

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF CARTHAGE

RUSH COUNTY, INDIANA

January 1, 2011 to December 31, 2012



**FILED**  
07/01/2016



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Linda A. McMahan	01-01-08 to 12-31-19
President of the Town Council	Wanda C. Henderson William Armstrong Marsha Dyer William Davis	01-01-11 to 12-31-11 01-01-12 to 06-30-12 07-01-12 to 03-31-14 04-01-14 to 12-31-16
Superintendent of Utilities	Jimmy Alcorn Joshua Douglas	01-01-11 to 09-27-11 09-28-11 to 12-31-16



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF CARTHAGE, RUSH COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Carthage (Town), for the period from January 1, 2011 to December 31, 2012. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Town, which provides our opinions on the Town's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

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 Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

April 25, 2016

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CLERK-TREASURER  
TOWN OF CARTHAGE

CLERK-TREASURER  
TOWN OF CARTHAGE  
FEDERAL FINDINGS

***FINDING 2012-001 - INTERNAL CONTROL OVER FINANCIAL TRANSACTIONS AND REPORTING***

There were deficiencies in the internal control system of the Town related to financial transactions and reporting.

Lack of Segregation of Duties: The Town had not separated incompatible activities related to the accounting, billing, and collection functions of the Town and its utilities. All duties were performed by two individuals, the Clerk-Treasurer and the Deputy Clerk-Treasurer. The lack of segregation of duties was a result of the Town having a small staff which limits the Town's ability to segregate accounting functions. The failure to establish these controls could have enabled material misstatements or irregularities to remain undetected. Control activities should have been in place to reduce the risks of errors in financial reporting.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***FINDING 2012-002 - INTERNAL CONTROL OVER SPECIAL TESTS AND PROVISIONS***

Federal Agency: U.S. Department of Agriculture  
Federal Programs: Water and Waste Disposal Systems for Rural Communities, ARRA - Water  
and Waste Disposal Systems for Rural Communities, Recovery Act  
CFDA Numbers: 10.760, 10.781  
Direct Award

Management of the Town had not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirement: Special Tests and Provisions.

The Town combined the federal program records of Water and Waste Disposal Systems for Rural Communities and ARRA - Water and Waste Disposal Systems for Rural Communities, Recovery Act into the Wastewater Improvement Project Fund; however, the ARRA - Water and Waste Disposal Systems for Rural Communities, Recovery Act was required to maintain separate records.

CLERK-TREASURER  
TOWN OF CARTHAGE  
FEDERAL FINDINGS  
(Continued)

The failure to establish an effective internal control system placed the Town at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the programs. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

2 CFR 176.210 states in part:

"(a) To maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5) (Recovery Act) as required by Congress and in accordance with 2 CFR 215.21 'Uniform Administrative Requirements for Grants and Agreements' and OMB Circular A-102 Common Rules provisions, recipients agree to maintain records that identify adequately the source and application of Recovery Act funds. . . ."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could have resulted in the loss of federal funds to the Town.

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and compliance requirement listed above.

TOWN OF CARTHAGE  
6 WEST FIRST STREET  
CARTHAGE, IN 46115

**CORRECTIVE ACTION PLAN**

***FINDING 2012-001***

Contact Person Responsible for Corrective Action: Linda McMahan, Clerk-Treasurer  
Contact Phone Number: 765-565-6580

Views of Responsible Official: We (The Town of Carthage) concur with the finding.

Description of Corrective Action Plan: The Town of Carthage will review its control procedures to obtain required maximum internal control.

Anticipated Completion Date: April 25, 2016

***FINDING 2012-002***

Contact Person Responsible for Corrective Action: Linda McMahan, Clerk-Treasurer  
Contact Phone Number: 765-565-6580

Views of Responsible Official: We (The Town of Carthage) concur with the finding.

Description of Corrective Action Plan: The Town of Carthage will review its control procedures to obtain required maximum internal control.

Anticipated Completion Date: April 25, 2016

Linda L McMath  
(Signature)

Club Treasurer  
(Title)

4-25-14  
(Date)

CLERK-TREASURER  
TOWN OF CARTHAGE  
AUDIT RESULTS AND COMMENTS

**OVERDRAWN CASH BALANCES**

The financial statement presented for audit included the following funds with overdrawn cash balances at December 31, 2012:

<u>Fund</u>	<u>Years</u>	<u>Amount</u> <u>Overdrawn</u>
Sanitation Fund	2011	\$ 13,798
Sanitation Fund	2012	15,980
Local Law Enf Cont Ed	2012	2,320
Payroll Fund	2012	75,575

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 governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**ERRORS ON CLAIMS**

A test of claims identified the following deficiencies with an error rate greater than 10 percent:

Of the claims tested, 60 percent did not have Fiscal Officer approval. This error resulted in \$1,948 of expenditures which did not have proper Fiscal Officer approval.

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:

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

- (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."

**APPROPRIATIONS**

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Year	Excess Amount Expended
General Fund	2011	\$ 22,235
Local Road And Street	2011	11,324
Cum Cap Imp - Cig Tax	2011	2,712

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

CLERK-TREASURER  
TOWN OF CARTHAGE  
EXIT CONFERENCE

The contents of this report were discussed on April 25, 2016, with Linda McMahan, Clerk-Treasurer, and William Davis, President of the Town Council.