

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF WORTHINGTON

GREENE COUNTY, INDIANA

January 1, 2020 to December 31, 2023



FILED
06/06/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Deborah Dyer	01-01-20 to 12-31-22
	(Vacant)	01-01-23 to 01-12-23
	Melinda Hoover	01-13-23 to 12-31-23
	Matthew Baker	01-01-24 to 12-31-24
President of the Town Council	Tom Franklin	01-01-20 to 12-31-20
	Gerren Cullison	01-01-21 to 12-31-24



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF WORTHINGTON, GREENE COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Worthington (Town), for the period from January 1, 2020 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/.

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

May 9, 2024

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CLERK-TREASURER
TOWN OF WORTHINGTON

CLERK-TREASURER
TOWN OF WORTHINGTON
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in the prior Report B54856, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not implemented adequate segregation of duties as it had not separated incompatible activities related to cash and investments, receipts, disbursements, and financial close and reporting.

Cash and Investments

The Clerk-Treasurer did not perform a bank reconciliation for all accounts during 2023. There was no documentation of internal controls in place over the bank reconciliation, such as an oversight, review, or approval process.

Receipts

All officials that were responsible for posting receipts to the ledger in the Keystone accounting system used the Clerk-Treasurer's login name and password to perform duties related to receipts. Due to the sharing of passwords, there was no documentation of who performed the collection, recording, and depositing of receipts. There was no documentation of internal controls in place, such as an oversight, review, or approval process.

Disbursements

The Town established an internal control where the Clerk-Treasurer reviewed and signed each claim, and the Town Council reviews and signs the claims' register. However, during the test of disbursements, it was noted that not all claims were signed by the Clerk-Treasurer, not all claims' registers were signed by the Town Council, nor was supporting documentation always available to support the claims. Therefore, the internal controls were deemed to not be effective.

Financial Close and Reporting

The Clerk-Treasurer did not have a proper system of internal control in place to prevent, or detect and correct, errors in the Annual Financial Report (AFR) entered into the Indiana Gateway for Government Units (Gateway) financial reporting system. The Town did not perform risk assessment procedures to detect errors in the AFR in Gateway. The Clerk-Treasurer entered the financial information without an oversight, review, or approval process.

The following noncompliance issues resulted occurred due to a lack of adequate internal controls:

- Financial Transactions and Reporting
- Overdrawn Cash Balances
- Bank Account Reconciliations
- Errors on Claims
- Capital Assets
- Failure to Report Misappropriation of Assets

CLERK-TREASURER
TOWN OF WORTHINGTON
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 risk assessment and 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. . . ."

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment appeared in a Management Letter addressed to the Officials of the Town for the audit period ending December 31, 2019, entitled *IMPROPER ACCOUNTING FOR INVESTMENT TRANSACTIONS*.

Condition and Context

The Town is required to file financial reports after the close of each fiscal year. The reports are to be filed electronically as prescribed into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Annual Financial Report (AFR) and the Town's financial statement. The Town filed its reports as prescribed; however, the following errors were noted in both the Town's Ledger and the AFR:

- The following errors noted in the prior audit were not corrected and resulted in errors in the beginning cash and investment balance, which, as a result, carried through to the December 31, 2023 cash and investment balance:
 - The January 1, 2020 cash and investment balance of the Cum Cap Imp - Cig Tax fund was overstated, and the Cum Cap Development fund was understated by \$2,919.
 - The January 1, 2020 cash and investment balance of the Sewage Utility Depreciation fund was overstated, and the Sewage Reserve fund was understated by \$170,000.

The following errors were noted in the AFR:

- Investment activity was included in the AFRs receipts and disbursements. The improper accounting for investments caused the following AFR misstatements:

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

- Three Certificates of Deposits (CD) matured during 2020 and were included in the Town's reported receipts, resulting in an overstatement of Sewage Utility receipts by \$404,346.
- Three CDs were purchased in 2020 and were included in the Town's reported disbursements, resulting in an overstatement of Sewage Utility disbursements by \$411,267.
- Three CDs matured during 2023 and were included in the Town's reported receipts, resulting in an overstatement of Sewage Utility receipts by \$658,527.
- A deposit was made into a TrustIndiana account in 2023 and was included in the Town's reported disbursements, resulting in an overstatement of Sewage Utility disbursements by \$658,527.
- Other individually immaterial errors were made, resulting in an overall overstatement of receipts and disbursements \$62,500 and \$118,286, respectively, and the understatement of cash and investments ending balance by \$55,786.

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

The following errors were noted in the Town's Ledger:

- Investments were not cashed in and receipted back into the fund purchased from upon maturity during the audit period. Investments purchased were not properly recorded in the ledger. When investments matured, the Clerk-Treasurer went to the bank and set up new investments without posting the transactions to the ledger. The improper accounting for investments caused the following ledger misstatements:
 - A CD originally purchased from the Sewage Reserve fund for \$170,000 matured during 2020. It was not properly recorded, which resulted in an understatement of Sewage Reserve disbursements by \$170,000.
 - A CD was purchased from the Sewage Utility Depreciation fund for \$250,000 during 2020. It was not properly recorded. This resulted in an understatement of Sewage Utility Depreciation receipts by \$250,000.
 - A CD originally purchased from the Sewage Utility Depreciation fund for \$250,000 matured during 2023. It was not properly recorded. This resulted in an understatement of Sewage Utility Depreciation receipts and disbursements by \$250,000.
 - Two CDs originally purchased from the Sewage Reserve fund for \$100,000 each matured during 2023. They were not properly recorded. This resulted in an understatement of Sewage Reserve receipts and disbursements by \$200,000.
 - A CD originally purchased from the Sewage Utility Operating fund for \$211,267 matured during 2023. The proceeds of it and the three CDs noted above as purchased maturing in 2023, were receipted into the Sewage Utility Operating fund. This resulted in an overstatement of Sewage Utility Operating fund receipts by \$450,000 and an understatement of disbursements by \$211,267.

CLERK-TREASURER
TOWN OF WORTHINGTON
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](#)."

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)

PROCEDURE FOR POSTING RECORDS AT THE TIME INVESTMENTS ARE PURCHASED OR SOLD

1. At the time investments are purchased, the fiscal officer and/or bookkeeper should enter the full cost of the securities (purchase price plus accrued interest) as a disbursement from the fund or funds from which the investment is made. Where investment is made from "total monies on deposit," the warrant or check issued will not be posted in the ledger, but a memorandum account should be set up in a separate section of the ledger to which investment transactions will be posted.
2. When investment is made from a specific fund, a new fund entitled "Investments Fund" should be set up on the records. The net price (purchase price less accrued interest) should be entered as a receipt to this fund. The Investment Register, General Form 350, or an alternative form providing the same information should be used for keeping a record of all investments purchased by the political subdivision.
3. Interest received in such investments by fund should be entered as a receipt to the fund from which the investment was purchased. Interest received from investment of "total monies on deposit" should be receipted to the general fund or the fund specified by the governing board.
4. When the investments by fund are sold, the full amount of such sale should be entered as receipt to the fund from which the investment was made. The receipt should show separately the principal (purchase price) received and the interest received from the investment. At this time, the net purchase price (purchase price less accrued interest) should also be entered as a disbursement from the "Investments Fund." When the investment from "total monies on deposit" is sold the principal (purchase price) will not be posted as a receipt to the ledger but the interest thereon will be posted as a receipt to the general fund or fund designated by governing board. Proper entry shall be made also in the memorandum account, as well as in the Investment Register.

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

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

OVERDRAWN CASH BALANCES

Condition and Context

The financial statement presented for audit included the following funds with overdrawn cash balances as of December 31, 2021 and 2022, which were a result of disbursements exceeding receipts:

Fund	Amount Overdrawn 12-31-21	Amount Overdrawn 12-31-22
Motor Vehicle Highway	\$ 17,989	\$ 25,748
Local Law Enforcement Continuing Education Fund	1,695	-

Criteria

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

BANK ACCOUNT RECONCILIATIONS

Condition and Context

The Town did not reconcile the Wastewater bank accounts from September 2023 to December 2023. Reconciling items were not corrected timely. Additionally, there were variances between the combined bank account reconcilements and the financial statements as noted in the following schedule:

Financial Statement Date	Reconciled Bank Accounts Balance	Financial Statement Cash and Investments Balance	Difference
12-31-20	\$ 1,501,571	\$ 1,508,572	\$ (7,001)
12-31-21	1,672,636	1,679,559	(6,923)
12-31-22	1,829,973	1,837,046	(7,073)
12-31-23	1,755,565	1,764,932	(9,367)

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."

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)

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

ERRORS ON CLAIMS

Condition and Context

During our testing of vendor claims, there was no documentation of the Clerk-Treasurer's approval for 51 of the 73 disbursements tested, which included all claims tested for 2020 and 2023. Additionally, supporting documentation was not provided for 32 of the 73 claims tested, which included all claims tested for 2020.

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. . . ."

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)

CAPITAL ASSETS

A similar comment also appeared in the prior Report B54856, entitled *CAPITAL ASSETS*.

Condition and Context

The Town did not provide for audit a detailed listing of capital assets reflecting their acquisition value, nor did they conduct a complete physical inventory at least every two years as required.

CLERK-TREASURER
TOWN OF WORTHINGTON
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 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)

FAILURE TO REPORT MISAPPROPRIATION OF FUNDS

Condition and Context

A former employee used Town funds to deliver supplies directly to their house for personal use. The Town failed to notify the Indiana State Board of Accounts once it was discovered. The Town did recover these funds prior to the start of the audit period.

Criteria

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

"A public officer who has actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds or assets of the public office, including:

- (1) information obtained as a result of a police report;
- (2) an internal audit finding; or
- (3) another source indicating that a misappropriation has occurred;

shall immediately send written notice of the misappropriation to the state board of accounts and the prosecuting attorney serving in the area governed by the political subdivision."

CLERK-TREASURER
TOWN OF WORTHINGTON
EXIT CONFERENCE

The contents of this report were discussed on May 9, 2024, with Matthew Baker, Clerk-Treasurer; Barry Hoover, Town Council member; and Jason Robertson, Town Council member.

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TOWN COUNCIL
TOWN OF WORTHINGTON

TOWN COUNCIL
TOWN OF WORTHINGTON
AUDIT RESULT AND COMMENT

ERRORS ON CLAIMS

Condition and Context

During our testing of vendor claims, there was no documentation of the Town Council's approval for 51 of the 73 disbursements tested, which included all claims tested for 2020 and 2023.

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. . . ."

TOWN COUNCIL
TOWN OF WORTHINGTON
EXIT CONFERENCE

The contents of this report were discussed on May 9, 2024, with Matthew Baker, Clerk-Treasurer; Barry Hoover, Town Council member; and Jason Robertson, Town Council member.