

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF VERNON

JENNINGS COUNTY, INDIANA

January 1, 2018 to December 31, 2022



**FILED**  
05/03/2023



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Marietta Jean Rockey	01-01-18 to 03-03-21
	Amber Fields	03-04-21 to 03-08-23
	Mary Jo Bender	03-09-23 to 12-31-23
Mayor	Dan Wright	01-01-18 to 03-08-23
	Wayne Zamora	03-09-23 to 12-31-23



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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TO: THE OFFICIALS OF THE TOWN OF VERNON, JENNINGS COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Vernon (Town), for the period from January 1, 2018 to December 31, 2022. 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/](http://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

April 20, 2023

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CLERK-TREASURER  
TOWN OF VERNON

CLERK-TREASURER  
TOWN OF VERNON  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

A similar comment also appeared in prior Report B52005.

*Condition and Context*

The Town had not separated incompatible activities related to cash and investments, receipts, disbursements, and financial close and reporting. The Clerk-Treasurer was primarily responsible for collecting, recording, depositing Town receipts, writing and recording checks, completing the bank reconciliations, and preparing and submitting the Annual Financial Report (AFR) financial information in the Indiana Gateway for Government Units financial reporting system. There were no internal controls in place, such as an oversight, review, or approval process to ensure financial transactions and the AFR and financial statements were accurate.

*Cash and Investments*

The Town had not established internal controls over cash and investments for 2018, 2019, and 2020. The Clerk-Treasurer prepared the monthly bank reconciliations without an oversight, review, and approval process to ensure their accuracy. Beginning in 2021, monthly bank reconciliations were being reviewed and approved by the Mayor. As a result of not having internal controls prior to 2021, the following errors were noted:

1. Monthly reconciliations of the depository account balance with the record balance were not presented for three of the six bank accounts for November 2020.
2. No monthly reconciliations were presented for audit for the month of December 2020.

*Receipts and Disbursements*

Internal controls were not in place to ensure all receipts and disbursements had been properly recorded in the ledger. As a result, the following errors were noted:

1. Instances were noted in which receipts were not posted to the ledger or were not posted to the correct fund.
2. Not all transactions were posted to the Town's ledger presented for audit for 2020. Prior to December 2020, the Town maintained manual records. In December 2020, the Town started using QuickBooks to account for the transactions of the Town. However, in March 2021, the Town switched to Keystone for its accounting software for all Town and Utility funds. At that time, the Clerk-Treasurer went back and posted all transactions for 2021 into the Keystone accounting software. The Town failed to print out and maintain the records previously posted in QuickBooks, and, therefore, there were no records available to account for the transactions that occurred in December of 2020. These transactions were recreated using prior and subsequent fund reports and bank statements.

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

*Financial Close and Reporting*

The Town had not established internal controls over financial close and reporting for the entire audit period. The Clerk-Treasurer prepared and submitted the AFR without an oversight, review, and approval process. As a result, the following errors were noted:

1. For 2018, the receipts and disbursements for the Community Crossing Matching Grant fund were both understated in the amount of \$57,605, and the receipts of the Water Operating Fund were understated by \$262.
2. For 2019, the receipts and disbursements of the Water Operating Fund were understated by \$220 and \$719, respectively.
3. For 2020, the only funds reported on the AFR was the Sewage Utility Operating, Sewage Meter Deposit, Water Utility Operating fund, and Bond And Interest Water Fund. No Town funds or other Utility funds were reported. As a result, receipts and disbursements were understated by \$134,749 and \$154,840, respectively.
4. For 2022, the receipts and disbursements of the Water Utility Operating fund were understated by \$3,800 and \$520, respectively; receipts of the Alcohol and Drug Services - Opioid fund were understated by \$2,392; and the disbursements of the Water Utility Operating fund were understated by \$520.

Audit adjustments were proposed, accepted by the Town, and made to the financial statements and combining schedules.

*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. . . ."

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.

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

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)

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)

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

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](#)."

## **ANNUAL FINANCIAL REPORT**

### *Condition and Context*

Financial, supplemental, and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units Financial (Gateway) reporting system. The financial, supplemental, and other information entered into Gateway had the following errors:

### *Financial Data*

1. For 2018, the receipts and disbursements for the Community Crossing Matching Grant fund were both understated in the amount of \$57,605, and the receipts of the Water Operating Fund were understated by \$262.
2. For 2019, the receipts and disbursements of the Water Operating Fund were understated by \$220 and \$719, respectively.
3. For 2020, the only funds reported on the AFR was the Sewage Utility Operating, Sewage Meter Deposit, Water Utility Operating fund, and Bond And Interest Water Fund. No Town funds or other Utility funds were reported. As a result, receipts and disbursements were understated by \$134,749 and \$154,840, respectively.

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

4. For 2022, the receipts and disbursements of the Water Utility Operating fund were understated by \$3,800 and \$520, respectively; receipts of the Alcohol and Drug Services - Opioid fund were understated by \$2,392; and the disbursements of the Water Utility Operating fund were understated by \$520.

Adjustments were proposed, accepted by the Town, and made to the financial statements presented in the Financial Statements Audit Report and to the Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Required Supplementary Information.

*Accounts Payable and Accounts Receivable*

1. The amount entered as Account Payables for 2022 was incorrect. The amount reported was the total disbursements made during 2022, instead of the amounts owed by the Town and Water Utility as of December 31, 2022.
2. The amount entered as Accounts Receivables for 2022 was incorrect. The amount reported was the total receipts received during 2022, instead of the amounts due to the Town and Water Utility as of December 31, 2022.

The Town elected not to correct the information or include the Schedule of Payables and Receivables in the Financial Statements Audit Report, which would have been presented as Other Information.

*Capital Assets*

The amounts entered for capital assets of the Town and Water Utility were not supported by capital asset records. Officials indicated that the amount entered reflected insurance replacement costs and not the actual acquisition cost.

The Town elected not to correct the information or include the Schedule of Capital Assets in the Financial Statements Audit Report, which would have been presented as Other Information.

*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 Town did not establish a Motor Vehicle Highway (MVH) Restricted fund as required by State Examiner Directive 2018-2, and as necessary for compliance with the provisions of Indiana Code 8-14-1-5(c).

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

*Criteria*

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

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 . . .

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)

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)

**CARES ACT FUND**

*Condition and Context*

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

The Town did not properly establish a separate CARES grant fund for the CRF grant that followed the uniform chart of accounts. The Town utilized fund 101 entitled, General Fund, for reimbursements received from the Indiana Finance Authority (IFA).

*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. . . .**

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

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.

Once option one is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund.** . . .

**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.

Once option two is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. This option requires a resolution or ordinance as detailed in the memorandum CARES Reimbursement of Public Health and Safety Payroll Costs, September 30, 2020.** . . .

Transactions for other permitted costs reimbursed by IFA must be accounted for through one of the following prescribed frameworks.

**Framework One.** Reimbursements received from IFA shall be receipted into the separate CARES grant fund. Reimbursed disbursements originally incurred in another fund will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the fund cash balance and re-appropriate the 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 original 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.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund.** . . .

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

**Framework Two.** If IFA has provided reimbursement based on unpaid invoices or purchase orders, then reimbursements received from IFA shall be receipted into the separate CARES grant fund. The expenditures to vendors will be made through the CARES grant fund and these expenditures must match the application made to IFA. If the actual invoice or invoices relating to a purchase order is less than the purchase order, then the difference in the money expended to the vendor and the amount received for the purchase order from IFA must be returned to IFA. The items on the invoice must match the items on the purchase order. All documentation must be maintained.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund.** . . .

**Framework Three.** If you have created a negative balance in your CARES fund based on expenditures made in anticipation of receipt of reimbursement for allowable expenditures where invoices have already been submitted to IFA then leave as is and receipt reimbursement when received, bringing the balance in the separate CARES grant fund to zero. Going forward, expend any anticipated allowable expenditures from a fund with an appropriation and follow framework one. If a negative balance in the CARES grant fund is not fully reimbursed, then the unreimbursed amount will require a reverse entry and posting of the expenditure to the general or other appropriate fund within an appropriated line item.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund.**

(State Examiner Directive 2020-3)

## **CAPITAL ASSETS**

### *Condition and Context*

The Town, including the Water and Wastewater Utilities, has not adopted a capital assets policy. Also, the Town and its' Utilities did not maintain a complete detailed listing of all capital assets owned, which reflects their acquisition value, nor was a physical inventory taken during the last 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)

## **ORDINANCES AND RESOLUTIONS**

### *Condition and Context*

Revenue Bond Ordinance No. 100 which governs the 1993 Water Revenue Bonds, required monthly transfers be made to the Bond and Interest Fund from the Water Utility Operating Fund. These monthly transfers are required to ensure sufficient funds are available to pay principal and interest payments when they come due.

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

During 2021 and 2022, monthly transfers were not made to the Bond and Interest fund as required by the Ordinance to ensure sufficient funds were available to pay the principal and interest payments when they came due. Bond payments made during 2021 and 2022 were instead made directly from the Water Utility Operating fund.

*Criteria*

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**CERTIFICATION ON INTERNAL CONTROL STANDARDS**

The same comment also appeared in prior Report B52005.

*Condition and Context*

The Clerk-Treasurer incorrectly certified on the Annual Financial Report for 2018, 2019, 2020, 2021, and 2022 that the Town had adopted the acceptable minimum level of internal control standards as defined by the Indiana State Board of Accounts.

*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](#)."

CLERK-TREASURER  
TOWN OF VERNON  
EXIT CONFERENCE

The contents of this report were discussed on April 20, 2023, with Mary Jo Bender, Clerk-Treasurer; Amber Fields, former Clerk-Treasurer and current Town Council member; Jeffery T. Walker, Town Council member; and John Post, Town Council member.

TOWN COUNCIL  
TOWN OF VERNON

TOWN COUNCIL  
TOWN OF VERNON  
AUDIT RESULT AND COMMENT

***ADOPTION OF INTERNAL CONTROL STANDARDS***

A similar comment also appeared in prior Report B52005, entitled *ADOPTION AND TRAINING ON INTERNAL CONTROL STANDARDS*.

*Condition and Context*

The Town Council had not adopted the minimum internal control standards by June 30, 2016, as required by Indiana Code.

*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:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; . . ."

TOWN COUNCIL  
TOWN OF VERNON  
EXIT CONFERENCE

The contents of this report were discussed on April 20, 2023, with Mary Jo Bender, Clerk-Treasurer; Amber Fields, former Clerk-Treasurer and current Town Council member; Jeffrey T. Walker, Town Council member; and John Post, Town Council member.