

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF PONETO

WELLS COUNTY, INDIANA

January 1, 2020 to December 31, 2021



FILED
12/09/2022

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Internal Controls.....	6-7
Condition of Records.....	7-8
Bank Account Reconciliations.....	8
Annual Financial Report.....	9
Motor Vehicle Highway (MVH) - Restricted Fund	9-10
Supporting Documentation	11
Timely Recording	11
Exit Conference	12

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Lou Ann Reinhard	01-01-20 to 12-31-22
President of the Town Council	Rebecca Smith	01-01-20 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 PONETO, WELLS COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Poneto (Town), for the period from January 1, 2020 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 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

November 28, 2022

(This page intentionally left blank.)

CLERK-TREASURER
TOWN OF PONETO

CLERK-TREASURER
TOWN OF PONETO
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Condition and Context

Internal controls over the recording, reconciling, and reporting of the financial transactions of the Town funds were deficient. As a result of the internal control deficiencies, material errors could have occurred and remained undetected.

Financial Close and Reporting

Although the Town had established internal controls over financial close and reporting, the internal controls were not effective to ensure the Town's compliance with applicable laws and regulations and to ensure the financial accuracy of information presented in the Annual Financial Report on the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statement.

Cash and Investments

Although the Town had established internal controls over cash and investments, the bank reconciliations did not include all bank accounts. Therefore, internal controls were not effective.

Receipts

The Town had not established internal controls over receipts. One person received, posted and deposited all receipts without a verifiable internal control or review. There were no internal controls in place to ensure that receipts were recorded at the time of the transaction and were receipted to the appropriate funds.

Disbursements

Although the Town had established internal controls over disbursements, Electronic Funds Transfer (EFT) payments and net payroll check payments were without a verifiable internal control or review. In addition, the EFT payments were not recorded in the ledger. There were no internal controls in place to ensure that disbursements were recorded at the time of the transaction and were disbursed from the appropriate funds.

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.

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

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. . . ."

CONDITION OF RECORDS

A similar comment also appeared in the prior Report B55557, entitled *CONDITION OF RECORDS*.

Condition and Context

The Town failed to comply with applicable laws and regulations related to:

Ledger

- The following funds were reported on the 2020 and 2021 Annual Financial Reports, but were excluded from the Town's Ledger of Receipts, Disbursements and Balances (ledger):
 - 2018 Sewer BAN Construction
 - 2018 Sewer Bonds Construction
 - OCRA Grant
 - Bond and Interest
 - Debt Service Reserve

- The financial transactions including beginning and ending cash and investments balances, receipts, and disbursement activity for following funds on the financial statement did not always agree with the ledger:
 - General
 - Motor Vehicle Highway
 - Local Road & Street
 - Riverboat
 - Rainy Day
 - Cum Capital Improvement
 - LOIT/Public Safety
 - CEDIT
 - Wastewater Utility
 - MVH Restricted
 - Payroll

Receipts

- The Town received four distributions related to a Community Development Block Grant; however, the Town did not issue or record the receipts at the time of the transaction.

- State Motor Vehicle Highway Account distributions were improperly posted.

- Payroll Fund receipts were not posted to the ledger.

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

Disbursements

- Payroll Fund disbursements were not posted to the ledger.

Audit adjustments were proposed, accepted, and approved by management of the Town.

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)

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 5-13-6-1(d) states in part:

"Except as provided in subsection (g), a city . . . or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories:

- (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and
- (2) approved as depositories of state funds."

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)

BANK ACCOUNT RECONCILIATIONS

A similar comment also appeared in the prior Report B55557, entitled *CONDITION OF RECORDS*.

Condition and Context

During the audit period, eight of ten, and six of eight bank accounts were not reconciled in 2020 and 2021, respectively. On December 31, 2021, the difference between the adjusted bank balance and the Town's ledger indicated a cash long of \$1,338, which was determined to be immaterial to the financial statement as a whole.

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)

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

ANNUAL FINANCIAL REPORT

Condition and Context

The Town made several errors entering the financial information into the Annual Financial Report (AFR) on the Indiana Gateway for Government Units (Gateway) financial reporting system for the years ended December 31, 2020 and 2021:

- Receipts into the Cum Capital Improvement fund were not recorded in 2020.
- Receipts into the CEDIT fund were not recorded in 2020.
- Receipts into the LOIT/Public Safety fund were recorded incorrectly in 2020.
- Receipts and disbursements related to the Payroll Fund were not recorded in 2020 and 2021.
- The Town's investments were not recorded on the Investment Fund Statement in 2020 and 2021.
- The Bond and Interest fund and the Debt Service Reserve fund were duplicated in both years.
- Receipts and disbursements related to the MVH and MVH Restricted funds were separated on the Town's ledger but were combined into one MVH fund on the AFR in both years.

Audit adjustments were proposed, accepted, and approved by the officials. The officials corrected the AFR in Gateway.

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](#)."

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

The Motor Vehicle Highway and the MVH Restricted funds were not shown separately on the 2020 and 2021 Annual Financial Reports.

During 2020, the Town posted all distributions from the State Motor Vehicle Highway Account to the MVH Restricted fund. The Town Council did not approve an allocation to the MVH Restricted fund of over 50 percent.

During 2021, the Town improperly posted 10 out of 12 distributions from the State Motor Vehicle Highway Account by posting more than 50 percent into the MVH Restricted fund. Also, the Town Council did not approve an allocation to the MVH Restricted fund of over 50 percent. In addition, a transfer was made from the MVH Restricted fund to the MVH fund in the amount of \$2,880 without Town Council approval.

CLERK-TREASURER
TOWN OF PONETO
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 1290-20118.

The sub-fund will be referred to throughout this Directive as "MVH Restricted" and 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 fifty percent (50%) of the distribution to MVH Restricted.

The political subdivision, by ordinance or resolution, may elect to allocate more than fifty percent (50%) of the distributions to MVH Restricted. During the same fiscal year, the political subdivision may transfer, by ordinance or resolution, the amount allocated in excess of the 50% requirement from MVH Restricted to MVH. ***In no event can any transfers from MVH Restricted to MVH reduce the fiscal year distributions from the State Motor Vehicle Highway Account below the 50% requirement for MVH Restricted.***

Any amounts allocated in excess of the required 50% of distributions which remain in MVH Restricted at the end of the fiscal year must remain in MVH Restricted until expended for construction, reconstruction, or preservation.

Qualified expenditures will then be entered accordingly to MVH and MVH Restricted:

MVH: Permissible uses of the State Motor Vehicle Highway (MVH) Accounts distributions are outlined in Indiana Code 8-14-1-4 for counties and in Indiana Code 8-14-1-5 for cities and towns.

MVH Restricted: Effective July 1, 2018, Indiana Code 8-14-1-4(b) and Indiana Code 8-14-1-5(c) requires at least 50% of the MVH distributions to be used for construction, reconstruction and preservation of the unit's highways. (Maintenance expenditures no longer count toward the 50% requirement.) . . .

(State Examiner Directive 2018-2)

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

SUPPORTING DOCUMENTATION

A similar comment also appeared in prior Report B55557, entitled *SUPPORTING DOCUMENTATION*.

Condition and Context

Of the forty-nine disbursements tested, nine did not have adequate supporting documentation. Two disbursements, totaling \$211, were paid by statement without invoices or bills to support the statement. Four disbursements, totaling \$3,126, were paid based on supporting documentation that was not properly itemized to support the validity of the disbursement. Three disbursements, totaling \$355, did not have any supporting documentation.

Criteria

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TIMELY RECORDING

Condition and Context

Of the 49 disbursements tested, 36 were not recorded at the time of the transaction. The date from the time the check was written to the time it was recorded ranged from 6 to 45 days.

Criteria

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)

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF PONETO
EXIT CONFERENCE

The contents of this report were discussed on November 28, 2022, with Lou Ann Reinhard, Clerk-Treasurer, and Rebecca Smith, President of the Town Council.