

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF NORTH SALEM

HENDRICKS COUNTY, INDIANA

January 1, 2021 to December 31, 2022



**FILED**  
12/21/2023



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Beth Russell	01-01-21 to 12-31-23
President of the Town Council	Rebecca A. Fancher	01-01-21 to 12-31-23



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF NORTH SALEM, HENDRICKS COUNTY, INDIANA

This report is supplemental to the audit report of the Town of North Salem (Town), for the period from January 1, 2021 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/](http://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

December 14, 2023

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CLERK-TREASURER  
TOWN OF NORTH SALEM

CLERK-TREASURER  
TOWN OF NORTH SALEM  
AUDIT RESULTS AND COMMENTS

**BANK ACCOUNT RECONCILIATIONS**

*Condition and Context*

The Town did not complete bank reconciliations for the State Revolving Fund loan 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."

**ANNUAL FINANCIAL REPORT**

*Condition and Context*

Financial, supplemental, 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 Statement*

1. The Town did not report the 2022 activity of the OCRA Grant fund. Receipts and disbursements for the year were both understated by \$231,152 as a result.
2. The Town did not report any activity of the SRF North Salem 476513 fund. As a result, the receipts and disbursements in 2021 were both understated by \$1,005,321, and the receipts and disbursements in 2022 were both understated by \$97,712.

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

*Other Information*

The Town did not report any accounts payable or accounts receivable for 2021 or 2022.

Adjustments were proposed, accepted by the Town, and made to the Schedule of Payables and Receivables presented as Other Information in the Financial Statement Audit Report of the Town.

*Grant Schedule*

The Town omitted \$231,152 in federal assistance received under Assistance Listings Number 14.228.

Since the Town did not expend the requisite amount of federal dollars during the audit period, a Schedule of Expenditures of Federal Assistance was not required to be reported.

CLERK-TREASURER  
TOWN OF NORTH SALEM  
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](#)."

**INTERNAL CONTROLS**

A similar comment appeared in prior Report B58050, entitled *INTERNAL CONTROLS*.

*Condition and Context*

The Town did not have a proper system of internal controls in place related to financial transactions and reporting. Multiple deficiencies were noted related to receipts, disbursements, and financial close and reporting.

*Receipts*

While the Town segregated duties related to receiving and depositing money and receipt issuance, there was no evidence of an oversight, review, or approval process to ensure that the receipts were recorded correctly in the Town's ledger or properly posted to the Town's financial statement.

*Disbursements*

While the Town implemented an approval process over actual vendor and payroll claims, there was no evidence of an oversight, review, or approval process to ensure that the disbursements were recorded correctly in the Town's ledger or properly posted to the Town's financial statement.

*Financial Close and Reporting*

While the Town had implemented a system of internal controls over financial close and reporting, it was determined to be ineffective. The Town did not include all of its financial activity entered into the Indiana Gateway for Government Units financial reporting system as part of its Annual Financial Report (AFR), which was the source of the financial statement. The Town did not include the activity of the OCRA Grant fund in its 2022 AFR submission and omitted all activity related to the SRF Water Project Loan fund from its 2021 and 2022 AFR submissions, which resulted in material misstatements of the financial statement. Multiple other immaterial errors were also noted.

Audit adjustments were proposed, accepted by the Town, and made to the financial statement as noted in the *Annual Financial Report* comment.

CLERK-TREASURER  
TOWN OF NORTH SALEM  
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. . . ."

**STATE REVOLVING LOAN FUND ACTIVITY**

*Condition and Context*

The Town was a recipient of a loan through the State Revolving Loan Fund program. The Town did not issue receipts or prepare claims for any of the funds received or disbursed during the audit period and did not record any of the activity in the Town's ledger.

*Criteria*

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1.

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

**LOAN BETWEEN TOWN FUNDS**

This same comment appeared in a Management Letter addressed to the Officials of the Town for the audit period ending December 31, 2020.

*Condition and Context*

The Town Council approved transfers in the amounts of \$10,000 and \$8,000 on March 7, 2019, and October 4, 2019, respectively, from the Trash Fund to the Wastewater Utility - Operating fund as temporary loans because the Wastewater Utility - Operating fund did not have a sufficient cash balance to operate. As of the date of this report, these loans had not been repaid.

*Criteria*

Indiana Code 36-1-8-4 states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met: . . .

- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
  - (A) A statement that the fiscal body has determined that an emergency exists.
  - (B) A brief description of the grounds for the emergency.
  - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

**INTERNAL CONTROL STANDARDS**

*Condition and Context*

The Town had not implemented a proper system of internal controls related to the various components of internal control. No key internal controls were identified for Risk Assessment, Information and Communication, Monitoring, or the IT Environment and General Computer Controls, the last of which was determined to affect the Control Environment component.

CLERK-TREASURER  
TOWN OF NORTH SALEM  
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 an adequate control environment and adequate risk assessment, information and communication, and monitoring activities. According to this manual:

"The control environment is the basic commonality for all and comprises the integrity and ethical values of the political subdivision established by the oversight body and management. The standards, processes, and structures which form the control environment pervasively impact the overall system of internal control. The oversight body and management convey leadership expectations, and overall tone which are reinforced by all officials and management throughout the various offices and departments. The control environment also contains the overall accountability structure for all employees through performance and reward measures. Within this structure, leadership demonstrates commitment to the political subdivision by having a process for attracting, developing, and retaining competent individuals. This component is static in that its underpinnings do not generally change with a given objective . . .

Risk is the possibility that an event will occur and adversely affect the achievement 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. . . .

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. . . .

Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators."

CLERK-TREASURER  
TOWN OF NORTH SALEM  
EXIT CONFERENCE

The contents of this report were discussed on December 14, 2023, with Beth Russell, Clerk-Treasurer; William H. Compton, Town Council member; and Rebecca A. Fancher, President of the Town Council.