

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF FRANKTON

MADISON COUNTY, INDIANA

January 1, 2023 to December 31, 2023



**FILED**  
08/20/2024



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jerry Ehman Tim Detrick	01-02-23 to 12-31-23 01-01-24 to 12-31-24
President of the Town Council	Larry Shively Victoria Hart	01-01-23 to 12-31-23 01-01-24 to 12-31-24



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF FRANKTON, MADISON COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Frankton (Town), for the period from January 1, 2023 to December 31, 2023. 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

July 18, 2024

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CLERK-TREASURER  
TOWN OF FRANKTON

CLERK-TREASURER  
TOWN OF FRANKTON  
AUDIT RESULTS AND COMMENTS

**ANNUAL FINANCIAL REPORT**

A similar comment appeared in the prior reports B59511 and 81983S.

*Condition and Context*

*Financial Statement and Supplementary Information*

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:

- The SRF fund receipts and disbursements were each understated by \$2,962,123.
- The General fund beginning cash and investment balance was overstated by \$20,000.
- The Motor Vehicle Highway fund beginning cash and investment balance was overstated by \$20,000.
- The Rainy Day fund beginning cash and investment balance was overstated by \$7,000.
- The Electric Utility Meter Deposit fund beginning cash and investment balance was overstated by \$42,000.
- The Water Utility Meter Deposit fund beginning cash and investment balance was overstated by \$18,000.
- The Water Utility Operating fund disbursements were overstated by \$29,024.
- The Storm Water Utility Operating receipts and disbursements were each understated by \$394,944.

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

*Grants*

- The Water and Waste Disposal Systems for Rural Communities program expenditures were understated by \$926,281.
- The COVID-19 - Coronavirus State and Local Fiscal Recovery Fund program expenditures were understated by \$1,428,334.
- Lastly, the grant schedule contained errors in Assistance Listings Numbers, pass-through entities, ID numbers, and program titles.

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

Adjustments were proposed, accepted by the Town, and made to the Schedule of Expenditures of Federal Awards in the Federal Compliance Audit Report of the Town.

*Capital Assets*

The capital asset information entered into Gateway for 2023 was not supported by a detailed capital asset listing.

*Accounts Receivable and Accounts Payable*

Accounts receivable and accounts payable information entered into Gateway for 2023 was not supported by the Town's supporting documentation.

*Lease and Debt*

Leases and debt information entered into Gateway contained the following errors:

- The Sewer USDA Loan ending principal balance was overstated by \$11,092,000.
- The SRF/IFA \$5M Principal Forgiveness Loan ending principal balance was understated by \$4,735,765.
- The Indiana Bond Bank Interim Financing/USDA ending principal balance was understated by \$8,433,654.

The Town elected not to present the Schedule of Leases and Debt, Schedule of Capital Assets, and Schedule of Payables and Receivables in the Financial Statement Audit Report of the Town.

*Criteria*

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner as set forth in the uniform compliance guidelines. 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](#)."

**MONTHLY AND ANNUAL UPLOADS**

*Condition and Context*

The files and governmental unit information that are required to be uploaded monthly include the bank reconciliations, approved Town Council minutes, and the funds ledger, summarizing total receipts, disbursements, and balances by fund. Monthly uploads are due 45 days after the close of the month.

Annual upload requirements include the year-end bank statement, year-end outstanding check list, year-end investments, detail of receipt activity, detail of disbursement activity, current year salary ordinance, and an annual vendor history report. Annual uploads are due by March 1 of the following year.

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

Monthly uploads were uploaded late for 5 of 12 months during 2023. Additionally, not all bank statements were uploaded monthly. The Town did not upload any annual uploads to Gateway until subsequent to the beginning of the audit.

*Criteria*

Beginning with July 2018 files, which will be due September 15, 2018, **all** cities, towns, townships, libraries, and special districts will use the Upload App to upload files containing financial and governmental unit information on Gateway to allow the State Board of Accounts (SBOA) to conduct audit planning and audit processes prior to on-site work at a unit. (State Examiner Directive 2018-1)

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 more efficient data processing and save audit costs for our clients. (Amended State Examiner Directive 2018-1, Updated November 9, 2020, and effective with uploads due February 15, 2021)

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)

**BANK ACCOUNT RECONCILIATIONS**

*Condition and Context*

The Town did not reconcile two of its bank accounts on a monthly basis. These accounts were associated with the WATER - BAN CONSTRUCTION fund and SEWAGE - BAN Construction fund as presented in the financial statement. Additionally, there was an unidentified variance between the Town's records and balance via bank statements in the amount of \$17,811.

*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 appeared in prior Reports B59511 and 81983S.

*Condition and Context*

The Town's capital asset ledger included items below the threshold identified in its capital asset policy. Additionally, the capital asset ledger was not complete. The ledger presented for audit did not include equipment purchases/additions made during the audit period.

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

*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 detailed 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)

***INTERNAL CONTROLS OVER CASH AND INVESTMENTS  
AND FINANCIAL CLOSE AND REPORTING***

The same comment appeared in prior Report B59511, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*, and the immediately prior Report 81983S, entitled *INTERNAL CONTROLS*.

*Condition and Context*

There were deficiencies in the internal control system of the Town related to cash and investments and reporting. The Town had not properly designed or implemented internal controls over cash and investments and financial close and reporting. There were no internal controls in place, such as an oversight, review, or approval process, to ensure their accuracy.

An evaluation of the Town's system of internal controls had not been conducted. Additionally, the Town did not have a process to identify or communicate corrective actions to improve internal controls. Effective internal controls over financial reporting required the Town to monitor and assess the quality of the system of internal controls.

*Cash and Investments (Bank Reconciliations)*

The Town had not properly designed or implemented internal controls over cash and investments, including bank reconciliations, to ensure the accuracy and completeness of the ledgers and financial statement.

Monthly bank reconciliations were completed by the Clerk-Treasurer without any oversight or review.

*Financial Close and Reporting*

The Town had not established internal controls over the financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Town's financial statement. This information was entered into Gateway by the Clerk-Treasurer without any oversight or review. The Town had not established internal controls to prevent, or detect and correct, errors on the Town's financial statement.

The Town had not established effective internal controls over financial close and reporting, which resulted in the following material misstatements:

- The SRF fund receipts and disbursements were each understated by \$2,962,123.
- The General fund beginning cash and investment balance was overstated by \$20,000.

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

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*Grants*

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*Lease and Debt*

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CLERK-TREASURER  
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AUDIT RESULTS AND COMMENTS  
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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."

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)

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 FRANKTON  
EXIT CONFERENCE

The contents of this report were discussed on July 18, 2024, with Tim Detrick, Clerk-Treasurer, and Victoria Hart, President of the Town Council.