

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

NEW ALBANY TOWNSHIP FIRE PROTECTION DISTRICT

FLOYD COUNTY, INDIANA

January 1, 2018 to December 31, 2022



FILED

04/18/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Fiscal Officer	Erik C. Furnish	01-01-18 to 12-31-24
President of the District Board	Michael K. Mugler Darrell Mills	01-01-18 to 08-31-23 09-01-23 to 12-31-24



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE NEW ALBANY TOWNSHIP FIRE
PROTECTION DISTRICT, FLOYD COUNTY, INDIANA

This report is supplemental to the audit report of the New Albany Township Fire Protection District (District), for the period from January 1, 2018 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 District. It should be read in conjunction with the Financial Statements Audit Report of the District, which provides our opinions on the District's financial statements. This report may be found at www.in.gov/sboa/.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Beth Kelley, CPA, CFE
Deputy State Examiner

April 10, 2024

NEW ALBANY TOWNSHIP FIRE PROTECTION DISTRICT
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were several deficiencies in the internal control system of the District related to financial transactions and reporting.

- Lack of Segregation of Duties: internal control activities, an integral part of which is segregation of duties, should be in place to reduce the risks of errors in financial recording and reporting. The District had not separated incompatible activities related to financial close and reporting, cash and investments, and receipts.
- Monitoring of Internal Controls: effective internal controls over financial reporting requires the District to monitor and evaluate the quality of the system of internal controls. The District did not have a process to identify or communicate corrective actions to improve internal controls.
- Risk Assessment: the District did not have a risk assessment process to identify, analyze, and respond to potential threats that could impact the internal control system.

The failure to establish a proper system of internal controls enabled material misstatements or irregularities to occur and remain undetected.

Financial Close and Reporting

The District 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 District's Annual Financial Report (AFR) and financial statements.

The District failed to properly review the financial information prepared and submitted in Gateway to ensure all transactions of the District had been properly recorded and reported. The District used a third-party to input its financial activity into Gateway; however, there was no oversight, review, or approval process in place to ensure financial transactions, the AFR, and the financial statements were accurate.

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

- For 2020, receipts were understated by \$480,000 due to the District only recording the disbursement but not recording the receipt for the purchase of a certificate of deposit.
- For 2021, receipts were overstated by \$214,914, and disbursements were understated by \$81,420 due to multiple posting errors.
- For 2022, receipts were understated by \$17,135, and disbursements were understated by \$57,668 due to multiple posting errors.

As a result, in total, receipts were understated by \$282,221, disbursements were understated by \$139,088, and the cash and investments balance as of December 31, 2022, was understated by \$143,133.

NEW ALBANY TOWNSHIP FIRE PROTECTION DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

Audit adjustments were proposed, accepted by the District, and made to the financial statements and to the Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Required Supplementary Information in the Financial Statements Audit Report of the District.

Cash and Investments

There were no internal controls, which would include appropriate segregation of duties, in place to ensure monthly bank reconciliements were complete and accurate.

A formal bank reconciliation was not prepared by the Fiscal Officer for any month during the audit period. Instead, since there was minimal monthly activity and rarely any outstanding reconciling items, the Fiscal Officer simply compared the monthly bank statement to the District's ledger for accuracy.

Receipts

The District had not established internal controls over receipts. The Fiscal Officer receives all the money that is collected for the District, writes the receipt, posts the receipt to the ledger, and takes any deposit to the bank. There was no segregation of duties with a review, oversight, or approval process over receipts during the audit period.

During the audit period, the following posting errors were noted:

- The June 2018 and June 2019 Commercial Vehicle Excise Tax distributions of \$126 and \$153, respectively, were recorded into the General Fund instead of the Debt Service fund.
- The December 2020 local distributions, which were received January 4, 2021, were posted for the incorrect amounts. Amounts posted were equal to the June local distribution amounts resulting in the license excise tax distributions being understated by \$11,217, \$1,629, and \$2,096 for the General Fund, Debt Service fund, and Cumulative Fire fund, respectively, and the property tax distributions being overstated by \$172,550, \$25,064, and \$32,243 for the General Fund, Debt Service fund, and Cumulative Fire fund, respectively.
- The December 2021 Commercial Vehicle Excise Tax distribution of \$149 for the General Fund was not recorded to the District's ledger nor was it deposited into the District's bank account.
- The June 2022 and December 2022 Commercial Vehicle Excise Tax distributions of \$154 each were recorded in the General Fund instead of the Cumulative Fire fund and the Debt Service fund, respectively.

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](#)."

NEW ALBANY TOWNSHIP FIRE PROTECTION DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

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."

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:

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

Management identifies risks to the achievement of the political subdivision's objectives across the unit as a whole and within each office or department. Analysis of risk through determination of objective measures and variance tolerance is the basis for determining how the risks should be managed. The response to risk is selected: acceptance, avoidance, reduction, or sharing. . . .

Internal control is a process, and part of that process is the responsibility for management to be continually aware of changes, both external and internal, that could affect the achievement of the political subdivision's objectives. Those changes should be analyzed for both their immediate effect and for any future impact. Management would then determine any modifications needed in the internal control process to adapt to these changes. . . ."

"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. . . ."

"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. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

NEW ALBANY TOWNSHIP FIRE PROTECTION DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, 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. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

ANNUAL FINANCIAL REPORT - OTHER INFORMATION

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 District had not established effective internal controls over the AFR information entered into Gateway, which resulted in the following errors over the other information:

Capital Assets

Although the District provided its capital asset ledger, this information was materially inconsistent with the capital asset information entered into Gateway. The District chose not to present the Schedule of Capital Assets in the Financial Statements Audit Report of the District.

Payables and Receivables

The accounts payable and accounts receivable entered into Gateway was materially inconsistent with supporting documentation presented during the audit. The District did not include any receivables in any of the five years. During the years 2019, 2020, and 2021, the December local distributions were collected in January of the following year. These amounts should have been included as accounts receivable. The District chose not to present the Schedule of Payables and Receivables in the Financial Statements Audit Report of the District.

Leases and Debt

The leases and debt entered into Gateway were materially inconsistent with the supporting documentation presented during the audit. The leases and debt schedule in the financial statement showed only one general obligation bond when it should have included multiple debts for vehicles. The District chose not to include the Schedule of Leases and Debt in the Financial Statements Audit Report of the District.

NEW ALBANY TOWNSHIP FIRE PROTECTION DISTRICT
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](#)."

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. . . ."

CAPITAL ASSETS

Condition and Context

Internal controls were not in place to ensure proper recording of capital assets. The District had not adopted a capital asset policy during the engagement period. In addition, the District did not complete a physical inventory of capital assets during the audit period.

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:

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NEW ALBANY TOWNSHIP FIRE PROTECTION DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

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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. . . ."

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 Special Districts , Chapter 1)

MONTHLY AND ANNUAL UPLOADS

Condition and Context

The files and governmental unit information that are required to be uploaded monthly include the bank reconcilements, approved District Board minutes, and the funds ledger summarizing total receipts, disbursements, and balances by fund.

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.

Internal controls were not in place to ensure compliance with the State Examiner Directives. The District did not comply with the State Examiner Directives and failed to upload any of the monthly uploads on the Indiana Gateway for Government Units (Gateway) financial reporting system for the entire audit period. The District did not comply with the State Examiner Directives and failed to upload any of the annual uploads on Gateway for the entire audit period, except for the December 2019 and December 2020 bank statements and bank reconcilements.

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 for 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)

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:

NEW ALBANY TOWNSHIP FIRE PROTECTION DISTRICT
AUDIT RESULTS AND COMMENTS
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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. . . ."

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 Special Districts, Chapter 1)

NEW ALBANY TOWNSHIP FIRE PROTECTION DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on April 10, 2024, with Erik C. Furnish, Fiscal Officer, and Darrell Mills, President of the District Board.