

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF CARBON

CLAY COUNTY, INDIANA

January 1, 2012 to December 31, 2016



**FILED**  
01/30/2018



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Diane G. Fields	01-01-12 to 12-31-19
President of the Town Council	Josephine Rightsell Michael Bemis	01-01-12 to 12-31-15 01-01-16 to 12-31-17
Superintendent of Water Utility	Ronald Keen Michael Bemis	01-01-12 to 06-13-17 06-14-17 to 12-31-17
Superintendent of Wastewater Utility	Ronald Keen Michael Bemis	01-01-12 to 06-13-17 06-14-17 to 12-31-17



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF CARBON , CLAY COUNTY, INDIANA

This report is supplemental to our examination report of the Town of Carbon (Town), for the period from January 1, 2012 to December 31, 2016. It has been provided as a separate report so that the reader may easily identify any Examination Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statements Examination Report of the Town, which provides our opinion 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 Examination Result and Comment contained herein describes the identified reportable instance 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 Examination Result and Comment, incorporated within this report, was not verified for accuracy.

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

December 20, 2017

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CLERK-TREASURER  
TOWN OF CARBON

CLERK-TREASURER  
TOWN OF CARBON  
EXAMINATION RESULT AND COMMENT

***ANNUAL FINANCIAL REPORT***

The Annual Financial Report (AFR) did not properly reflect the financial activity of the Payroll Withholdings Fund and MVH Payroll Withholdings Fund for years 2012 through 2016. These funds were omitted from the AFR and the resulting financial statements, creating understated financial activity. Examination adjustments were proposed, accepted by management, and made to the financial statements.

There was no evidence that a proper internal control structure existed in the Town. The Town had not separated incompatible activities related to receipts, disbursements, cash and investment balances, and financial close and reporting. The failure to establish these controls enabled material misstatements to remain undetected.

The Clerk-Treasurer was the sole person responsible for all transactions related to receipts, disbursements, cash and investments balances, and financial close and reporting. There were no controls in place to separate duties, monitor, review, or determine the accuracy of the financial transactions and reporting.

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

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality 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."

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:

CLERK-TREASURER  
TOWN OF CARBON  
EXAMINATION RESULT AND COMMENT  
(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.

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. . . ."

"Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information. Internal communication enables personnel to receive a clear message that control responsibilities are taken seriously by the organization. External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . ."

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

TOWN OF CARBON  
EXIT CONFERENCE

The contents of this report were discussed on December 20, 2017, with Diane G. Fields, Clerk-Treasurer; Michael Bemis, President of the Town Council; James Hayes, Town Council member; and Linda Archer, Town Council member.