

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

TOWN OF THORNTOWN

BOONE COUNTY, INDIANA

January 1, 2022 to December 31, 2022



FILED
09/29/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Koren Gray	01-01-22 to 12-31-23
President of the Town Council	Sara Fairfield	01-01-22 to 12-31-23



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO: THE OFFICIALS OF THE TOWN OF THORNTOWN, BOONE COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the Town of Thorntown (Town), for the year ended December 31, 2022, and the related notes to the financial statement, which collectively comprise the Town's financial statement and have issued our report thereon dated September 26, 2023, wherein we noted the Town followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, as described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002, that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002.

Town of Thorntown's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Town's response to findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Town's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statement, and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth Kelley, CPA, CFE
Deputy State Examiner

September 26, 2023



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

TO: THE OFFICIALS OF THE TOWN OF THORNTOWN, BOONE COUNTY, INDIANA

Report on Compliance for the Major Federal Program

Qualified Opinion

We have audited the Town of Thorntown's (Town) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2022. The Town's major federal program is identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinion on COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinions* section of our report, the Town complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the COVID-19 - Coronavirus State and Local Fiscal Recovery Funds for the year ended December 31, 2022.

Basis for Qualified Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Town's compliance with the compliance requirements referred to above.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Matter Giving Rise to Qualified Opinion on COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

As described in the accompanying Schedule of Findings and Questioned Costs, the Town did not comply with requirements regarding 21.027 COVID-19 - Coronavirus State and Local Fiscal Recovery Funds, as described in item 2022-003 for Activities Allowed or Unallowed, Allowable Costs/Cost Principals, and Period of Performance. Compliance with such requirement is necessary, in our opinion, for the Town to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Town's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Town's compliance based on our audit. Reasonable assurance is a high level of assurance, but is not absolute assurance, and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Town's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Town's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Town's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on the Town's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The Town's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2022-003 and 2022-004, to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards require the auditor to perform limited procedures on the Town's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The Town's response was not subjected to the other auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statement of the Town, as of and for the year ended December 31, 2022, and the related notes to the financial statement. We issued our report thereon dated September 26, 2023, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with accounting principles generally accepted in the United States of America, and an unmodified opinion was issued regarding the presentation in accordance with the regulatory basis of accounting. Our audit was performed for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.



Beth Kelley, CPA, CFE
Deputy State Examiner

September 26, 2023

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the Town. The schedule and notes are presented as intended by the Town.

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TOWN OF THORNTOWN
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2022

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Department of Housing and Urban Development</u>					
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	Indiana Office of Community and Rural Affairs	14.228	B-20-DC-18-0001	\$ -	\$ 616,047
Total - Department of Housing and Urban Development				-	616,047
<u>Department of the Treasury</u>					
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds Coronavirus State and Local Fiscal Recovery Funds Coronavirus State and Local Fiscal Recovery Funds	Boone County Direct Grant	21.027	FY 2022 FY 2022	- -	1,500,000 60,000
Total - COVID-19 - Coronavirus State and Local Fiscal Recovery Funds				-	1,560,000
Total - Department of the Treasury				-	1,560,000
Total federal awards expended				\$ -	\$ 2,176,047

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF THORNTOWN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the Town under programs of the federal government for the year ended December 31, 2022. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the Town, it is not intended to and does not present the financial position of the Town.

B. Other Significant Accounting Policies

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

Note 2. Indirect Cost Rate

The Town has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

TOWN OF THORNTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Program and type of auditor's report issued on compliance for it:

Assistance Listings Number	Name of Federal Program or Cluster	Opinion Issued
21.027	COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	Qualified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?	no
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Section II - Financial Statement Findings

FINDING 2022-001

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not established internal controls, which would include appropriate segregation of duties, over receipts or financial close and reporting.

TOWN OF THORNTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Receipts

The Clerk-Treasurer prepared the deposit, deposited the funds at the bank, and posted the receipts to the ledger. There was no documentation of an oversight or review process to ensure that all receipt activity was accurately recorded and deposited.

Financial Close and Reporting

The Clerk-Treasurer entered and submitted financial information into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Annual Financial Report (AFR) and financial statement without a proper system of internal controls in place to prevent, or detect and correct, errors on the AFR and financial statement.

Due to the lack of internal controls, the AFR and financial statement presented for audit did not include activity from the State Revolving Fund (SRF) project as it was not recorded in the Town's ledger. The omission of this activity caused the cash and investments beginning balance, receipts, disbursements, and ending cash and investments to be understated by \$1,686,003, \$329,727, \$1,860,554, and \$155,176, respectively.

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 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](#)."

TOWN OF THORNTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Cause

Management of the Town had not established an effective system of internal controls related to receipts and financial close and reporting that would have ensured proper reporting of the AFR and financial statement. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the Town's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

Effect

Without a proper system of internal controls in place, material misstatements of the AFR and financial statement remained undetected. The AFR and financial statement contained the errors identified in the *Condition and Context*.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2022-002

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

Condition and Context

The Town had not established effective internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Town's Schedule of Expenditures of Federal Awards (SEFA). The Clerk-Treasurer prepared and entered the federal award information into Gateway without a proper system of internal controls in place to prevent, or detect and correct, errors on the SEFA.

Due to the lack of internal controls, the SEFA presented for audit included the following errors:

1. The COVID-19 - Coronavirus State and Local Fiscal Recovery Funds grant was omitted, which understated expenditures by \$1,560,000.
2. The Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii grant expenditures were overstated by \$1,679,000.
3. Grant expenditures for one grant were incorrectly reported as passed through to sub-recipients. The total amount reported incorrectly as passed through was \$616,047.
4. Other errors included incorrect program names, pass-through entity, Assistance Listings Numbers, and identifying numbers.

Audit adjustments were proposed, accepted by the Town, and made to the SEFA presented in this report.

TOWN OF THORNTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(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. . . ."

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](#)."

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control . . ."

2 CFR 200.1 states in part:

". . . *Internal controls* for non-Federal entities means:

- (1) Processes designed and implemented by non-Federal entities to provide reasonable assurance regarding the achievement of objectives in the following categories:
 - (i) Effectiveness and efficiency of operations;
 - (ii) Reliability of reporting for internal and external use; . . ."

2 CFR 200.508 states in part:

"The auditee must: . . .

- (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510. . . ."

TOWN OF THORNTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2 CFR 200.510 (b) states:

"Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the Assistance Listings Number or other identifying number when the Assistance Listings information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502(b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414."

Cause

Management of the Town had not established an effective system of internal controls that would have ensured proper reporting of the SEFA. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the Town's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

Effect

Without a proper system of internal controls in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Condition and Context*.

TOWN OF THORNTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

Section III - Federal Award Findings and Questioned Costs

FINDING 2022-003

Subject: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance

Federal Agency: Department of the Treasury

Federal Program: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

Assistance Listings Number: 21.027

Federal Award Number and Year (or Other Identifying Number): FY 2022

Pass-Through Entity: Boone County

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/
Cost Principles, Period of Performance

Audit Findings: Material Weakness, Modified Opinion

Condition and Context

The Town submitted an application to the Indiana Finance Authority's (IFA) Clean Water State Revolving Fund (SRF) Loan Program on June 13, 2019. The Clean Water SRF provides financial assistance to local communities for the planning, design, construction, renovation, improvement, or expansion of wastewater collection and treatment systems, or for other activities that are permitted by the Clean Water Act. The Town's proposed project was for infrastructure improvements and the expansion of its existing waste stabilization lagoon. The Town submitted to IFA the required Preliminary Engineering Report (PER), which provided the information necessary for IFA to determine technical, economic, and environmental adequacy of the proposed project.

On November 18, 2020, the Town received approval of its PER from IFA. This approval was contingent upon the issuance of all required permits, including construction permits. After receiving approval, the Town was to contact its financial advisor and its nationally-recognized bond counsel to assist in preparing the appropriate financial and legal documents needed to close the Town's SRF loan. All SRF Loan Program requirements, including bidding the entire SRF-financed project, was to be completed prior to the Town receiving SRF funding.

On July 26, 2021, the Town received the necessary permits, including the construction permit issued by the Indiana Department of Environmental Management related to the waste stabilization lagoon project.

On October 25, 2021, the Town passed Resolution No. 2021-7 A Resolution Authorizing the Issuance of Interim Financing with Home National Bank for the Cost of Improvements to the Sewage Works of the Town. As a result, the Town issued Sewage Works Bond Anticipation Notes of 2021 in the principal amount of \$1,500,000.

On March 11, 2022, the Town received a \$1,500,000 subaward from Boone County (County). The subaward was made from the County's allocation of State and Local Fiscal Recovery Funds (SLFRF).

TOWN OF THORNTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

On March 12, 2022, the Town made a payment of \$1,500,000 to Home National Bank to repay the Sewage Works Bond Anticipation Notes of 2021. The source of the payment was the SLFRF subaward received from the County on March 11, 2022.

On April 21, 2022, the Town received a \$500,000 subaward from the County. The subaward was made from the County's allocation of State and Local Fiscal Recovery Funds (SLFRF).

Effective on April 29, 2022, the Town entered into a Subrecipient Agreement (agreement) with the County. Per the agreement, the County appropriated \$2,000,000 of its SLFRF allocation as a subaward to the Town to construct certain improvements and expansions of the Town's sanitary sewer system and lagoon. The agreement is to remain in effect no later than the later of December 31, 2026, or the completion of the project and payment of the final project expenses, unless terminated by the County in writing.

Per the agreement, the Town agreed to comply with all federal, state, and local laws and all requirements and published guidance set forth regarding the usage of any and all SLFRF monies. Per SLFRF program regulations, the period of performance for the SLFRF award began on the date the funds were disbursed and ends on December 31, 2026. As such, funds may only be used to cover costs incurred during the period that began on March 3, 2021, and ends on December 31, 2024. Recipients must liquidate all obligations incurred by December 31, 2024, under the award no later than December 31, 2026, which is the end of the period of performance.

Although the Town's project is an eligible water and sewer infrastructure project under the SLFRF Final Rule, the project was initiated and approved by the Town prior to the SLFRF period of performance beginning date of March 3, 2021. Further, the project was not prospective in nature, and the Town incurred a financial obligation prior to the beginning of the period of performance. In addition, the SLFRF subaward received from the County was used to pay the principal on an outstanding debt that was initiated outside the effective date of the subaward agreement. As such, the payment of \$1,500,000 was determined to be questioned costs.

The lack of internal controls and noncompliance were systemic issues throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

31 CFR 35.5(a) states:

"In general. A recipient may only use funds to cover costs incurred during the period beginning March 3, 2021, and ending December 31, 2024, for one or more of the purposes enumerated in sections 602(c)(1) and 603(c)(1) of the Social Security Act, as applicable, including those enumerated in § 35.6, subject to the restrictions set for in sections 602(c)(2) and 603(c)(2) of the Social Security Act, as applicable."

TOWN OF THORNTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

31 CFR 35.3 states in part: ". . . *Obligation* means an order placed for property and services and entering into contracts, subawards, and similar transactions that require payment. . . ."

31 CFR 35.6 states in part:

"(a) *In general.* Subject to §§ 35.7 and 35.8, a recipient may use funds for one or more of the purposes described in paragraphs (b) through (f) . . .

(b) *Responding to the public health emergency or its negative economic impacts.* . . .

(1) *Identifying eligible responses to the public health emergency or its negative economic impacts.*

(i) A program, service, or capital expenditure . . .

(c) *Providing premium pay to eligible workers.* . . .

(d) *Providing government services.* A recipient may use funds for the provision of government services to the extent of the reduction in the recipient's general revenue due to the public health emergency, . . .

(e) *Making necessary investments in water, sewer, and broadband infrastructure.* . . .

(f) *Meeting the non-federal matching requirements for Bureau of Reclamation projects.* . . ."

Interim Final Rule Frequently Asked Questions, Question 4.3, states in part:

". . . Expenses related to financing, including servicing or redeeming notes, would not address the needs of the pandemic response or its negative economic impacts. Such expenses would also not be considered provision of government services, as these financing expenses do not directly provide services or aid to citizens.

This applies to paying interest or principal on any outstanding debt instrument, including, for example, short term revenue or tax anticipation notes, or paying fees or issuance costs associated with the issuance of new debt."

Federal Register, Vol. 87, No.18, page 4429, states in part: ". . . debt service is not an eligible use of funds either to respond to the public health emergency or its negative economic impacts or as a provision of government services to the extent of revenue loss . . ."

2 CFR 200.403 states in part:

"Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards: . . .

(h) Cost must be incurred during the approved budget period. The Federal awarding agency is authorized, at its discretion, to waive prior written approvals to carry forward unobligated balances to subsequent budget periods pursuant to § 200.308(e)(3)."

TOWN OF THORNTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Cause

The system of internal controls, as designed and implemented by management of the Town, was not effective to ensure SLFRF funds were used appropriately. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the Town's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

Effect

Without the proper implementation of an effectively designed system of internal controls, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. As such, payment on debt associated with a project outside of the period of performance was allowed to occur.

Noncompliance with the provisions of federal statutes, regulations, and terms and conditions of the federal award could result in the loss of future federal funding to the Town.

Questioned Costs

Known questioned costs in the amount of \$1,500,000 were identified as noted in the *Condition and Context*.

Recommendation

We recommended that management of the Town establish a system of internal controls and develop policies and procedures to ensure SLFRF funds are used appropriately.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

Auditor's Response

It is the Town's responsibility to comply with applicable federal regulations and guidelines when accepting and managing a federal award. The Town had designed and implemented a system of internal controls; however, these internal controls were not effective in ensuring that federal funds were obligated during the period of performance and spent in accordance with Activities Allowed or Unallowed and Allowable Costs/Cost Principles.

Payments from the Fiscal Recovery Funds are intended to be used prospectively to provide support to governments in responding to the impact of COVID-19. The Town's waste stabilization lagoon project was initiated prior to, and the Town incurred a financial obligation for the project, prior to the pandemic as the contracts and corresponding financing documents were completed prior to the period of performance and could not have been enacted in anticipation of the passage of the Act, as they were executed a year prior to referenced legislation.

TOWN OF THORNTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Furthermore, while "outstanding debt" is not defined in the interim final rule, a general definition is the total amount of money, including interest and fees, owed to a lender or creditor. As such, as soon as the bond anticipation notes were issued, they were "outstanding debt."

We reaffirm our finding and will review the status of the finding during our next audit.

FINDING 2022-004

Subject: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Reporting
Federal Agency: Department of the Treasury
Federal Program: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds
Assistance Listings Number: 21.027
Federal Award Number and Year (or Other Identifying Number): FY 2022
Compliance Requirement: Reporting
Audit Finding: Material Weakness

Condition and Context

The Town had not properly designed or implemented a system of internal controls, which would include appropriate segregation of duties that would likely be effective in preventing, or detecting and correcting, noncompliance. Recipients are required to submit quarterly or annually Project and Expenditure (P&E) reports to the U.S. Department of the Treasury (Treasury). The reporting periods, as well as the respective due dates, are based upon type of recipient and its population, as well as the recipient's allocation amount. Information to be reported includes projects funded, expenditures, and contracts for the appropriate reporting period.

The Town was classified as a metropolitan city/town with a population below 250,000 residents that received an allocation of less than \$10 million in State and Local Fiscal Recovery Funds. As such, the initial P&E report, covering one calendar year from was required to be submitted to the Treasury by April 30, 2022. The subsequent annual reports were to cover one calendar year and must be submitted to the Treasury by the last day of the year following the end of the period covered.

The Town submitted one P&E report during the audit period; however, a single employee prepared and submitted the P&E report without a review or oversight process in place to prevent, or detect and correct, errors.

The lack of internal controls was a systemic issue throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

TOWN OF THORNTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Cause

A proper system of internal controls was not designed by management of the Town, which would include segregation of key functions. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the Town's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

Effect

Without the proper design or implementation of the components of a system of internal controls, including policies and procedures that provide segregation of duties and additional oversight as needed, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that management of the Town design and implement a proper system of internal controls, including policies and procedures that would provide segregation of duties to ensure appropriate reviews, approvals, and oversight are taking place.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

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AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the Town. The document is presented as intended by the Town.



Town of Thorntown 1830

Thorntown Indiana
101 W. Main St.
P. O. Box 127
Thorntown, IN 46052
765-436-2205

Municipal Water Plant 1909

CORRECTIVE ACTION PLAN

FINDING 2022-001

Finding Subject: Financial Transactions and Reporting

Summary of Finding: Internal controls related to the 2022 Annual Financial Report and Receipts

Contact Person Responsible for Corrective Action: Koren Gray, Clerk-Treasurer

Contact Phone Number and Email Address: 765-436-2205 and clerktreasurer@thorntown.in.gov

Views of Responsible Officials: We concur with the finding.

Description of Corrective Action Plan:

The Clerk-Treasurer will establish a series of internal controls to improve the financial record keeping of the Town. On a go-forward basis, the Town will follow the following procedures:

- The Town's Certified Public Accountant will post the entries of the Annual Financial Report (AFR) into Indiana Gateway for Governmental Units;
- The Clerk-Treasurer will review and approve the financial entries of the AFR into the Indiana Gateway for Governmental Units; and
- The Town Council President will review and approve the financial entries of the AFR submitted into the Indiana Gateway for Governmental Units.
- Deposit tickets will be created and taken to the bank by the Utility Clerk who will then return the deposit slip to the Clerk-Treasurer to post

Per Uniform Guidance:

2 CFR § 200.511(a) – “The auditee is responsible for follow-up and corrective action on all audit findings. . .The auditee must also prepare a corrective action plan for current year audit findings. . . The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements which are required to be reported in accordance with GAGAS.”

2 CFR § 200.511(c) – “At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in § 200.516, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.”

Anticipated Completion Date: Beginning October 1, 2023

FINDING 2022-002

Finding Subject: Schedule of Expenditures of Federal Awards (SEFA)

Summary of Finding: Internal Controls over SEFA

Contact Person Responsible for Corrective Action: Koren Gray
Contact Phone Number: 765-436-2205

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Clerk-Treasurer will establish a series of internal controls to improve the financial record keeping of the Town. On a go-forward basis, the Town will follow the following procedures:

- The Town's Certified Public Accountant will post the entries of the Annual Financial Report (AFR) into Indiana Gateway for Governmental Units;
- The Clerk-Treasurer will review and approve the financial entries of the AFR into the Indiana Gateway for Governmental Units; and
- The Town Council President will review and approve the financial entries of the AFR submitted into the Indiana Gateway for Governmental Units.

Anticipated Completion Date:

Beginning October 1, 2023

FINDING 2022-003

Finding Subject: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance

Summary of Finding: Noncompliance regarding the above compliance requirements

Contact Person Responsible for Corrective Action: Koren Gray
Contact Phone Number: 765-436-2205

Views of Responsible Official: No corrective action is required. The Town's use of funds was appropriate under the law effective at the time of their actions.

While the FAQs and fact sheets seem fairly clear that ARPA funds cannot be used to pay for any debt, including, specifically, BANs and tax anticipation warrants, the language in the actual Interim Final Rule seems to allow ARPA funds to be used for *new* debt. The Interim Final Rule, issued in May 2021, states:

"Contributions to rainy day funds and similar financial reserves would not address these needs or respond to the COVID-19 public health emergency but would rather constitute savings for future spending needs. Similarly, this eligible use category would not include payment of interest or principal

Per Uniform Guidance:

2 CFR § 200.511(a) – "The auditee is responsible for follow-up and corrective action on all audit findings. . .The auditee must also prepare a corrective action plan for current year audit findings. . . The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements which are required to be reported in accordance with GAGAS. "

2 CFR § 200.511(c) – "At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in § 200.516, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons."

on outstanding debt instruments, including, for example, short-term revenue or tax anticipation notes, or other debt service costs. As discussed below, payments from the Fiscal Recovery Funds are intended to be used prospectively and the interim final rule precludes use of these funds to cover the costs of debt incurred prior to March 3, 2021. Fees or issuance costs associated with the issuance of new debt would also not be covered using payments from the Fiscal Recovery Funds because such costs would not themselves have been incurred to address the needs of pandemic response or its negative economic impacts.”

The Final Rule, issued in 2022, summarizes the Interim Final Rule, including that the Interim Final Rule did not allow for “payment of interest or principal on outstanding debt instruments; ... [or] fees or issuance costs associated with the issuance of new debt...”

The issue date of these bond anticipation notes is the same as the actual date of delivery, which is after March 3, 2021. Under all federal laws, debt does not exist until it is actually issued – that is to say, debt does not exist at the time of approval of the PER, the time of adoption of the authorizing documents, or at any point before it is actually issued. The Thorntown BANs were issued after March 3, 2021, making them “new debt,” not “outstanding debt” for the purposes of the Rules. The Interim Rule does not allow for debt service payments on outstanding debt as it is not a prospective use of the funds. It does, however, seem to allow for debt service payments on “new debt,” just not for issuance costs, which were covered by the SRF.

The Final Rule also includes this statement:

“Specifically, use of funds for debt service, to replenish financial reserves, or to satisfy an obligation arising from a judicial settlement or judgment were ineligible uses of funds under the eligible use categories for public health and negative economic impacts and revenue loss. These restrictions apply to all recipients. Recipients should note that restrictions on use of funds for debt service, to replenish financial reserves, or to satisfy an obligation arising from a judicial settlement or judgment apply to all eligible use categories, not just the eligible use categories in which they were discussed in the interim final rule.”

The Final Rule clarifies several times that all debt service, including short term debt issued after the beginning of the pandemic in response to the lack of revenue, was intended to be an ineligible use. However, because the Final Rule seems to make it clear that the Interim Final Rule was unclear on this point, the Town can make a strong argument based on the points above that this BAN was an eligible use under their interpretation of the Interim Final Rule and should be allowed under the Treasury’s [Statement Regarding Compliance with the Coronavirus State and Local Fiscal Recovery Funds Interim Final Rule and Final Rule](#).

Description of Corrective Action Plan:

Not Applicable. However, as final guidance and the final rule are now available, the Town would not use ARPA funds to pay for any new debts moving forward.

Per Uniform Guidance:

2 CFR § 200.511(a) – “The auditee is responsible for follow-up and corrective action on all audit findings. . .The auditee must also prepare a corrective action plan for current year audit findings. . . The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements which are required to be reported in accordance with GAGAS. ”

2 CFR § 200.511(c) – “At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in § 200.516, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.”

Anticipated Completion Date:

Not Applicable.

FINDING 2022-004

Finding Subject: Reporting

Summary of Finding: Internal Controls over Reporting for the SLFRF Grant

Contact Person Responsible for Corrective Action: Koren Gray

Contact Phone Number: 765-436-2205

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Town will establish a series of internal controls for the SLRF reporting process. The Town will follow the following procedures:

- The Clerk-Treasurer and Town Council will maintain a calendar of SLRF required reporting;
- The Clerk-Treasurer, with the assistance of the Town's municipal advisor and counsel, will prepare the required reporting; and
- The Town Council President will review all requisite reports prior to submission.

Anticipated Completion Date:

Beginning October 1, 2023

Per Uniform Guidance:

2 CFR § 200.511(a) – “The auditee is responsible for follow-up and corrective action on all audit findings. . .The auditee must also prepare a corrective action plan for current year audit findings. . . The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements which are required to be reported in accordance with GAGAS. ”

2 CFR § 200.511(c) – “At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in § 200.516, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.”

OTHER REPORTS

In addition to this report, other reports may have been issued for the Town. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.