

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF CARTHAGE

RUSH COUNTY, INDIANA

January 1, 2019 to December 31, 2022



FILED

11/21/2023

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Monthly and Annual Uploads	6
Overdrawn Cash Balances	7
Accounting of the IFA Administered CRF Money	7-8
Internal Controls over Financial Transactions and Reporting.....	8-9
Exit Conference	10

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Rachael Morrow	01-01-19 to 12-31-23
President of the Town Council	Kelly Land	01-01-19 to 12-31-23



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF CARTHAGE, RUSH COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Carthage (Town), for the period from January 1, 2019 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

November 13, 2023

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CLERK-TREASURER
TOWN OF CARTHAGE

CLERK-TREASURER
TOWN OF CARTHAGE
AUDIT RESULTS AND COMMENTS

MONTHLY AND ANNUAL UPLOADS

Condition and Context

The files and governmental unit information that were required to be uploaded monthly and annually to the Indiana Gateway for Government Units (Gateway) financial reporting system included the bank reconcilements, outstanding check lists, approved council minutes, funds ledgers summarizing total receipts, disbursements, and balances by fund, bank statements, detail of receipt and disbursement activity, salary ordinances and annual vendor history reports.

1. All twelve months of required monthly Gateway uploads were uploaded late or were incorrect during 2019.
2. Nine months of required monthly Gateway uploads were uploaded late or were incorrect during 2020.
3. All twelve months of required monthly Gateway uploads were uploaded late or were incorrect during 2021.
4. All twelve months of required monthly Gateway uploads were uploaded late or were incorrect during 2022.
5. All of the required annual Gateway uploads were uploaded late or were incorrect for 2019, 2020, 2021, and 2022.
6. The Town failed to upload several additional monthly and annual upload files to the Gateway financial reporting system.

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.ifonline.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)

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

OVERDRAWN CASH BALANCES

A similar comment also appeared in prior Reports B46746 and B53900, entitled *OVERDRAWN CASH BALANCES*.

Condition and Context

The financial statements presented in the Financial Statements Audit Report included the following funds with overdrawn cash balances:

Year	Fund	Amount Overdrawn
2019	MOTOR VEHICLE HIGHWAY	\$ (20,680)
2019	SANITATION	(1,627)
2019	PAYROLL	(326,535)
2019	WATER CONSTRUCTION	(232)
2020	PAYROLL	(322,030)
2020	WATER CONSTRUCTION	(232)
2021	PAYROLL	(321,901)
2021	WATER CONSTRUCTION	(232)
2022	PAYROLL	(322,852)
2022	SEWAGE UTILITY OPERATING	(13,580)
2022	WATER CONSTRUCTION	(232)

The overdrawn cash balance of the Payroll fund arose from payroll transfers not being made into the Payroll fund at the time payroll disbursements were made in prior audit periods. These deficits were not investigated and repaid as sufficient cash flow became available.

Criteria

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ACCOUNTING OF THE IFA ADMINISTERED CRF MONEY

Condition and Context

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

The reimbursements for public health and safety payroll costs of \$17,056 from the Indiana Finance Authority (IFA) were receipted into the COVID - CARES - IFA fund (CARES fund) in December 2020. The expenditures upon which the reimbursement was based should have been reversed and recorded in the CARES fund, or the reimbursed amount transferred through the claims process to the General Fund, which would have allowed the money to be expended for any general unit purpose. Either of these two methods would have allowed for the proper processing and recording of the CRF reimbursements.

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

The CARES fund had a balance of \$17,056 until July 31, 2021. This amount was correctly transferred through the claims process to the General Fund on August 1, 2021.

Criteria

Reimbursed Public Health and Safety Payroll Costs

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.

(State Examiner Directive 2020-3)

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

A similar comment appeared in prior report B53900, entitled *INTERNAL CONTROLS*.

Condition and Context

The Town had not separated incompatible activities, such as an oversight, review, or approval process to prevent, or detect and correct, misstatements within the financial reporting system in relation to receipts and disbursements. We noted the following deficiencies in the internal control system of the Town:

Receipts

Receipts received via an Electronic Funds Transfer were recorded solely by the Clerk-Treasurer without a segregated review process in place.

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

Payroll Disbursements

The Town's internal control process over payroll disbursements was not properly implemented.

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 CARTHAGE
EXIT CONFERENCE

The contents of this report were discussed on November 13, 2023, with Rachael Morrow, Clerk-Treasurer, and Kelly Land, President of the Town Council.