, (4) Utility payments or connection charges (5) General grant programs where advance refunding is not prohibited and the contracting party posts sufficient security to cover the amount advanced, (6) Grants of State funds, (7) Maintenance or service agreements, (8) Leases or rental agreements, (9) Bond or coupon payments, (10) Payroll, (11) State, federal or county taxes, (12) expenses that must be paid because of emergency circumstances, and (13) expenses described in an ordinance.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS - SEGREGATION OF DUTIES

The same comment appeared in a Report Communicating Internal Control Related Matters addressed to the Officials of the Town for the audit period ending December 31, 2017.

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 cash and investments, receipts, vendor disbursements, payroll disbursements, and financial close and reporting.

Cash and Investments

Effective internal controls had not been developed over the bank reconciliation process. The Clerk-Treasurer performed monthly bank reconciliations. However, there was no review or oversight of the reconciliation process.

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

Receipts

Effective internal controls had not been developed over the receipting process. The Deputy Clerk-Treasurer was primarily responsible for collecting utility bill payments. The Deputy Clerk-Treasurer received the money, stamped the bill stub as paid, posted the collections to the accounting system, prepared the bank deposit, and ran the Cash Posting Report which was given to the Clerk-Treasurer who wrote receipts for the total collections.

The Clerk-Treasurer was primarily responsible for collecting all Town receipts. The Clerk-Treasurer wrote the receipts, prepared the bank deposit for these receipts, posted the receipts to the ledger, and reconciled the bank statements to the ledger. While the Clerk-Treasurer's review of the Cash Posting Report and performance of the bank reconciliation indicated some review of the utility collections, there was no oversight or review of the remaining receipting process.

Disbursements - Vendor

Effective internal controls had not been developed over the vendor disbursement process. All invoices were turned in to the Clerk-Treasurer, who wrote the checks, and then wrote the fund and the check number on the invoice and gave it to the Deputy Clerk-Treasurer, who prepared all the claims. The Deputy Clerk-Treasurer stamped the department head's name on the claim indicating evidence of goods received, and then stamped the Clerk-Treasurer's name as auditing the claim. The Deputy Clerk-Treasurer added the claims to the claim docket which the Town Council signed at its monthly board meetings. Claims were not presented at the Town Council meeting, but the Clerk-Treasurer would have provided the claim for review, if requested. The Clerk-Treasurer posted the checks to the ledger. While there was some division of duties over vendor disbursements, the overall review process was not deemed adequate to ensure that vendor disbursements were properly posted to the ledger and to the financial statements.

Disbursements - Payroll

Effective internal controls had not been developed over the payroll process. The entire payroll process was completed by the Clerk-Treasurer. While the Town Council did approve the payroll claims by signing the claims docket, the claims docket only listed the total pay by fund and did not include the amounts paid to individual employees.

Financial Close and Reporting

The Town did not have a system of internal controls in place to prevent, or detect and correct, errors in the preparation of the financial statements. The Clerk-Treasurer entered the financial information into the Indiana Gateway for Government Units financial reporting system with no review or oversight.

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 SHOALS
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. . . ."

CLERK-TREASURER
TOWN OF SHOALS
EXIT CONFERENCE

The contents of this report were discussed on September 21, 2022, with Sierra M. Rutledge, Clerk-Treasurer, and Cecil Ragsdale, Town Council member.