

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF LOOGOOTEE

MARTIN COUNTY, INDIANA

January 1, 2018 to December 31, 2021



FILED
11/04/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Nancy L. Jones	01-01-18 to 09-30-18
	Carol Harder	10-01-18 to 12-31-20
	Roger Downey	01-01-21 to 12-31-22
Mayor	Noel D. Harty	01-01-18 to 12-31-22
President of the Board of Public Works	Noel D. Harty	01-01-18 to 12-31-22
President Pro Tempore of the Common Council	Ruth Smith	01-01-18 to 12-31-18
	Roger Downey	01-01-19 to 12-31-19
	Rick Norris	01-01-20 to 12-31-21
	Ron Gilbert	01-01-22 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF LOOGOOTEE, MARTIN COUNTY, INDIANA

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

A handwritten signature in blue ink that reads "Beth Kelley".

Beth Kelley, CPA, CFE
Deputy State Examiner

October 24, 2022

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CLERK-TREASURER
CITY OF LOGOOTE

CLERK-TREASURER
CITY OF LOOGOOTEE
AUDIT RESULTS AND COMMENTS

CAPITAL ASSETS

Condition and Context

The City had a capital assets policy that detailed the threshold at which an item was considered a capital asset; however, the City did not maintain a complete detailed listing of capital assets and did not complete a physical inventory 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)

OVERDRAWN CASH BALANCES

Condition and Context

The City's financial statements included the following funds with overdrawn cash balances at December 31, 2019, 2020, and 2021 that were not attributed to be reimbursable grant funds.

The City transfers money from various funds into the Payroll fund to pay payroll expenses. Transfers into the Payroll fund were either not made or were not made for the correct amount for at least five times during 2019. This contributed to the Payroll fund having a large negative balance at the end of 2019. While some corrections have been made during 2020 and 2021, the Clerk-Treasurer is still working to correct the balance.

Fund	Amount Overdrawn		
	2019	2020	2021
Police Equipment and Training	\$ -	\$ -	\$ 1,025
Payroll	267,152	53,896	119,288
West Boggs Bond Redemption	21,300	-	-
Sewage Utility Operating	13,263	-	-
Sewage Utility Bond Redemption	164,546	-	-

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)

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

FUND SOURCES AND USES

Condition and Context

There were several local and state distribution receipts that were posted to incorrect funds. Of the 392 distribution transactions tested, 44 were posted to an incorrect fund. The receipts were posted incorrectly in 2018, 2019, 2020, and 2021 in the amounts of \$11,995, \$61,472, \$117,337, and \$46,685, respectively.

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)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Clerk-Treasurer incorrectly certified on the Annual Financial Reports of the audit period that all personnel defined by Indiana Code 5-11-1-27(c) had received training concerning the minimum internal control standards adopted by the City.

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](#)."

**INTERNAL CONTROLS AND NONCOMPLIANCE OVER
FINANCIAL TRANSACTIONS AND REPORTING**

A similar comment also appeared in prior Report B50514, entitled *FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

There were several deficiencies in the internal control systems of the City related to financial transactions and reporting. The failure to establish effective internal controls enabled material misstatements to occur and remain undetected. The City had not separated incompatible activities related to the following areas:

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

Financial Close and Reporting

The City 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 Reports (AFR) and the financial statements, material errors remained undetected.

The City did not accurately report the activity of the Suspense Fund receipts and disbursements for 2019, 2020, and 2021 on the financial statements or the combining schedules of the AFR. Suspense Fund receipts were understated for 2019, 2020, and 2021 by \$1,742,343, \$2,037,569, and \$2,28,348, respectively. Suspense Fund disbursements were understated for 2019, 2020, and 2021 by \$1,510,487, \$2,141,889, and \$2,277,732, respectively.

Audit adjustments were proposed, accepted by the City, and made to the financial statements.

Cash and Investments

The City had internal control procedures in place over the bank reconciliations; however, they were not effective. The internal controls did not ensure that bank reconciliations were performed on all accounts and reported the correct cash balance, or that the cash and investment balances were reconciled to the City's funds ledger.

Receipts

Several employees were involved in performing the various functions within the City's receipting process. However, there was no documentation or other evidence to indicate that the City had established a formal review, oversight, or approval process to prevent, or detect and correct, errors in the receipts reported on the financial statements.

The bond anticipation notes (BAN) for the water and sewage bonds were received in the bank on October 8, 2020; however, they were not recorded on the ledger until November 30, 2020. The total amount of the receipts were \$6,755,000. In addition, the BAN proceeds of \$6,755,000 were transferred to a financial institution, who then directly paid legal and administrative fees of \$172,000. The City only recorded the net proceeds amount of \$6,583,000. As a result, the related receipts and disbursements totaling \$172,000 were not reported by the Clerk-Treasurer in Gateway, which was used to generate the AFR.

Disbursements

The City had internal control procedures in place over the disbursements; however, they were not effective. The internal controls did not ensure that the disbursements reported in the financial statements were free of material misstatements as noted above.

Additionally, in at least four instances, payroll time records and claims were submitted without either documented approval from the employee's supervisor or certification by the Clerk-Treasurer. The documentation presented to the Common Council for approval of payroll during the audit period contained only the ledger amounts for total payroll without the inclusion of any detailed payroll listing of employees paid.

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

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. . . ."

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Payroll Schedule and Voucher (General Form No. 99) . . . Each claim should be certified to by the department head and the Clerk-Treasurer in the appropriate sections provided thereon. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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)

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 City did not reconcile the Suspense Fund as part of its monthly reconciliation process. In addition, the City's reconciliation contained \$58,565 and \$1,334 in outstanding deposits at December 31, 2021, for the City's and Utility's bank accounts, respectively. These amounts have been shown as outstanding deposits since the computer software conversion in 2019.

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

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."

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)

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

The City established both the MVH fund and MVH Restricted fund, as required, and they were shown separately on the Annual Financial Report. However, the City did not allocate at least 50 percent of all the MVH distributions to the MVH Restricted fund. In addition, there was a Local Road and Street fund state distribution that was posted to MVH Restricted fund in error. The MVH restricted fund receipts were understated in 2018, 2019, and 2021 by \$5,181, \$14,338, and \$10,030, respectively.

Criteria

Indiana Code 8-14-1-4(b) states: "For funds distributed to a county from the motor vehicle highway account, the county shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the county's highways."

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)

CLERK-TREASURER
CITY OF LOOGOOTEE
EXIT CONFERENCE

The contents of this report were discussed on October 24, 2022, with Roger Downey, Clerk-Treasurer; Barb Ringham, Deputy Clerk-Treasurer; Noel D. Harty, Mayor; Teresa Nolley, Common Council member; Rick Norris, Common Council member; Caroll Rayhill, Common Council member; Nancy L. Jones, former Clerk-Treasurer; and James E. Wilson, Public Works Superintendent.

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COMMON COUNCIL
CITY OF LOGOOTE

COMMON COUNCIL
CITY OF LOOGOOTEE
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

The Common Council had adopted internal control standards and procedures as required; however, training was not provided to all appropriate employees.

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."

COMMON COUNCIL
CITY OF LOOGOOTEE
EXIT CONFERENCE

The contents of this report were discussed on October 24, 2022, with Roger Downey, Clerk-Treasurer; Barb Ringham, Deputy Clerk-Treasurer; Noel D. Harty, Mayor; Teresa Nolley, Common Council member; Rick Norris, Common Council member; Carol Rayhill, Common Council member; Nancy L. Jones, former Clerk-Treasurer; and James E. Wilson, Public Works Superintendent.