

**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 REDKEY

JAY COUNTY, INDIANA

January 1, 2020 to December 31, 2023



FILED

05/20/2025

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Internal Controls over Financial Close and Reporting and Financial Transactions.....	6-7
Annual Financial Report.....	7-9
Ordinances and Resolutions - Utility Rates	9
Supporting Documentation	10
Motor Vehicle Highway (MVH) - Restricted Fund Disbursements	11
Certification on Internal Control Standards	12
Capital Assets	13
Compensation and Benefits	13-14
Exit Conference	15
Town Council:	
Audit Results and Comments:	
Adoption of, and Training on, Internal Control Standards.....	18
Capital Assets	18-19
Compensation and Benefits	19-20
Exit Conference	21

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Debbie James	01-01-20 to 12-10-20
	Mary Eley	12-11-20 to 12-31-23
	Gloria May	01-01-24 to 12-31-25
President of the Town Council	Terri Taylor	01-01-20 to 08-20-20
	Gary Gardner	08-21-20 to 12-31-20
	Dottie Quakenbush	01-01-21 to 12-31-21
	Erik Hammers	01-01-22 to 12-31-23
	Brenda Beaty	01-01-24 to 12-31-25
Utility Office Manager	Pamela Collett	01-01-20 to 12-31-23
	Billie Hammond	01-01-24 to 12-31-25



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INDIANA STATE BOARD OF ACCOUNTS

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www.in.gov/sboa

TO: THE OFFICIALS OF THE TOWN OF REDKEY, JAY COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Redkey (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 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/.

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 6, 2025



CLERK-TREASURER
TOWN OF REDKEY

CLERK-TREASURER
TOWN OF REDKEY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL CLOSE AND REPORTING AND FINANCIAL TRANSACTIONS

A similar comment also appeared in prior Report B55619, entitled *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 established an effective internal control system that separated incompatible activities related to cash, receipts, and financial close and reporting.

Cash

The Clerk-Treasurer completed the bank reconciliations with no documented oversight, review, or approval by another individual.

Receipts

Receipting for Town and Utility collections was performed by both the Clerk-Treasurer and Deputy Clerk-Treasurer; however, there were no documented internal controls of a review of the receipts or receipt postings.

Financial Close and Reporting

The Clerk-Treasurer entered and submitted financial information for the Town into the Indiana Gateway for Government Units financial reporting system, which was the source for the Annual Financial Report and financial statements. There was no evidence of an internal control in place, such as an oversight, review, or approval process, to ensure the accuracy of the information entered and submitted. Due to the lack of effective internal controls, the following errors occurred:

- The 2020 beginning balances for the Sewage Utility Operating fund and the Sewage Separation fund were overstated by \$2,627 and \$109,148, respectively.
- The 2020 receipts were understated for the Sewage Utility Operating fund and the Sewage Separation fund by \$2,627 and \$109,148, respectively.
- The 2021 General Fund disbursements were understated, and the ending cash and investments balance was overstated, by \$8,791.
- The 2022 General Fund disbursements were understated, and the ending cash and investments balance was overstated, by \$8,355.
- The 2023 General Fund beginning cash and investments balance was overstated by \$8,355, disbursements were understated by \$160,721, and the ending cash and investments balance was overstated by \$169,076.
- The 2023 Motor Vehicle Highway disbursements were overstated, and the ending cash and investments balance was understated, by \$12,670.

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

- The 2023 Donation (If Used For Other Than Capital Items) fund disbursements were overstated, and the ending cash and investments balance was understated, by \$3,000.

Adjustments were proposed, accepted by the Town, and made to the financial statements and to the Combining Schedules of Receipts, Disbursements, and Cash and Investments 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:

"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. . . ."

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](#)."

ANNUAL FINANCIAL REPORT

Condition and Context

Financial and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units financial reporting system. The Town had not established effective internal controls over the information submitted in the AFR, which resulted in the following errors for 2020, 2021, 2022, and 2023:

Financial Data

- The 2020 beginning balances for the Sewage Utility Operating fund and the Sewage Separation fund were overstated by \$2,627 and \$109,148, respectively.

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

- The 2020 receipts were understated for the Sewage Utility Operating fund and the Sewage Separation fund by \$2,627 and \$109,148, respectively.
- The 2021 General Fund disbursements were understated, and the ending cash and investments balance was overstated, by \$8,791.
- The 2022 General Fund disbursements were understated, and the ending cash and investments balance was overstated, by \$8,355.
- The 2023 General Fund beginning cash and investments balance was overstated by \$8,355, disbursements were understated by \$160,721, and the ending cash and investments balance was overstated by \$169,076.
- The 2023 Motor Vehicle Highway disbursements were overstated, and the ending cash and investments balance was understated, by \$12,670.
- The 2023 Donation (If Used For Other Than Capital Items) fund disbursements were overstated, and the ending cash and investments balance was understated, by \$3,000.

Adjustments were proposed, accepted by the Town, and made to the financial data within the AFRs.

Payables and Receivables

The Town could not provide supporting documentation for the amount reported for accounts payable and under reported accounts receivable by \$27,865 at December 31, 2023.

The Town approved the omission of the Schedule of Payables and Receivables in the Financial Statements Audit Report of the Town.

Capital Assets

The Town did not have a detailed capital asset listing to support the amounts reported in the AFR.

The Town approved the omission of the Schedule of Capital Assets in the Financial Statements Audit Report of the Town.

Criteria

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

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner as set forth in the uniform compliance guidelines. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

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

"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.

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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. . . ."

ORDINANCES AND RESOLUTIONS - UTILITY RATES

Condition and Context

The Town did not have adequate internal controls in place to ensure that Utility bills were correctly billed. Ordinance 2019-1 established the Water Utility rates for the years January 1, 2020 through June 30, 2022, and Ordinance 2022-1 established the rates as of July 1, 2022. Water charges billed to 11 of the 26 accounts tested were not calculated in accordance with the approved rate ordinances.

Ordinance 2014-8 established the Wastewater Utility rates for January 1, 2020 through August 21, 2020, and Ordinance 2020-1 established the rates as of September 1, 2020. Wastewater charges billed to 6 of the 26 accounts tested were not calculated in accordance with the approved rate ordinances.

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)

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

SUPPORTING DOCUMENTATION

Condition and Context

The Town did not have adequate internal controls in place to ensure that all documentation was retained for audit. Of the 52 claims tested, supporting documentation for 4 disbursements totaling \$1,047 was not presented for audit.

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

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND DISBURSEMENTS

Condition and Context

Internal controls were not in place to ensure that MVH Restricted funds were only spent for construction, reconstruction, or preservation of the Town's highways.

A review of the disbursements from the MVH Restricted (Subfund Of Motor Vehicle Highway) fund showed that all ten of the disbursements tested were for expenses that were not related to the construction, reconstruction, or preservation of the Town's highways. The MVH Restricted (Subfund Of Motor Vehicle Highway) fund was used for the purchase of equipment and payment of engineering designs, contracted basic street and Town maintenance expenses, utility repair materials expenses, and sidewalk projects.

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)

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

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

Internal controls were not in place to ensure that internal control certifications were correct.

The Town certified on the Indiana Gateway for Government Units financial reporting system for the years 2020, 2021, 2022, and 2023 that it had adopted the minimum internal control standards as required by Indiana Code 5-11-1-27(e) and that Town employees that were required to receive the training had completed that training; however, during the engagement, the Town could not provide documentation that the it had adopted the minimum internal control standards or that Town employees received the required training.

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."

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

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

CAPITAL ASSETS

Condition and Context

Internal controls were not in place to ensure that capital asset ledgers were maintained and physical inventories were performed.

The Town did not maintain a complete, detailed listing of all capital assets that reflected their acquisition value. Additionally, no evidence was provided that a complete physical inventory had been performed 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 detailed listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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COMPENSATION AND BENEFITS

Condition and Context

Internal controls were not in place to ensure that comp time records were properly maintained and payments for comp time were for documented hours accrued. In addition, internal controls were not in place to ensure payroll payments to one employee were calculated correctly.

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

During payroll testing for one Utility employee, we selected a payroll from 2020 and one from 2023 and were not able to determine the employee was paid the correct rates according to the salary ordinance. The employee was paid for comp time during the audit period. The comp time was recorded and reported by the employee on their timesheets for hours worked in excess of 8 hours per day and for weekend hours, which were approved by a Town Council member subsequent to time worked as noted by initials on the time cards. This approval was in conflict with the Town's Personnel Policy regarding overtime which states, in part: "Any employee must work a standard forty (40) hour work week before qualifying for any additional compensation as may be determined and authorized by the annual salary ordinance." The policy also required the overtime to be approved in advance of time worked.

Also, there was no service record maintained that tracked comp time balances. The employee submitted claims for payment of comp time in excess of the amount of comp time earned as documented on the timecards for 2023. The Town paid the employee quarterly for his accrued comp time, overtime, and some vacation time.

The employee was reimbursed for comp time at a rate of time-and-a-half his regular salary. To calculate the time-and-a-half rate, the employee's salary, as approved in the salary ordinance, was converted to an hourly rate based on a 40-hour week. In addition, the salary ordinance stated the "Wastewater Operator shall receive an additional \$179.53 each week, to his regular weekly salary for all plant operations and testing for 7 days a week." However, the \$179.53 was instead factored into his base pay rate, increasing his hourly rate used for paying comp time at time-and-a-half. The plant operations and testing that occurred after normal working hours Monday through Friday and on weekends were included in comp time accrued by and paid to the employee.

Criteria

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (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)

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CLERK-TREASURER
TOWN OF REDKEY
EXIT CONFERENCE

The contents of this report were discussed on March 25, 2025, with Gloria May, Clerk-Treasurer, and Brenda Beaty, President of the Town Council.



TOWN COUNCIL
TOWN OF REDKEY

TOWN COUNCIL
TOWN OF REDKEY
AUDIT RESULTS AND COMMENTS

ADOPTION OF, AND TRAINING ON, INTERNAL CONTROL STANDARDS

Condition and Context

Due to internal control deficiencies over internal control standards, the Town had not adopted the acceptable minimum level of internal control standards as defined by the Indiana State Board of Accounts. The Town could not provide documentation confirming that Town employees whose official duties included receiving, processing, depositing, disbursing, or otherwise having access to funds that belong to the Town had received training over internal control standards that was developed or approved by the Indiana State Board of Accounts.

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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CAPITAL ASSETS

Condition and Context

Internal controls were not in place to ensure that capital asset ledgers were maintained and physical inventories were performed.

The Town did not maintain a complete, detailed listing of all capital assets that reflected their acquisition value. Additionally, no evidence was provided that a complete physical inventory had been performed at least every two years.

TOWN COUNCIL
TOWN OF REDKEY
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detailed listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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COMPENSATION AND BENEFITS

Condition and Context

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During payroll testing for one Utility employee, we selected a payroll from 2020 and one from 2023 and were not able to determine the employee was paid the correct rates according to the salary ordinance. The employee was paid for comp time during the audit period. The comp time was recorded and reported by the employee on their timesheets for hours worked in excess of 8 hours per day and for weekend hours which were approved by a Town Council member subsequent to time worked as noted by initials on the time cards. This approval was in conflict with the Town's Personnel Policy regarding overtime which states, in part: "Any employee must work a standard forty (40) hour work week before qualifying for any additional compensation as may be determined and authorized by the annual salary ordinance." The policy also required the overtime to be approved in advance of time worked.

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TOWN COUNCIL
TOWN OF REDKEY
AUDIT RESULTS AND COMMENTS
(Continued)

The employee was reimbursed for comp time at a rate of time-and-a-half his regular salary. To calculate the time-and-a-half rate, the employee's salary, as approved in the salary ordinance, was converted to an hourly rate based on a 40-hour week. In addition, the salary ordinance stated the "Wastewater Operator shall receive an additional \$179.53 each week, to his regular weekly salary for all plant operations and testing for 7 days a week." However, the \$179.53 was instead factored into his base pay rate, increasing his hourly rate used for paying comp time at time-and-a-half. The plant operations and testing that occurred after normal working hours Monday through Friday and on weekends were included in comp time accrued by and paid to the employee.

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All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (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)

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 vent. 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. . . ."

TOWN OF COUNCIL
TOWN OF REDKEY
EXIT CONFERENCE

The contents of this report were discussed on March 25, 2025, with Gloria May, Clerk-Treasurer, and Brenda Beaty, President of the Town Council.