

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

SUPPLEMENTAL COMPLIANCE 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



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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TO: THE OFFICIALS OF THE TOWN OF THORNTOWN, BOONE COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Thorntown (Town), for the period from January 1, 2022 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 Statement Audit Report of the Town, which provides our opinions on the Town'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 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 THORNTOWN

CLERK-TREASURER
TOWN OF THORNTOWN
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

Condition and Context

Financial, required supplemental information, supplemental information, and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. The Town had not established effective internal controls over the AFR information entered into Gateway, which resulted in the following errors:

Financial Data

- Beginning cash and investments were understated by \$1,686,003.
- Receipts were understated by \$329,727.
- Disbursements were understated by \$1,860,554.
- Ending cash and investments were understated by \$155,176.

Adjustments were proposed, accepted by the Town, and made to the financial statement and to the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Required Supplementary Information in the Financial Statement Audit Report for the Town.

Capital Assets

Capital Asset information entered into Gateway could not be verified due to a lack of supporting documentation for amounts reported. The Town has chosen to omit the Capital Asset Schedule from the Financial Statement Audit Report for the Town.

Payables and Receivables

The account receivable information reported was materially incorrect to the supporting documentation provided. The Town has chosen to omit the Schedule of Payables and Receivables from the Financial Statement Audit Report for the Town.

Grant Schedule

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

Adjustments were proposed, accepted by the Town, and made to the Schedule of Expenditures of Federal Awards (SEFA) as presented in the Federal Compliance Audit Report for the Town.

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

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](#)."

BANK ACCOUNT RECONCILIATIONS

Condition and Context

Monthly reconciliations were not prepared for the Sewer Construction bank accounts for any months during the audit period.

Criteria

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

CAPITAL ASSETS

The same comment also appeared in prior Report B57041.

Condition and Context

The Town did not provide a formal capital asset policy, a detailed listing of capital assets, or evidence that a capital asset inventory had been completed at least every two years.

The Town approved a threshold of \$5,000 for capitalizing assets at the December 30, 2019 Town Council meeting, but the threshold had not been documented in a formal capital assets policy.

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 THORNTOWN
AUDIT RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROLS

The same comment also appeared in prior Reports B51250 and B57041.

Condition and Context

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

Receipts

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

Financial Close and Reporting

The Clerk-Treasurer entered and submitted financial information into the Indiana Gateway for Government Units 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. The lack of internal controls allowed a material misstatement in the financial statement as reported in the above comment titled *Annual Financial Report*.

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 THORNTOWN
AUDIT RESULTS AND COMMENTS
(Continued)

ORDINANCES AND RESOLUTIONS

Condition and Context

The following transfers were not approved in an ordinance or resolution by the Town Council:

- The General fund to the Sewer Construction in Process fund for \$616,047.
- Monthly transfers from the Water Utility Operating fund to the Water Utility Depreciation fund for \$1,794.
- Monthly transfers from the Sewage Utility Operating fund to the Sewage Utility Depreciation fund for \$1,400.
- Monthly transfers from the Electric Utility Operating fund to the Electric Utility Depreciation fund for \$2,136.

There were immaterial errors when calculating penalties for the utilities. Penalties were not always documented in an approved ordinance. The following errors were noted:

- Water penalties were charged at 10 percent of the first \$3 and then 3 percent of the balance. However, per Ordinance 2014-3 dated May 19, 2014, water penalties should have been charged at 10 percent of the first \$3 and then 2 percent of the balance.
- Electric penalties were charged at 10 percent of the first \$3 and then 3 percent of the balance. However, electric penalty rates were not documented in an ordinance.
- Hydrant penalties were charged at 10 percent of the balance. However, Hydrant penalties were not documented in an ordinance.
- Stormwater penalties were charge at 10 percent of the bill. However, Stormwater penalties were not documented in an ordinance.

Criteria

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Fees can only be collected as specifically authorized by law or properly authorized ordinance/ resolution. When a fee is NOT specified by law, but instead through the use of an ordinance/resolution, sufficient authoritative reference should be maintained. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF THORNTOWN
EXIT CONFERENCE

The contents of this report were discussed on September 26, 2023, with Koren Gray, Clerk-Treasurer; David Williams, Vice President of the Town Council; and Sandy Gates, Utility Clerk.

TOWN COUNCIL
TOWN OF THORNTOWN

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TOWN OF THORNTOWN
AUDIT RESULT AND COMMENT

ORDINANCES AND RESOLUTIONS

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