

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

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

COMPLIANCE ENGAGEMENT REPORT

OF

TOWN OF OSCEOLA

ST. JOSEPH COUNTY, INDIANA

January 1, 2020 to December 31, 2024



**FILED**

05/15/2025



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Denese Thornburg Christina Miller	01-01-20 to 12-31-23 01-01-24 to 12-31-25
President of the Town Council	Gregory L. Burris Kirk Youell Nicholas Hanlon	01-01-20 to 12-31-20 01-01-21 to 12-31-23 01-01-24 to 12-31-25



Paul D. Joyce, CPA  
State Examiner

## INDIANA STATE BOARD OF ACCOUNTS

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TO: THE OFFICIALS OF THE TOWN OF OSCEOLA, ST. JOSEPH COUNTY, INDIANA

As authorized under Indiana Code 5-11-1, we performed certain procedures to the accounting records and related documents of the Town of Osceola (Town), for the period of January 1, 2020 to December 31, 2024. The objective of this engagement was to determine compliance with applicable Indiana laws, regulations, and uniform compliance guidelines (Guidelines) established by the Indiana State Board of Accounts pursuant to Indiana Code 5-11-1-24. The objective of this engagement is not to opine on compliance or financial activity of the Town as this engagement was not conducted in accordance with any standards established by an authoritative standard-setting body, and, as such, we do not provide any opinions on compliance or financial activity.

Management is responsible for preparing and maintaining its accounting records and related documents in accordance with applicable Indiana laws, regulations, and Guidelines. Management's responsibility also includes, but is not limited to, complying with other applicable Indiana laws, regulations, and Guidelines concerning how it operates: authorized sources and uses of funds; what reports are required to be prepared and filed; and what depositories and investment types are allowable.

We fulfilled our responsibility as detailed in the first paragraph, using procedures that verified the appropriate accounting for and reporting of cash, receipts, and disbursements; and the appropriate sources and uses of funds in accordance with applicable Indiana laws, regulations, and Guidelines. Expanding the scope and nature of these procedures can and does occur in specific circumstances.

The comments contained herein, if any, describe the identified reportable instances of noncompliance found during our engagement. Our procedures were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified. Any Official Response to the comments incorporated within this report was not verified for accuracy.

The Schedule of Officials is informational only. The Statements of Receipts, Disbursements, and Schedule of Cash and Investment Balances - Regulatory Basis have not been included in this report due to the issues detailed in the comments below.

This report is intended solely for the information and use of management, governance, and others within the organization. This restriction is not intended to limit the distribution of this report, which is a matter of public record. Reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>, and the Town's Annual Financial Reports filed by management can be found on the Indiana Gateway for Government Units financial reporting system website: <http://www.gateway.ifionline.org>.

The contents of this report were communicated to Christina Miller, Clerk-Treasurer; Nicholas Hanlon, President of the Town Council; Joseph Nehls, Town Council member; Peter Quist, Town Council member; and Linda Hixon, Deputy Clerk, on April 30, 2025. The contents were also communicated to Denese Thornburg, former Clerk-Treasurer, on May 5, 2025.



Beth Kelley, CPA, CFE  
Deputy State Examiner

April 16, 2025

TOWN OF OSCEOLA  
COMMENTS

**INTERNAL CONTROLS - COMPLIANCE**

*Condition and Context*

Internal control deficiencies resulted in noncompliance over:

- Bank Account Reconciliations
- Annual Financial Report
- Accounting of the IFA Administered CRF Money
- Motor Vehicle Highway (MVH) - Restricted Fund
- Fund Sources and Uses

These internal control deficiencies are further detailed in the comments below.

*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. . . ."

**BANK ACCOUNT RECONCILIATIONS**

*Condition and Context*

Internal controls were not in place to ensure compliance over bank account reconciliations. The Town prepared bank reconciliations as required by state statute. However, the December bank reconciliations for each year contained the following unsupported adjustments:

- The December 31, 2020 bank reconciliation included three deposits in transit, totaling \$20, that had cleared during the month and, therefore, should not have been included as outstanding reconciling items.

TOWN OF OSCEOLA  
COMMENTS  
(Continued)

- The December 31, 2021 bank reconciliation included the following items that had previously cleared and, therefore, should not have been included as outstanding reconciling items:
  - Five deposits in transit totaling \$90.
  - One check totaling \$500.
- The December 31, 2022 bank reconciliation included the following items that had previously cleared and, therefore, should not have been included as outstanding reconciling items:
  - Four deposits in transit totaling \$107.
  - Twenty-six checks totaling \$66,313.
- The December 31, 2023 bank reconciliation included the following items that should not have been included as outstanding reconciling items:
  - Four deposits in transit totaling \$102 that had previously cleared.
  - Eight checks totaling \$21,267 that had previously cleared.
  - One adjustment totaling \$350 that had previously cleared.
  - Eight adjustments, totaling \$56,668, that were also included in the outstanding check list and cleared the following month.

When the items noted above as unsupported adjustments were removed from the bank reconciliations, the ledger balance exceeded the adjusted bank balance at December 31, 2020, by \$20, and the adjusted bank balance exceeded the ledger balance by \$500, \$9,191, and \$21,166 at December 31, 2021, 2022, and 2023, respectively. Errors that resulted in these differences between the adjusted bank balance and ledger balance were not identified, investigated, and corrected timely by the Town.

Five additional bank reconciliations were tested to determine if those reconciliations were properly prepared. However, four of the reconciliations selected included items noted as outstanding transactions that had previously cleared and, therefore, should not have been included in the bank reconciliations.

As of January 20, 2025, the current Clerk-Treasurer has reconciled the December 31, 2024 bank balance to the accounting records. The bank balance agreed to the accounting records with supported adjustments.

*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)

TOWN OF OSCEOLA  
COMMENTS  
(Continued)

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)

**ANNUAL FINANCIAL REPORT**

*Condition and Context*

Due to a lack of internal controls, the Annual Financial Report (AFR) submitted in the Indiana Gateway for Government Units financial reporting system for the years ended December 31, 2020, 2021, 2022, 2023, and 2024, contained errors and did not accurately reflect the financial activity of the Town. As noted previously in the comment, entitled *BANK ACCOUNT RECONCILIATIONS*, the Town's bank account reconciliations contained unsupported adjustments. This did not allow the Town to identify, investigate, and correct errors that are evidenced by the differences noted between the adjusted bank account and ledger when the unsupported adjustments are eliminated from the bank reconciliations. As we were unable to determine what errors existed in the ledgers and AFR, which is the source of the Statements of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis, they were not included in this report.

Additionally, the lack of internal controls resulted in the following errors:

*Accounts Payable and Accounts Receivable*

The Town reported total receipts and disbursements for year 2024 rather than the accounts payable and accounts receivable as of December 31, 2024.

*Capital Assets*

Amounts were reported in the annual AFRs for the value of the capital assets owned by the Town; however, the amount reported in the AFRs included the following errors compared to the provided capital asset listings:

- For years ending December 31, 2020, 2021, and 2022, the amount reported in the AFR was overstated by \$14,555.
- For year ending December 31, 2023, the amount reported in the AFR was understated by \$209,301.
- For year ending December 31, 2024, the amount reported in the AFR was overstated by \$72,932.

*Grants*

The Grant schedule for year ending December 31, 2021, included \$77,577 in receipts, of which \$76,070 was received and reported in the prior year, resulting in an overstatement of \$76,070 in the AFR.

TOWN OF OSCEOLA  
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 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](#)."

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)

**ACCOUNTING OF THE IFA ADMINISTERED CRF MONEY**

*Condition and Context*

The Town did not properly account for the Coronavirus Relief Fund (CRF) in accordance with the options outlined in State Examiner Directive 2020-3.

The Town had a 2020 year-end balance of \$76,070 in the CARES fund.

Reimbursements of \$75,593 for public health and safety payroll costs received from the Indiana Finance Authority (IFA) were receipted into the CARES fund in November and December 2020. The expenditures upon which the reimbursements were based should have been recorded in the CARES fund or the reimbursed amount transferred through the claims process to the General fund, which would have allowed the money to be expended for any general unit purpose. Either of these two methods would have allowed for the proper processing and recording of subsequent expenditures.

The reimbursement of \$477 for non-payroll costs was receipted into the CARES fund in December 2020. The expenditures upon which the reimbursement was based should have been reversed and recorded in the CARES fund, which would have allowed for the proper processing and recording of the CARES activity and the reinstatement of the cash balance and appropriation of the originating fund.

An additional reimbursement of \$1,507 for public health and safety payroll costs was receipted into the CARES fund in January 2021.

All funds were claimed to the General fund in October 2021, leaving the CARES fund with a zero balance.

*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.**

TOWN OF OSCEOLA  
COMMENTS  
(Continued)

**Reimbursed Public Health and Safety Payroll Costs**

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. . . .

**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. . . .

**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.** . . .

TOWN OF OSCEOLA  
COMMENTS  
(Continued)

**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)

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

*Condition and Context*

Internal controls were not in place to ensure compliance with State Examiner Directive 2018-2 regarding the Motor Vehicle Highway (MVH) - Restricted sub fund. The Town created the Motor Vehicle Highway (MVH) - Restricted fund as required. However, the Town did not allocate or record at least 50 percent of the distribution from the State Motor Vehicle Highway Account into the MVH - Restricted fund at the time of the receipt. Accordingly, the Town receipted \$5,043 into the Motor Vehicle Highway fund that should have been receipted into the MVH - Restricted fund.

*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)

**FUND SOURCES AND USES**

*Condition and Context*

Internal controls had not been properly designed to ensure compliance over disbursements. The following was noted in a test of 35 disbursements:

TOWN OF OSCEOLA  
COMMENTS  
(Continued)

- Four purchases included the payment of sales tax.
- One purchase included the payment of utilities from the Law Enforcement Continuing Education fund, which is unallowable per Indiana Code.
- Two purchases included the purchase of gift cards paid for by the Town credit card which is not a permissible use of the Town credit card per Town Resolution 08-2014, entitled *Resolution Authorizing Town Credit Card Accounts and Adoption of a Town Credit Card Usage Policy*.

In addition, Section 512 of the Town Employee Handbook states in part: "When approved, the actual costs of travel, meals, lodging, and other expenses directly related to accomplishing business travel objectives may be reimbursed by the Town of Osceola." Three purchases included meals paid for by the Town credit card with no identified Town business or travel purpose.

*Criteria*

Government funds are exempt from the payment of sales taxes on qualifying purchases. Units should reference Internal Revenue Service and/or Indiana Department of Revenue guidance to determine what are or are not qualifying purchases. DOR information bulletin #34 addresses this: <http://www.in.gov/dor/reference/files/sib34.pdf>.

Units should contact the Indiana Department of Revenue to obtain the exemption certificate. After obtaining the exemption certificate, it must be presented at the time a purchase is made. If sales tax is paid erroneously, a refund application may be obtained from the Sales Tax Division of the DOR.

Sales taxes that are paid on qualifying purchases by the unit may be the personal obligation of the responsible official or employee.

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

Indiana Code 5-2-8-2(c) states: "A city or town law enforcement agency receiving amounts based upon claims for law enforcement continuing education funds under IC 33-37-8-4 or IC 33-37-8-6 shall deposit each fee collected into the local law enforcement continuing education fund."

Indiana Code 5-2-8-6 states: "Funds received by a law enforcement agency under this chapter shall be used for the continuing education and training of law enforcement officers employed by the agency and for equipment and supplies for law enforcement purposes."

The SBOA will not take exception to the use of credit cards by a unit provided the following criteria are observed:

1. The governing body must authorize credit card use through an ordinance/resolution, which has been approved in a meeting and documented in the minutes.
2. Issuance and use should be handled by an official or employee designated by the governing body.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance/resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card must be returned to the custody of the responsible person.

TOWN OF OSCEOLA  
COMMENTS  
(Continued)

5. The designated responsible official or employee must maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned.
6. Credit cards must not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing body and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment cannot be made on the basis of a statement or a credit card slip only. Procedures for payments must be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee may be the personal obligation of the responsible officer or employee.
8. If authorized, an annual fee may be paid.

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

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)