

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF FRANKTON

MADISON COUNTY, INDIANA

January 1, 2022 to December 31, 2022



**FILED**  
05/22/2024



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jerry Ehman Timothy Detrick	01-01-22 to 12-31-23 01-01-24 to 12-31-24
President of the Town Council	Larry Shively Victoria Hart	01-01-22 to 12-31-23 01-01-24 to 12-31-24



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
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TO: THE OFFICIALS OF THE TOWN OF FRANKTON, MADISON COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Frankton (Town), for the period from January 1, 2022 to December 31, 2022. 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/](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

May 2, 2024

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CLERK-TREASURER  
TOWN OF FRANKTON

CLERK-TREASURER  
TOWN OF FRANKTON  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS**

Similar comments also appeared in prior Reports B57366 and B59511, entitled *INTERNAL CONTROLS* and *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

*Condition and Context*

The Town had not designed or implemented a system of internal controls, which would include appropriate segregation of duties, that would likely be effective in preventing, or detecting and correcting, errors related to financial close and reporting and cash and investments.

*Cash and Investments*

The Town had not properly designed or implemented internal controls over cash and investments, including bank reconciliations, to ensure the accuracy and completeness of the ledgers.

Monthly bank reconciliations were completed by the Clerk-Treasurer without any oversight or review.

*Financial Close and Reporting*

The financial information was prepared and electronically submitted through the Indiana Gateway for Government Units financial reporting system, which was the basis for the Town's financial statement, by the Clerk-Treasurer. An oversight or review process had not been documented to prevent, or detect and correct, errors in order to ensure that the financial information recorded and reported was accurate and complete.

*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. . . ."

The lack of internal controls contributed to the issues noted below: *FINANCIAL TRANSACTIONS AND REPORTING*.

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

**FINANCIAL TRANSACTIONS AND REPORTING**

Similar comments also appeared in prior Reports B57366 and B59511, entitled *INTERNAL CONTROLS* and *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

*Condition and Context*

The Town had not designed or implemented a system of internal controls, which would include appropriate segregation of duties, that would likely be effective in preventing, or detecting and correcting, errors related to financial transactions and reporting.

The financial information was prepared and electronically submitted by the Clerk-Treasurer to the Indiana Gateway for Government Units financial reporting system, which was the source of the Town's financial statement. An oversight or review process had not been designed or implemented that would likely prevent, or detect and correct, errors on financial transactions and the financial statement.

Due to the lack of internal controls, the following errors were noted:

- Beginning cash and investment balances were overstated by \$93,726.
- The State Revolving Loan fund was omitted from the ledger and the financial statement, causing receipts and disbursements to each be understated by \$1,773,642.
- Transfers that were reported in the 2021 financial statement were incorrectly reported in the 2022 financial statement, causing receipts and disbursements in the General Fund to be overstated by \$17,108 and \$58,834, respectively.
- Funds added to the ledger in 2022 were not included in the financial statement, causing receipts and disbursements to each be understated by \$1,582,258.
- Other miscellaneous posting errors caused disbursements to be understated by \$6,000.
- As a result of these errors, the ending cash and investment balances were overstated by \$58,000.

Audit adjustments were proposed, accepted by the Town, and made to the financial statement.

*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)

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

**BANK ACCOUNT RECONCILIATIONS AND ADJUSTMENTS**

Similar comments also appeared in prior Reports B57366 and B59511, entitled *INTERNAL CONTROLS* and *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

*Condition and Context*

The Town had not properly designed or implemented internal controls over cash and investments, including bank reconciliations, to ensure the accuracy of and completeness of the ledgers.

The Town did not include two bank accounts as part of the monthly reconciliations. Two additional bank accounts were listed as adjustments each month. Interest on two Certificates of Deposit was not tracked accurately and recorded in the monthly reconciliments or ledgers. Also, for 4 of the 12 months tested, bank reconciliments were not timely prepared.

Furthermore, an adjustment totaling \$358 from February 2019 was not resolved and corrected as of December 31, 2022.

*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."

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)

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 FRANKTON  
AUDIT RESULTS AND COMMENTS  
(Continued)

**MONTHLY AND ANNUAL UPLOADS**

*Condition and Context*

The files and governmental unit information that are required to be uploaded monthly include the bank reconcilements, approved Town Council minutes, and the funds ledger, summarizing total receipts, disbursements, and balances by fund.

Annual upload requirements include the year-end bank statement, year-end outstanding check list, year-end investments, detail of receipt activity, detail of disbursement activity, current year salary ordinance, and an annual vendor history report. Monthly uploads are due 45 days after the close of the month. Annual uploads are due by March 1 of the following year.

The Town had not designed or implemented a system of internal controls, which would include appropriate segregation of duties that would be effective in ensuring that uploads were completed timely and correctly.

The Town did not comply with the State Examiner Directive and did not upload two of the monthly bank reconcilements timely and did not upload all of the Town's bank statements.

In addition, the required annual uploads were not uploaded until requested by the Indiana State Board of Accounts for audit.

*Criteria*

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients. (Amended State Examiner Directive 2018-1, updated November 9, 2020, and effective with uploads due February 15, 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 Towns, Chapter 1)

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

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

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## **CAPITAL ASSETS**

The same comment appeared in prior Reports B57366 and B59511.

### *Condition and Context*

The Town had not designed or implemented a system of internal controls, which would include appropriate segregation of duties, that would be effective in ensuring that uploads were completed timely and correctly.

Due to the lack of internal controls, the following instances of noncompliance were observed regarding the Town's Capital Assets:

- The Town did not complete a physical inventory at least once every two years.
- The capital asset ledger included items below the threshold identified in the Town's capital asset policy.

### *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)

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 FRANKTON  
AUDIT RESULTS AND COMMENTS  
(Continued)

**ANNUAL FINANCIAL REPORT**

A similar comment also appeared in prior Report B59511, entitled *SCHEDULE OF PAYABLES AND RECEIVABLES*.

*Condition and Context*

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

*Financial Data and Other Information - Combining Statement*

- Beginning cash and investment balances were overstated by \$93,726.
- The State Revolving Loan fund was omitted from the ledger and the financial statement, causing receipts and disbursements to each be understated by \$1,773,642.
- Transfers that were reported in the 2021 financial statement were incorrectly reported in the 2022 financial statement, causing receipts and disbursements in the General Fund to be overstated by \$17,108 and \$58,834, respectively.
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- Other miscellaneous posting errors caused disbursements to be understated by \$6,000.
- As a result of these errors, the ending cash and investment balances were overstated by \$58,000.

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

*Grants*

- The Water and Waste Disposal Systems for Rural Communities program expenditures were understated by \$174,075.
- The COVID-19 - Coronavirus Relief Fund included expenditures from 2021 in error, causing expenditures to be overstated by \$17,108.

*Schedule of Payables and Receivables, Schedule of Capital Assets, and Schedule of Leases and Debt*

The information presented for the Schedule of Payables and Receivables, the Schedule of Capital Assets, and the Schedule of Leases and Debt, was determined to be incorrect and was not included in the Financial Statement Audit Report for the period of January 1, 2022 to December 31, 2022.

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

*Criteria*

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

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**SUPPORTING DOCUMENTATION**

*Condition and Context*

The Town was unable to provide canceled checks for 10 of the 13 checks selected for testing during the audit period.

*Criteria*

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)

CLERK-TREASURER  
TOWN OF FRANKTON  
EXIT CONFERENCE

The contents of this report were discussed on May 2, 2024, with Timothy Detrick, Clerk-Treasurer, and Victoria Hart, President of the Town Council.