

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

**Paul D. Joyce, CPA  
State Examiner**

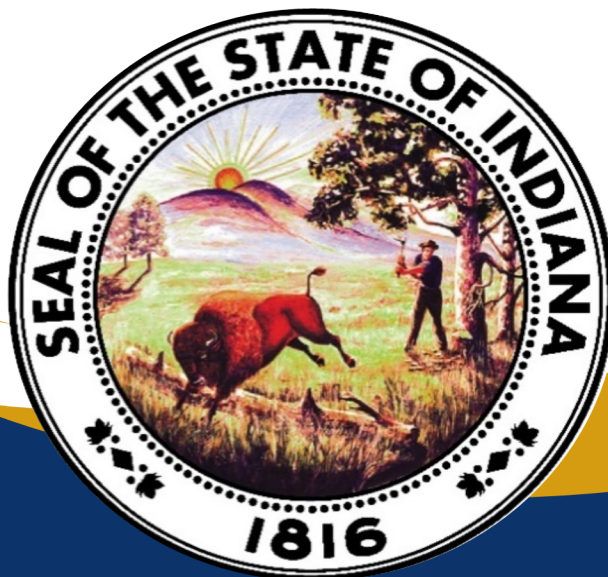
SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF CLAY CITY

CLAY COUNTY, INDIANA

January 1, 2018 to December 31, 2023



**FILED**  
01/21/2025



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Melinda Sue Booe	01-01-18 to 12-31-19
	Karla Pipes	01-01-20 to 12-31-23
	Lisa Lance	01-01-24 to 12-31-24
President of the Town Council	Donnella Baumgartner	01-01-18 to 12-31-19
	Carl Haviland	01-01-20 to 12-31-23
	Donnella Baumgartner	01-01-24 to 12-31-24



Paul D. Joyce, CPA  
State Examiner

# INDIANA STATE BOARD OF ACCOUNTS

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INDIANAPOLIS, INDIANA 46204-2769  
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TO: THE OFFICIALS OF THE TOWN OF CLAY CITY, CLAY COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Clay City (Town), for the period from January 1, 2018 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 Statements Audit Report of the Town, which provides our opinions on the Town's financial statements. 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 17, 2024



TOWN COUNCIL  
TOWN OF CLAY CITY

TOWN COUNCIL  
TOWN OF CLAY CITY  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS**

The same comment also appeared in prior Reports B42805 and B51906.

*Condition and Context*

There was no evidence that a proper internal control structure existed for the Town. A proper internal control structure would include adequate internal control activities, an internal control environment, performance of risk assessment procedures, information and communication, and monitoring of internal controls. The Town had not separated incompatible activities related to cash and investments, receipts, disbursements, and financial close and reporting. The failure to establish these internal controls enabled material misstatements to remain undetected.

The Clerk-Treasurer was the sole person responsible for all transactions related to cash and investments, receipts, disbursements, and financial close and reporting. There were no internal controls in place to monitor, review, or determine the accuracy of the financial transactions and reporting.

*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. . . ."

**ADOPTION OF, AND TRAINING ON, INTERNAL CONTROL STANDARDS**

The same comment also appeared in prior Report B51906.

*Condition and Context*

Internal controls were not in place to ensure that the Town complied with internal control requirements. The Town Council had not adopted internal control standards as required by Indiana Code 5-11-1-27(g); therefore, the Town personnel were not trained on internal controls.

TOWN COUNCIL  
TOWN OF CLAY CITY  
AUDIT RESULTS AND COMMENTS  
(Continued)

*Criteria*

Indiana Code 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

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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## **ORDINANCES AND RESOLUTIONS**

*Condition and Context*

Internal controls were not in place to ensure that the Town complied with payroll requirements. The Town had not adopted a salary ordinance for 2022 and 2023.

*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)

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:

TOWN COUNCIL  
TOWN OF CLAY CITY  
AUDIT RESULTS AND COMMENTS  
(Continued)

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TOWN COUNCIL  
TOWN OF CLAY CITY  
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2024, with Lisa Lance, Clerk-Treasurer; Melinda Sue Booe, former Clerk-Treasurer; Donnella Baumgartner, President of the Town Council; Donald Dayhuff, Vice President of the Town Council; Timothy Rood, Town Council member; and Terry Silvers, Chief of Police.



CLERK-TREASURER  
TOWN OF CLAY CITY

CLERK-TREASURER  
TOWN OF CLAY CITY  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS**

The same comment also appeared in prior Reports B42805 and B51906.

*Condition and Context*

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The Clerk-Treasurer was the sole person responsible for all transactions related to cash and investments, receipts, disbursements, and financial close and reporting. There were no internal controls in place to monitor, review, or determine the accuracy of the financial transactions and reporting.

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**ANNUAL FINANCIAL REPORT**

*Condition and Context*

Internal controls were not properly implemented to ensure that the Annual Financial Reports (AFR) submitted by the Town did not contain material errors. Financial information is required to be entered annually into the AFR via the Indiana Gateway for Government Units (Gateway) financial reporting system. The information entered contained the following errors:

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

*Financial Statements*

Years	Count of Funds With Errors	Total Beginning Cash and Investments Over (Under) Stated	Total Receipts Over (Under) Stated	Total Disbursements Over (Under) Stated	Total Ending Cash and Investments Over (Under) Stated
2018	15	\$ 137,512	\$ (587)	\$ (487,768)	\$ 624,693
2019	17	624,693	(363,266)	(346,297)	607,724
2020	22	403,405	(564,070)	(762,151)	601,486
2021	26	601,486	(84,822)	(346,680)	863,344
2022	28	863,343	70,567	(332,606)	1,266,516
2023	36	1,266,516	197,509	653,322	810,703

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

*Accounts Payable/Receivable Schedule*

The Town could not provide documentation to verify the Accounts Payable/Receivable Schedules for the audit period. The schedule is an optional schedule which may be included in the Financial Statements Audit Report of the Town. The Town has opted not to include the Accounts Payable/Receivable Schedule in the audit report.

*Debt and Lease Schedule*

The information entered into Gateway contained the following errors for the Debt and Lease Schedules:

	Ending Principal Balance Over (Under) Stated	Principal Due Within One Year Over (Under) Stated
Total Debt Reported for 2018	\$ (571,555)	\$ 126,976
Total Debt Reported for 2019	(2,665,555)	(293,121)
Total Debt Reported for 2020	(2,608,519)	(302,030)
Total Debt Reported for 2021	(2,595,566)	(68,409)
Total Debt Reported for 2022	(2,983,974)	(156,223)
Total Debt Reported for 2023	(2,841,181)	(149,000)

Audit adjustments were proposed, accepted by the Town, and made to the Schedule of Leases and Debt presented as Other Information in the Financial Statements Audit Report of the Town.

*Capital Asset Schedule*

The Town could not provide documentation to verify the Capital Asset Schedules for the audit period. The schedule is an optional schedule which may be included in the Financial Statements Audit Report. The Town has opted not to include the Capital Asset Schedule in the audit report.

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

*Investment Fund Statement*

The information entered into Gateway contained the following errors for the Investment Fund Statement:

	Ending Investment Balance Over (Under) Stated
Total Investments Reported for 2018	\$ 830,495
Total Investments Reported for 2019	912,833
Total Investments Reported for 2020	944,903
Total Investments Reported for 2021	933,443
Total Investments Reported for 2022	933,443
Total Investments Reported for 2023	929,989

*Grant Schedule*

The information entered into Gateway contained the following errors for the Grant Schedule:

	Total Federal Awards Expended Over (Under) Stated
Total Reported Grants for 2018	\$ (321,492)
Total Reported Grants for 2019	139,395
Total Reported Grants for 2020	(387,642)
Total Reported Grants for 2021	(26,733)

*Criteria*

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

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](#)."

**CONDITION OF RECORDS**

A similar comment also appeared in prior Report B51906.

*Condition and Context*

A lack of internal controls related to the financial records presented for audit allowed the following issues to remain undetected:

- The Town's Ledger of Receipts, Disbursements, and Balances were not properly footed.
- The Town's ledger did not support the Annual Financial Report (AFR) submitted in the Indiana Gateway for Government Units financial reporting system.
- The financial activity of the Bond and Interest and Debt Service Reserve Accounts with the Bank of New York for the water and wastewater utilities was not included on the ledger or the AFR.
- Interest earned on investments was automatically added to the investment balance.
- Local income tax distributions in the amount of \$549,890 designated for the General fund were improperly recorded in the LOIT-Public Safety fund.
- Wheel and sur tax distributions in the amount of \$69,468 designated for the Motor Vehicle Highway fund were improperly recorded in the Local Road and Street fund (\$64,598), the Law Enforcement Continuing Ed fund (\$1,605), and the General fund (\$3,265).
- In 2018, the July continuing education fee in the amount of \$8 and September and October wheel tax in the amount of \$482 were double posted to the ledger. The May 2023 certified shares distribution in the amount of \$10,456 and December 2023 sur tax and wheel tax distribution in the amount of \$754 were not posted to the ledger. Adjustments were proposed, accepted by the Town, and made to the Statements of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis.
- In 2018, the ABC gallonage distributions in the amount of \$1,854 designated for the General fund were improperly recorded in the Local Road and Street fund.
- State cigarette tax distributions in the amount of \$10,011 designated for Cumulative Capital Improvement were improperly recorded in the General fund.
- The following errors occurred including December 2023 distributions that were not posted to the ledger:

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

Description	Fund	Amount
December 2023 cigarette tax	Cumulative Capital Improvement	\$ 792
December 2023 cigarette tax	General	216
December 2023 MVH distribution	Motor Vehicle Highway	1,624
December 2023 MVH distribution	MVH Restricted	1,624
December 2023 distribution	COVID/ARPA	800
December 2023 distribution	Local Road and Street	788
October 2019 MVH distribution - wrong amount posted	Motor Vehicle Highway	22
October 2019 MVH distribution - wrong amount posted	MVH Restricted	22

- Ledgers were not posted timely. The Town hired a consultant in November 2023 to post the Town's ledgers for 2020-2023.

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

*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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Indiana Code 6-3.5-5-15(d) states:

"A county, city, or town may only use the wheel tax revenues it receives under this section:

- (1) to construct, reconstruct, repair, or maintain streets and roads under its jurisdiction;
- (2) as a contribution to an authority established under [IC 36-7-23](#); or
- (3) for the county's, city's, or town's contribution to obtain a grant from the local road and bridge matching grant fund under [IC 8-23-30](#)."

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

Unless the wheel tax is transferred to a multiple county infrastructure authority, the distributions of surtax and wheel tax to cities and towns should be receipted to the Motor Vehicle Highway Fund (Street Fund) to be used to construct, reconstruct, repair, or maintain streets and roads under their jurisdiction. (Cities and Towns Bulletin, March 2024)

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

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 Cities and Towns, Chapter 1)

### **BANK ACCOUNT RECONCILIATIONS**

The same comment also appeared in prior Report B51906.

#### *Condition and Context*

Internal controls were not in place to ensure the Town complied with bank reconciliation requirements. Accurate bank reconciliations were not presented for audit. The Clerk-Treasurer traced the cleared bank transactions to the ledger monthly, but outstanding items were not documented in order to reconcile to the ledger balance for 2018-2022. There were no reconciliations completed for 2023.

#### *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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CLERK-TREASURER  
TOWN OF CLAY CITY  
AUDIT RESULTS AND COMMENTS  
(Continued)

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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."

## **CAPITAL ASSETS**

### *Condition and Context*

Internal controls were not in place to ensure that the Town complied with capital asset requirements. The Town did not provide a complete, detailed listing of all capital assets owned by the Town and its Utilities for the audit period. There was no documentation that the Town completed a physical inventory at least every two years.

### *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)

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

**CARES ACT FUND**

*Condition and Context*

Internal controls were not established in order to ensure the Town complied with State Examiner Directive 2020-3 related to the Coronavirus Relief Fund (CRF).

The Town did not properly establish a separate CARES grant fund for the CRF grant that followed the uniform chart of accounts. The Town utilized fund 101 entitled, General fund, for reimbursements received from the Indiana Finance Authority (IFA).

*Criteria*

**Each local unit of government that receives an allocation from the Coronavirus Relief Fund administered by IFA shall establish a separate CARES grant fund with a fund number consistent with memorandum *Accounting and Appropriation of COVID-19 Grants, April 29, 2020* (updated September 29, 2020).**

**All Reimbursements received from IFA shall be receipted into a separate CARES grant fund that is specific to IFA reimbursements. . . .**

Transactions for public health and safety payroll costs must be accounted for through one of these two prescribed options.

**Option One.** Reimbursements received from IFA shall be receipted into the separate CARES grant fund. The reimbursed amount for public health and safety payroll costs originally incurred in the general fund (or other fund) will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the general fund (or other fund) cash balance and re-appropriate the general fund (or other fund) in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the general fund (or other fund), it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once option one is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

**Option Two.** Reimbursements received from IFA shall be receipted into the separate CARES grant fund. A claim will be created against the separate CARES grant fund for the reimbursed amount in favor of the general fund. This claim must be supported by documentation of the public health and safety payroll costs that have been expensed from the general fund or other funds.

The amount of the claim will be receipted into the general fund cash balance. Normal appropriation procedures will apply to these funds.

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

Once option two is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. This option requires a resolution or ordinance as detailed in the memorandum CARES Reimbursement of Public Health and Safety Payroll Costs, September 30, 2020. . . .**

Transactions for other permitted costs reimbursed by IFA must be accounted for through one of the following prescribed frameworks.

**Framework One.** Reimbursements received from IFA shall be receipted into the separate CARES grant fund. Reimbursed disbursements originally incurred in another fund will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the fund cash balance and re-appropriate the fund in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the original fund, it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund.**

**Framework Two.** If IFA has provided reimbursement based on unpaid invoices or purchase orders, then reimbursements received from IFA shall be receipted into the separate CARES grant fund. The expenditures to vendors will be made through the CARES grant fund and these expenditures must match the application made to IFA. If the actual invoice or invoices relating to a purchase order is less than the purchase order, then the difference in the money expended to the vendor and the amount received for the purchase order from IFA must be returned to IFA. The items on the invoice must match the items on the purchase order. All documentation must be maintained.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund.**

**Framework Three.** If you have created a negative balance in your CARES fund based on expenditures made in anticipation of receipt of reimbursement for allowable expenditures where invoices have already been submitted to IFA then leave as is and receipt reimbursement when received, bringing the balance in the separate CARES grant fund to zero. Going forward, expend any anticipated allowable expenditures from a fund with an appropriation and follow framework one. If a negative balance in the CARES grant fund is not fully reimbursed, then the unreimbursed amount will require a reverse entry and posting of the expenditure to the general or other appropriate fund within an appropriated line item.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund.**

(State Examiner Directive 2020-3)

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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"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. . . ."

### **CERTIFICATION ON INTERNAL CONTROL STANDARDS**

The same comment also appeared in prior Report B51906.

#### *Condition and Context*

Internal controls were not in place to ensure that the Town submitted accurate information on the Annual Financial Report (AFR). The Clerk-Treasurer certified on the AFR, submitted through the Indiana Gateway for Government Units financial reporting system, that the minimum standards had been adopted and that personnel were provided training. However, the minimum standards had not been adopted and no training was received by personnel.

#### *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](#)."

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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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. . . ."

**CONTRACTS**

A similar comment also appeared in a Management Letter addressed to the Officials of the Town for the audit period ended December 31, 2017.

*Condition and Context*

Internal controls were not in place to ensure the Town complied with contract requirements. Contracts were not provided for review for the audit period for the following vendors: Graves Plumbing and Inland Waters for water construction; Grady Brothers, STT Construction and Milestone for road construction; and Integrity One Technology for copier leases.

*Criteria*

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (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:

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**ERRORS ON CLAIMS**

*Condition and Context*

The Town had not established a system of internal controls for disbursements related to vendor claims. The following issues were noted in testing compliance of vendor disbursements:

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(Continued)

Of the twenty-five vendor claims tested:

- Fourteen claims did not have an itemized bill or invoice attached to the voucher. Claims were for equipment, grant work for the water plant, hydrants, contract work for sewer, road grant work, purchase of a police car, construction work, payoff of Town truck, and payroll withholdings.
- Eighteen claims did not include the Fiscal Officer's certification on the voucher.
- Eighteen claims did not have the governing body's signatures to show approval of claims.

*Criteria*

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

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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**MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND**

*Condition and Context*

Effective January 1, 2019, the State Examiner Directive 2018-2 established that 50 percent of State Motor Vehicle Highway (MVH) distributions shall be maintained in a Motor Vehicle Highway Restricted fund to be allocated for construction, reconstruction, and preservation of the Town's highways.

Internal controls were not in place to ensure the Town complied with the MVH Restricted fund requirement. The Town did not create a sub-fund until December 2023. A transfer in the amount of \$97,686 was made in December 2023 from the Motor Vehicle Highway fund to the Motor Vehicle Highway Restricted fund. This transfer was \$10,712 more than 50 percent of the distributions.

*Criteria*

Indiana Code 8-14-1-5(c) states: "Except as provided in subsection (d), for funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

The purpose of this Directive is to authorize and require counties, cities, and towns that receive distributions from the State Motor Vehicle Highway Account to **create a new sub-fund within the MVH Fund** to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018.

The sub-fund will be referred to throughout this Directive as "MVH Restricted" and will be used to account for MVH monies which have been statutorily restricted for construction, reconstruction, and preservation purposes. . . .

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted.

(State Examiner Directive 2018-2)

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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AUDIT RESULTS AND COMMENTS  
(Continued)

**ORDINANCES AND RESOLUTIONS - UTILITIES**

A similar comment also appeared in prior Report B51906.

*Condition and Context*

Internal controls were not in place to ensure that utility billing and collection procedures were in compliance with Town ordinances.

The Town had an ordinance concerning the shut-off policy for delinquent customers. However, adequate documentation was not retained to determine if delinquent customers had utilities shut-off in compliance with the ordinance.

Three of the sixty water bills tested were billed incorrectly based on the Town's water rate ordinance. The calculation for usage based on the meter readings did not match the usage shown on the Billing Journal Report.

Twenty-seven of the sixty wastewater bills tested were billed incorrectly based on the Town's wastewater ordinance. The wastewater ordinance stated 1,000 gallons as the minimum; however, in 2021, the Town began using 2,500 gallons as the minimum. There was no documentation of approval for a change in the billing structure.

*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)

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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**PUBLIC RECORDS RETENTION**

*Condition and Context*

Internal controls were not in place to ensure all required public records were retained by the Town. The Town was not able to provide all necessary reports from the Komputrol accounting software system for January 2018 through June 2022, to document utility billing and customer payment activity. In 2021, the Town was notified that Komputrol would no longer be available due to Boyce Systems acquiring Komputrol and Keystone. In June 2022, the Town selected Keystone as the new software system to record the activities of the Town and Utilities. Reports from the Komputrol system were not always retained by the Town. Boyce Systems was unable to provide any reports from the time period preceding the acquisition. Missing reports included Billing Summary Reports for 2020 and 2022; Customer Account History Reports for 2018 through June 2022; and Utility Meter Reading Reports for 2020 through 2023.

*Criteria*

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

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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**RECORD OF HOURS WORKED**

A similar comment also appeared in prior Report B51906, entitled *PAYROLL*.

*Condition and Context*

Internal controls were not in place to ensure the Town complied with payroll requirements.

- The Clerk-Treasurer, who also was paid as the Utility Clerk, did not maintain documentation of the hours worked as Utility Clerk for the audit period.
- There were 12 additional employees of 25 tested for whom attendance records or time cards were not presented for review.
- Of the 25 employees tested, there was no documentation provided to show the appropriate official or department head and fiscal officer had reviewed and approved the hours worked.

*Criteria*

In cities and towns where timecards are used, each elected office or head of each department should be approving the timecards of each of the employees that they are responsible for. (Cities and Towns Bulletin, June 2021)

Indiana Code 5-11-9-4(b) states:

"The state board of accounts shall require that records be maintained showing which hours were worked each day by officers and employees:

- (1) covered by section 1 or 2 of this chapter; and
- (2) employed by more than one (1) public agency or in more than one (1) position by the same public agency described in section 1 or 2 of this chapter."

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

- General Form 99A, Employee's Service Record
- General Form 99B, Employee's Earnings Record
- General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor.

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

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#### **UTILITY BILLS - PENALTIES**

The same comment also appeared in prior Report B51906.

##### *Condition and Context*

Internal controls were not in place to ensure the Town complied with ordinance related to Utility Billings. Late payment penalties in accordance with Indiana Code and the Town's water and wastewater ordinances were not imposed on any customer accounts during the audit period.

##### *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)

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 36-9-23-33 states in part:

". . . (c) Except as provided in subsection (m), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
  - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
  - (B) A description of the premises, as shown by the records of the county auditor.

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(C) The amount of the delinquent fees, together with the penalty.

(2) an individual instrument for each lot or parcel of real property on which the fees are delinquent.

(d) The officer shall record a copy of each list or each individual instrument with the county recorder . . .

(f) . . . Using the lists and instruments prepared under subsection (c) and recorded under subsection (d), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (d), certify to the county auditor a list of the unpaid liens for collection with the next May installment of property taxes. . . ."

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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EXIT CONFERENCE

The contents of this report were discussed on December 17, 2024, with Lisa Lance, Clerk-Treasurer; Melinda Sue Booe, former Clerk-Treasurer; Donnella Baumgartner, President of the Town Council; Donald Dayhuff, Vice President of the Town Council; Timothy Rood, Town Council member; and Terry Silvers, Chief of Police.