

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF STAUNTON

CLAY COUNTY, INDIANA

January 1, 2018 to December 31, 2022



FILED

05/15/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Catherine Mienheartt	01-01-18 to 12-31-23
President of the Town Council	William A. Kirchner	01-01-18 to 12-31-23



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 STAUNTON, CLAY COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Staunton (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/.

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

May 3, 2023

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CLERK-TREASURER
TOWN OF STAUNTON

CLERK-TREASURER
TOWN OF STAUNTON
AUDIT RESULTS AND COMMENTS

MONTHLY AND ANNUAL UPLOADS

Condition and Context

The Town had not uploaded any of the required monthly or annual engagement uploads since June 2019.

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)

Beginning with July 2018 files, which will be due September 15, 2018, **all** cities, towns, townships, libraries, and special districts will use the Upload App to upload files containing financial and governmental unit information on Gateway to allow the State Board of Accounts (SBOA) to conduct audit planning and audit processes prior to on-site work at a unit. (State Examiner Directive 2018-1)

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

In 2019, the Town failed to create and report the MVH Restricted sub-fund as directed by the State Examiner. Therefore, the Town failed to allocate or deposit at least 50 percent of the distributions from the State Motor Vehicle Highway (MVH) Account, at the time of the receipt, into an MVH Restricted sub-fund. Since the MVH Restricted sub-fund had not been created, we were not able to determine if the Town used at least 50 percent of the purpose specified in Indiana Code 8-14-1-5(c).

Criteria

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

The sub-fund . . . 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 . . .

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.

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

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.***

(State Examiner Directive 2018-2)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

The same comment also appeared in prior Report B50413.

Condition and Context

The Clerk-Treasurer certified that the Town had adopted the minimum standards of internal control and that employees had received the required training when completing the Annual Financial Report. This certification was incorrect. As of December 31, 2022, the Town had not adopted internal control standards, nor had the required training been completed by any Town employees.

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](#)."

CAPITAL ASSETS

Condition and Context

The Town had a capital asset policy that detailed the threshold at which an item was considered a capital asset. However, the Town listed every disbursement over \$500 on the detailed capital asset ledger even if the disbursement was not for a capital asset.

A complete physical inventory was not taken at least every two years to verify the account balances carried in the accounting records.

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 STAUNTON
AUDIT RESULTS AND COMMENTS
(Continued)

ANNUAL FINANCIAL REPORT

Condition and Context

The Annual Financial Reports (AFR) for 2018, 2021, and 2022 contained a number of errors and did not properly reflect the financial activity of the Town. These errors included:

1. For 2018, the General fund beginning balance was overstated by \$51,221, and the WHEEL SURTAX fund beginning balance was overstated by \$9,769.
2. For 2021 and 2022, the American Relief Fund receipts totaling \$52,016 were not included on the AFR.
3. For 2022, the Opioid Settlement - Unrestricted fund receipts totaling \$571 and the Opioid Settlement - Restricted fund receipts totaling \$1,331 were not included on the AFR.

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](#)."

ANNUAL FINANCIAL REPORT - OTHER INFORMATION

Condition and Context

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

1. For 2019, the Wastewater Utility General Obligation Bond Ending Principal Balance was understated by \$318,000, and the Principal and Interest Due in One Year was overstated by \$385,398.
2. For 2019, the Water Utility General Obligation Bond Ending Principal Balance was overstated by \$370,000, and the Principal and Interest Due in One Year was overstated by \$717,864.
3. For 2021, the Wastewater Utility General Obligation Bond was omitted from the schedule, which resulted in the Ending Principal Balance being understated by \$718,000 and the Principal and Interest Due in One Year being understated by \$49,516.
4. For 2021, the Water Utility General Obligation Bond Ending Principal Balance was overstated by \$382,222, and the Principal and Interest Due in One Year being overstated by \$664,054.

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

5. For 2021, the Water Utility Notes and Loans Payable for a well was omitted from the schedule, which resulted in the Ending Principal Balance being understated by \$84,057 and the Principal and Interest Due in One Year being understated by \$10,103.
6. For 2022, the Wastewater Utility General Obligation Bond was omitted from the schedule, which resulted in the Ending Principal Balance being understated by \$699,000 and the Principal and Interest Due in One Year being understated by \$49,708.
7. For 2022, the Water Utility General Obligation Bond Ending Principal Balance was overstated by \$422,222, and the Principal and Interest Due in One Year was overstated by \$660,036.
8. For 2022, the Water Utility Notes and Loans Payable for a well was omitted from the schedule, which resulted in the Ending Principal Balance being understated by \$76,370 and the Principal and Interest Due in One Year was understated by \$10,103.

Adjustments were proposed, accepted by the Town, and made to the Schedule of Leases and Debt presented as Other Information.

In addition, the capital asset information entered into Gateway could not be verified due to lack of supporting documentation.

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](#)."

ORDINANCES AND RESOLUTIONS

Condition and Context

The Town adopted an ordinance concerning the Wastewater Utility Bond; however, the Town did not pay the interest payment due February 2022, according to the bond amortization schedule.

The Town assessed penalty fees for late Water Utility payments, but did not provide an ordinance to support the charges.

The Town adopted a Water Shutoff Policy stating that in the event service charges are not paid on or before the tenth day of the month after the bill is due and payable, the water service of the user in default was to be discontinued; however, the Town did not always shut off delinquent customers as required by the policy.

The Town adopted the Water Utility Rate Ordinance 2012-001 documenting the rates to be charged for water usage. Customers were not charged the approved rates for 3 of the 25 utility bills tested.

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

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)

INTERNAL CONTROLS

The same comment also appeared in prior Report B50413.

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 receipts and financial close and reporting.

Receipts

Two employees received payments from customers for Utility collections, but both employees used the same cash drawer. In addition, the Town had not separated incompatible activities related to receipts: one individual issued receipts, posted receipts, prepared the deposit slip, and remitted the collections to the bank. There was no evidence of an oversight, review, or approval process to ensure the accuracy and completeness of receipts.

Financial Close and Reporting

The Town had not established an effective system of internal controls over financial information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the Annual Financial Report and the financial statement. There was no evidence of an internal control such as an oversight, review, or approval process.

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. . . ."

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

WASTEWATER UTILITY LATE FEES

A similar comment appeared in a Management Letter addressed to the Clerk-Treasurer for the audit period ending December 31, 2017, and in prior Reports B37579 and B40871.

Condition and Context

The Town did not consistently apply late fees to delinquent accounts. On 2 of the 25 bills tested, customers were assessed a late fee for delinquent water balances, but not for the related wastewater balances.

The Wastewater Utility did not assess penalties on delinquent accounts in compliance with Indiana Code. The Utility charged late penalties on delinquent accounts of three percent on all amounts. However, the statutory requirement for delinquent wastewater fees provides for a one-time assessment of ten percent of the delinquent amount.

Criteria

Indiana Code 36-9-23-31 states in part: "If fees assessed . . . are not paid within the time fixed by the municipal legislative body, they are delinquent. A penalty of ten percent (10%) of the amount of the fees attaches to the delinquent fees."

CLERK-TREASURER
TOWN OF STAUNTON
EXIT CONFERENCE

The contents of this report were discussed on May 3, 2023, with Catherine Mienheartt, Clerk-Treasurer, and William A. Kirchner, President of the Town Council.

TOWN COUNCIL
TOWN OF STAUNTON

TOWN COUNCIL
TOWN OF STAUNTON
AUDIT RESULTS AND COMMENTS

ADOPTION OF, AND TRAINING ON, INTERNAL CONTROL STANDARDS

A similar comment also appeared in prior Report B50413, entitled *INTERNAL CONTROL STANDARDS*.

Condition and Context

As of December 31, 2022, the Town had not adopted internal control standards, nor had the required training been completed by any Town employees.

Criteria

Indiana Code 5-11-1-27(g) states:

"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; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

ORDINANCES AND RESOLUTIONS

Condition and Context

The Town assessed penalty fees for late Water Utility payments but did not provide an ordinance to support the charges.

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)

TOWN COUNCIL
TOWN OF STAUNTON
EXIT CONFERENCE

The contents of this report were discussed on May 3, 2023, with Catherine Mienheartt, Clerk-Treasurer, and William A. Kirchner, President of the Town Council.