

**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 TROY

PERRY COUNTY, INDIANA

January 1, 2020 to December 31, 2023



**FILED**  
01/14/2025



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kerry Schutzius-Kleeman	01-01-20 to 01-13-20
	(Vacant)	01-14-20 to 01-26-20
	Linda J. Crawford	01-27-20 to 07-31-24
	Saffron J. Ragan	08-01-24 to 12-31-24
President of the Town Council	Linda J. Crawford	01-01-20 to 01-26-20
	(Vacant)	01-27-20 to 02-11-20
	Roger Fella	02-12-20 to 12-31-23
	Jane Efinger-Hayden	01-01-24 to 12-31-24



Paul D. Joyce, CPA  
State Examiner

## INDIANA STATE BOARD OF ACCOUNTS

302 WEST WASHINGTON STREET

ROOM E418

INDIANAPOLIS, INDIANA 46204-2769

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[www.in.gov/sboa](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE TOWN OF TROY, PERRY COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Troy (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/](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 12, 2024



CLERK-TREASURER  
TOWN OF TROY

CLERK-TREASURER  
TOWN OF TROY  
AUDIT RESULTS AND COMMENTS

**ANNUAL FINANCIAL REPORT**

A similar comment also appeared in prior Report B55821, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

*Condition and Context*

The Annual Financial Report (AFR) is required to be submitted annually via the Indiana Gateway for Government Units financial reporting system. The Town did not have adequate internal controls over the financial information submitted in the AFR, which resulted in the following errors:

*Financial Data*

Fund	Cash and Investments January 1, 2020, Over(Under) Stated			Cash and Investments December 31, 2020, Over(Under) Stated			Cash and Investments December 31, 2021, Over(Under) Stated		
	Receipts Over(Under) Stated	Disbursements Over(Under) Stated	Over(Under) Stated	Receipts Over(Under) Stated	Disbursements Over(Under) Stated	Over(Under) Stated	Receipts Over(Under) Stated	Disbursements Over(Under) Stated	Over(Under) Stated
Christ of the Ohio Donation - omitted fund	\$ (10,233)	\$ -	\$ -	\$ (10,233)	\$ -	\$ -	\$ (10,233)	\$ -	\$ (10,233)
Water Bond & Interest - erroneous beginning balance	13,209	-	-	13,209	-	-	-	-	13,209
USDA Loan - omitted fund	(281)	(2,348,361)	(2,348,587)	(55)	-	(55)	-	(55)	-
Electric Operating - bank transfers reported	-	-	-	-	99,008	99,008	-	99,008	-
<b>Totals</b>	<b>\$ 2,695</b>	<b>\$ (2,348,361)</b>	<b>\$ (2,348,587)</b>	<b>\$ 2,921</b>	<b>\$ 99,008</b>	<b>\$ 98,953</b>	<b>\$ -</b>	<b>\$ 98,953</b>	<b>\$ 2,976</b>

Fund	Cash and Investments January 1, 2022, Over(Under) Stated			Cash and Investments December 31, 2022, Over(Under) Stated			Cash and Investments December 31, 2023, Over(Under) Stated		
	Receipts Over(Under) Stated	Disbursements Over(Under) Stated	Over(Under) Stated	Receipts Over(Under) Stated	Disbursements Over(Under) Stated	Over(Under) Stated	Receipts Over(Under) Stated	Disbursements Over(Under) Stated	Over(Under) Stated
Christ of the Ohio Donation - omitted fund	\$ (10,233)	\$ -	\$ -	\$ (10,233)	\$ -	\$ -	\$ (10,233)	\$ -	\$ (10,233)
Electric Operating - bank transfers reported and investment activity reported in error	-	163,150	163,150	-	315,693	124,507	-	124,507	191,186
Sewage Works Improvement - omitted activity	-	-	-	-	(67)	-	-	-	(67)
<b>Totals</b>	<b>\$ (10,233)</b>	<b>\$ 163,150</b>	<b>\$ 163,150</b>	<b>\$ (10,233)</b>	<b>\$ 315,626</b>	<b>\$ 124,507</b>	<b>\$ -</b>	<b>\$ 124,507</b>	<b>\$ 180,886</b>

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

*Capital Assets*

Amounts reported on the Schedule of Capital Assets did not reflect a major renovation of the Town's water treatment plant costing \$2,348,588, which was completed and placed in service during 2020. Also, a Town Marshal's new vehicle purchased in 2023, costing \$53,076, was not included in amounts reported on the schedule.

*Leases and Debt*

Amounts reported for leases and debts contained errors. The ending principal balance of outstanding debt was overstated by \$19,600, while principal payments due within one year were overstated by \$5,985. The submitted information is used to generate the Schedule of Leases and Debt presented as Other Information in the Financial Statements Audit Report of the Town.

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.

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

*Accounts Payables and Accounts Receivables*

The Town reported \$24,599 for accounts payable and \$3,178 for accounts receivable; however, the Town was unable to provide supporting documentation.

*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](#)."

**BANK ACCOUNT RECONCILIATIONS**

*Condition and Context*

The Town did not have adequate internal controls to ensure that monthly bank reconciliations were properly prepared.

The monthly bank reconciliations for 2020 and 2021 did not include the balances of the USDA Loan fund bank account, nor was the activity of that bank account recorded in the Town's ledger and reflected in the financial statements for those years. This bank account functioned as a clearing account for the disbursements of draws on a loan from the United States Department of Agriculture. In addition, there was not a bank reconciliation performed on the Christ of the Ohio Donation bank account.

The monthly Electric bank reconciliations for the months of May through December 2023 did not reflect the withdrawal of \$190,000 from a \$265,000 certificate of deposit that had occurred May 22, 2023. The \$190,000 proceeds were recorded in the ledger as miscellaneous revenue, with the investment continuing to be carried on the ledger as \$265,000 rather than the remaining balance. Also, a related early withdrawal penalty of \$1,186 was never posted to the ledger nor was reflected in the bank reconciliations.

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

*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."

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## **CAPITAL ASSETS**

*Condition and Context*

The Town did not have adequate internal controls to ensure compliance related to capital assets.

The Town did not add a major renovation of the Town's water treatment plant totaling \$2,348,588, which was completed in 2020, to the Town's Capital Asset Ledger. Also, a vehicle purchased in 2023, costing \$53,076, for use by the Town Marshal had not been added to the Capital Asset Ledger.

The Town did not conduct a physical inventory of capital assets during the audit period as required.

*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)

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

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### **INTERNAL CONTROLS**

A similar comment also appeared in prior Report B55821, 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. The Town had not separated incompatible activities related to cash and investments, receipts, disbursements, and financial close and reporting.

#### *Cash and Investments*

The Town had not established a system of internal controls that would have ensured that cash and investment balances agreed to the ledgers and financial statement. The Clerk-Treasurer was properly performing monthly bank reconciliations without any documented oversight, review, or approval procedures in place to ensure their accuracy.

#### *Receipts*

The Utility Clerk and the Accounting Manager had the ability to issue receipts and post to the ledger. There were no documented internal controls in place to prevent, or detect and correct, errors in receipts, such as an oversight, review, or approval process of the receipts.

#### *Disbursements*

The Clerk-Treasurer was solely responsible for preparing the claims, issuing, and distributing the checks, and posting disbursements to the ledger. There was no segregation of duties such as an oversight, review, or approval process.

#### *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, such as an oversight, review, or approval process, to ensure the accuracy of the information entered and submitted.

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

*Criteria*

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

A similar comment also appeared in prior Report B55821, entitled *MOTOR VEHICLE HIGHWAY STATE DISTRIBUTIONS*.

*Condition and Context*

The Town did not have adequate internal controls in place to ensure compliance related to expenditures from the Motor Vehicle Highway - Restricted fund. The Town did not properly deposit 50 percent of the Motor Vehicle Highway (MVH) distributions as required. The Town receipted Motor Vehicle Highway - Restricted funds in the amounts of \$699 and \$513 to MVH Fund instead of MVH - Restricted fund for June 2021 and October 2022, respectively. As a result of these errors, a total of \$1,212 was receipted into the MVH fund instead of the MVH-Restricted fund.

*Criteria*

Indiana Code 8-14-1-5(c) states in part: "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."

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

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**ORDINANCES AND RESOLUTIONS - DEBT RELATED TRANSFERS**

*Condition and Context*

The Town did not have adequate internal controls in place to ensure compliance related to Ordinances and Resolutions - Debt Related Transfers.

Monthly transfers were not made from the Water Operating Fund to the Water Bond and Interest fund during 2020 and 2021 as required by the Town's bond ordinance, Ordinance 2-1-19. As a result, the Water Bond and Interest fund had a deficit cash balance at the end of each year during the audit period.

In addition, the Town did not establish the Water Debt Service Reserve fund as required by the Town's applicable bond ordinance, Ordinance 2-1-19.

*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 TROY  
AUDIT RESULTS AND COMMENTS  
(Continued)

**OVERDRAWN CASH BALANCES**

*Condition and Context*

The Town did not have adequate internal controls to ensure compliance related to overdrawn cash balances.

The financial statements contained the following funds with overdrawn cash balances:

Fund	Amount Overdrawn as of:			
	December 31, 2020	December 31, 2021	December 31, 2022	December 31, 2023
Water Bond & Interest	\$ (13,209)	\$ (132,016)	\$ (92,786)	\$ (93,652)
Sewer Operating Fund	-	-	-	(18,068)

The overdrawn balances for the Water Bond and Interest fund were attributable to not transferring the amount required to cover the debt service requirements from the Water Operating fund. The deficit in the Sewer Operating Fund is due to disbursements exceeding revenues.

*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)

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**PENALTIES, INTEREST, AND OTHER CHARGES**

*Condition and Context*

The Town did not have adequate internal controls to ensure compliance related to penalties, interest, and other charges.

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

The Town paid penalties and interest to the Internal Revenue Service for not properly making a tax deposit, filing the return, and for not paying the taxes due. The penalties paid for 2020, 2021, 2022, and 2023 were in the amounts of \$1,037, \$242, \$58, and \$854, respectively.

In addition, we noted on one of the four credit card bills selected for testing the Town paid interest charges in the amount of \$8.

*Criteria*

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid 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)

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**UTILITY CASH TRANSFERS TO TOWN'S GENERAL FUND**

*Condition and Context*

The Town did not have adequate internal controls to ensure compliance related to Utility Cash Transfers to the Town's General Fund.

The Town made cash transfers, totaling \$220,000, during the audit period, as summarized below. The transfers were made from the Electric Operating fund, Water Operating Fund, and Sewer Operating Fund to the Town's General Fund. While the transfers were made in accordance with the Town's ordinances governing these types of transfers; the Town did not follow the proper procedures as required by statute. The statute requires that these transfers be made from surplus earnings held in each Utility's cash reserve fund. The Town did not maintain cash reserve funds for any of its Utilities.

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

Fund	Totals	2020	2021	2022	2023
Electric Operating	\$ 160,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000
Water Operating Fund	45,000	-	15,000	15,000	15,000
Sewer Operating Fund	15,000	-	5,000	5,000	5,000
Totals	<u>\$ 220,000</u>	<u>\$ 40,000</u>	<u>\$ 60,000</u>	<u>\$ 60,000</u>	<u>\$ 60,000</u>

*Criteria*

Indiana Code 8-1.5-3-11 states in part:

"(a) The money belonging to each municipally owned utility shall be kept by the municipal fiscal officer as separate funds as required by any bond ordinance or accounting procedures established by the commission or the state board of accounts. The municipal legislative body, with the approval of the board, may transfer surplus earnings of the utility to the general fund. The money may not, however, be transferred unless the terms and conditions of any bond ordinance, resolution, indenture, contract under [IC 8-1-2.2](#), or similar instrument binding upon the utility are complied with.

(b) A cash reserve fund shall be created by ordinance and carried on the records of the utility or utilities by providing for monthly contributions or transfers to the cash reserve fund of surplus earnings of the utility or utilities.

(c) 'Surplus earnings' are those cash earnings remaining after provision has been made to take care of current obligations, including:

- (1) operating expense;
- (2) depreciation or replacement fund;
- (3) bond and interest sinking fund;
- (4) retirement fund; or
- (5) any other priority fund requirements fixed by law.

(d) After creation of the cash reserve fund, the legislative body may include in the municipal general fund budget, as revenue in lieu of taxes, an amount equal to the actual balance in the cash reserve fund as of June 30 of the current year. However, the available cash reserve fund balance may be transferred to the municipal general fund only during the calendar year for which the budget was adopted, and transfers may not be made from any utility funds to the general fund except from the cash reserve fund.

(e) If at any time after the final approval of the budget an emergency should arise for further appropriations from the general fund, the legislative body may, by ordinance, transfer additional money from the cash reserve fund to the general fund to provide for the additional appropriations, the transfer to be limited to the accretions to the cash reserve fund since the preceding June 30. . . ."

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

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#### **UTILITY FUNDS USED FOR TOWN EXPENSES**

##### *Condition and Context*

The Town did not have adequate internal controls to ensure compliance related to Utility Funds used for Town expenses.

During 2023, the Town purchased a truck for exclusive use by the Town Marshal utilizing Electric Utility funds. A \$20,000 down payment, monthly loan payments, totaling \$3,972, and other expenses related to the vehicle, totaling \$950, were all paid from the Electric Operating fund.

##### *Criteria*

Indiana Code 8-1.5-3-11(d) states in part: ". . . transfers may not be made from any utility funds to the general fund except from the cash reserve fund."

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, utility funds should not be used to pay for personal items. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner.

Establishment of a Cash Reserve Fund permits transfer of surplus utility funds to the city or town general fund. After appropriation, such transferred funds may then be used for any legal general fund purpose.

(The Cities and Towns Bulletin and Uniform Compliance Guidelines, June 2021)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

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. . . ."

CLERK-TREASURER  
TOWN OF TROY  
EXIT CONFERENCE

The contents of this report were discussed on December 12, 2024, with Saffron J. Ragan, Clerk-Treasurer; Jane Efinger-Hayden, President of the Town Council; Caron Crossley, Town Council member; Bret Kleeman, Town Council member; and Adam Hoffman, Town Council member.