

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF LAUREL

FRANKLIN COUNTY, INDIANA

January 1, 2018 to December 31, 2022



FILED
10/13/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Linda Adams	01-01-18 to 12-31-23
President of the Town Council	Rebecca Jones	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 LAUREL, FRANKLIN COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Laurel (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 the 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

September 26, 2023

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CLERK-TREASURER
TOWN OF LAUREL

CLERK-TREASURER
TOWN OF LAUREL
AUDIT RESULTS AND COMMENTS

PENALTIES AND INTEREST PAID

A similar comment appeared in prior Report B52138, entitled *PENALTIES AND INTEREST PAID*.

Condition and Context

The Town paid penalties and interest totaling \$2,512.99 to the Indiana Department of Revenue and the Internal Revenue Service for the years 2018, 2019, 2020, 2021, 2022, and 2023 because the Town did not remit payments for sales tax and payroll withholding taxes on a timely basis.

On September 26, 2023, the Clerk-Treasurer personally reimbursed the Town \$2,512.99 for the penalties and interest paid.

Criteria

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

A similar comment appeared in prior Report B52138, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

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 cash and investments, receipts, and financial close and reporting. In addition, the Town had not properly designed or implemented internal controls pertaining to risk assessment and information and communication processes.

Cash and Investments: One individual was primarily responsible for completing the bank reconcilements. There was no internal control in place, such as an oversight, review, or approval process, to ensure that monthly reconcilements were properly completed.

Receipts: One individual was primarily responsible for collecting, posting, and depositing the Town's receipts. There was no documentation of an internal control in place, such as an oversight, review, or approval process, to ensure that receipts were properly recorded and deposited.

Financial Close and Reporting: One individual was primarily responsible for submitting the Annual Financial Report (AFR). The AFR was the source of the financial statements. There were no internal control in place, such as an oversight, review, or approval process, to ensure the AFR was accurate.

CLERK-TREASURER
TOWN OF LAUREL
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. . . ."

"Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. Each identified risk is evaluated in terms of its impact and likelihood of occurrence. Overall, risk assessment is the basis for determining how risk will be managed. . . .

Management identifies risks to the achievement of the political subdivision's objectives across the unit as a whole and within each office or department. Analysis of risk through determination of objective measures and variance tolerance is the basis for determining how the risks should be managed. The response to risk is selected: acceptance, avoidance, reduction, or sharing. . . .

Internal control is a process, and part of that process is the responsibility for management to be continually aware of changes, both external and internal, that could affect the achievement of the political subdivision's objectives. Those changes should be analyzed for both their immediate effect and for any future impact. Management would then determine any modifications needed in the internal control process to adapt to these changes."

"Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information. Internal communication enables personnel to receive a clear message that control responsibilities are taken seriously by the organization. External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties."

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

ANNUAL FINANCIAL REPORT

Condition and Context

The following errors were noted on the Town's Annual Financial Reports (AFRs) submitted on the Indiana Gateway for Government Units (Gateway) financial reporting system. The AFRs were the source of the Town's financial statements, combining schedules, and Other Information presented in the Financial Statements Audit Report for the Town.

1. The Sewer Project fund was omitted from the 2021 and 2022 AFRs. This resulted in the following errors:
 - Receipts, disbursements, and ending cash and investment balances for 2021 were understated by \$416,495, \$416,483, and \$12, respectively.
 - Beginning cash and investment balances, receipts, disbursements, and ending cash and investment balances for 2022 were understated by \$12, \$549,032, \$549,023, and \$21, respectively.

Audit adjustments were proposed, accepted by the Town, and made to the financial statements and combining schedules included in the Financial Statements Audit Report for the Town.

2. The Capital asset information was not submitted in Gateway for any of the years in the audit period.
3. The federal grant information submitted in Gateway was overstated by \$241,517 in 2021 and understated by \$41,941 in 2022.
4. The debt information submitted in Gateway contained the following errors:
 - Principal and Interest Due Within One Year was overstated by \$187,173 in 2022.
 - Ending Principal Balance was understated by \$10,375 in 2021.
 - Ending Principal Balance was understated by \$11,931 in 2022.

Audit adjustments were proposed, accepted by the Town, and made to the Schedule of Leases and Debt presented as Other Information in the Financial Statements Audit Report for the Town.

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 LAUREL
AUDIT RESULTS AND COMMENTS
(Continued)

MONTHLY AND ANNUAL ENGAGEMENT UPLOADS

Condition and Context

The Town did not upload any monthly or annual engagement uploads to the Indiana Gateway for Government Units financial reporting system during the years 2018, 2019, 2020, 2021, or 2022.

Criteria

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients.

A user guide for the Engagement Uploads is available and located at: <https://gateway.ifionline.org/userguides/engagementguide> It is pertinent that this user guide be used in conjunction with this Directive. It provides critical information to you that will help guide you to uploading the correct documents.

(Amended State Examiner Directive 2018-1)

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)

CAPITAL ASSETS

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

Condition and Context

The following deficiencies were noted regarding capital asset records:

1. The Town did not have a capital assets policy.
2. The Town did not keep a detailed listing of all capital assets.
3. The Town did not complete a physical inventory of all capital assets 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)

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

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

The Town did not properly establish an MVH Restricted sub-fund and allocate 50 percent of the distributions from the State Motor Vehicle Highway Account to the sub-fund. All monies received from the State Motor Vehicle Highway Account were posted to the Motor Vehicle Highway fund.

Criteria

Starting on January 1, 2019, the political subdivision must post at the time of the 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)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

The same comment also appeared in prior Report B52138.

Condition and Context

The Clerk-Treasurer certified on the Annual Financial Reports for 2018, 2019, 2020, 2021, and 2022 that the Town had adopted the minimum internal control standards as required by statute. However, the Town had not adopted the minimum internal control standards.

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 LAUREL
AUDIT RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROLS OVER UTILITY BILLINGS

Condition and Context

There were deficiencies in the Town's internal control system related to utility billings. The Deputy Clerk-Treasurer performed all billing procedures with no oversight or review to verify the billings were completed accurately. The following errors were noted with utility billings:

1. Residential customers selected for testing were charged \$39 per month for wastewater services. However, Ordinance 2008-5 stated that residential customers should have been charged \$56 per month for wastewater services, effective June 1, 2009.
2. Laurel Elementary was billed based on zero water usage on the October 2020 billing, which was not the actual water usage of the school during that month.

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. . . ."

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)

CLERK-TREASURER
TOWN OF LAUREL
EXIT CONFERENCE

The contents of this report were discussed on September 26, 2023, with Linda Adams, Clerk-Treasurer; Rebecca Jones, President of the Town Council; Pete Connolly, Town Council member; Henry Bulmer, Town Council member; and Donna Hewitt, Deputy Clerk-Treasurer.

TOWN COUNCIL
TOWN OF LAUREL

TOWN COUNCIL
TOWN OF LAUREL
AUDIT RESULTS AND COMMENTS

ADOPTION OF INTERNAL CONTROL STANDARDS

The same comment also appeared in prior Report B52138.

Condition and Context

The Town Council did not adopt an internal control policy as required by Indiana Code 5-11-27(g).

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."

CAPITAL ASSETS

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

Condition and Context

The following deficiencies were noted regarding capital asset records:

1. The Town did not have a capital assets policy.
2. The Town did not keep a detailed listing of all capital assets.
3. The Town did not complete a physical inventory of all capital assets 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)

TOWN COUNCIL
TOWN OF LAUREL
EXIT CONFERENCE

The contents of this report were discussed on September 26, 2023, with Linda Adams, Clerk-Treasurer; Rebecca Jones, President of the Town Council; Pete Connolly, Town Council member; Henry Bulmer, Town Council member; and Donna Hewitt, Deputy Clerk-Treasurer.

CLERK-TREASURER
TOWN OF LAUREL
SUMMARY OF CHARGES
(Due to Malfeasance, Misfeasance, or Nonfeasance)

	Charges	Credits	Balance Due
Linda Adams, Clerk-Treasurer:			
Penalties and Interest Paid, page 6	\$ 2,512.99	\$ -	\$ -
Payment September 26, 2023	-	2,512.99	-
 Totals	\$ 2,512.99	\$ 2,512.99	\$ -