

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF SALEM

WASHINGTON COUNTY, INDIANA

January 1, 2019 to December 31, 2019



FILED
09/03/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sally J. Hattabaugh	01-01-19 to 12-31-20
Mayor	Troy Merry Justin Green	01-01-19 to 12-31-19 01-01-20 to 12-31-20
President of the Board of Public Works and Safety	Troy Merry Justin Green	01-01-19 to 12-31-19 01-01-20 to 12-31-20
President Pro Tempore of the Common Council	Justin Green Danny Libka	01-01-19 to 12-31-19 01-01-20 to 12-31-20
Utility Office Manager	Carol Brough	01-01-19 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF SALEM, WASHINGTON COUNTY, INDIANA

This report is supplemental to our audit report of the City of Salem (City), for the period from January 1, 2019 to December 31, 2019. 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 Statement Audit Report of the City, which provides our opinions on the City'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 Result and Comment contained herein describes the identified reportable instance 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 Result and Comment, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

August 27, 2020

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CLERK-TREASURER
CITY OF SALEM

CLERK-TREASURER
CITY OF SALEM
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were deficiencies in the internal control system of the City related to financial transactions and reporting. The City did not have a proper system of internal controls in place over financial transactions and reporting to prevent, or detect and correct, errors. Due to the lack of controls over the input of 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, material errors remained undetected.

The undetected errors were attributable to the 2019 issuance of Water Works Bond Anticipation Notes. The net proceeds of the issuance were deposited into a dedicated bank account at Huntington National Bank and were used to pay for the costs of the issuance, retire existing debt, and to make periodic transfers to fund a major utility construction project. However, none of the financial activity of this bank account was recorded in the City's accounting records, nor reflected in the City's financial statement. As a result, receipts were understated by \$14,908,765, disbursements were understated by \$6,363,809, and the ending cash and investment balance was understated by \$8,544,956.

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

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 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality 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
CITY OF SALEM
EXIT CONFERENCE

The contents of this report were discussed on August 27, 2020, with Sally J. Hattabaugh, Clerk-Treasurer; Justin Green, Mayor; Danny Libka, President Pro Tempore of the Common Council; and Jody Smedley, Common Council member.