

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF OAKTOWN

KNOX COUNTY, INDIANA

January 1, 2013 to December 31, 2017



**FILED**  
05/25/2018



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Clerk-Treasurer:	
Audit Results and Comments:	
Internal Controls .....	6
Overdrawn Cash Balances .....	7
Annual Financial Report.....	7
Deposit of Accountable Items .....	7
Exit Conference .....	8

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Peggy Blann	01-01-12 to 12-31-19
President of the Town Council	Tim Waldroup	01-01-13 to 12-31-15
	Corey Morgan	01-01-16 to 12-31-16
	Randy Rinsch	01-01-17 to 12-31-17
	Stanley Hobbs	01-01-18 to 12-31-18
Superintendent of Utilities	Kyle Clark	01-01-13 to 08-03-16
	Tim Plummer	08-04-16 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE TOWN OF OAKTOWN, KNOX COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Oaktown (Town), for the period from January 1, 2013 to December 31, 2017. 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 our 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.

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

April 12, 2018

(This page intentionally left blank.)

CLERK-TREASURER  
TOWN OF OAKTOWN

CLERK-TREASURER  
TOWN OF OAKTOWN  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS**

A similar comment appeared in prior Report B42354.

Internal controls over the receipting, recording, and accounting for the financial activities were insufficient:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to the achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Examples of these are: The Clerk-Treasurer prepared receipts without further review of the receipts by another person. The Clerk-Treasurer writes the receipts, posts them to the ledger, and reconciles the bank to the ledger with no oversight.
2. Monitoring of Controls: Effective internal control over Financial Reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council had not performed either an ongoing or separate evaluation of its system of internal controls, which would include the oversight responsibility the Town Council has on expenditures of the Town. Putting complete responsibility of incompatible activities related to Financial Transactions on the Clerk-Treasurer only increased the risk that material misstatements or fraud would not have been prevented, detected or corrected, on a timely basis. The failure to exercise its oversight responsibility placed the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls would prevent or detect material misstatements in a timely manner.

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 OAKTOWN  
AUDIT RESULTS AND COMMENTS  
(Continued)

**OVERDRAWN CASH BALANCES**

A similar comment appeared in prior Report B42354.

The Water Utility-Operating fund was overdrawn by \$17,855 at December 31, 2013, due to problems existing in the years prior to the current audit period. The Water Utility did not have any other overdrawn funds for the remaining 4 years of the audit period.

The Town Blight Elimination Program fund was overdrawn by \$23,752 at December 31, 2017, as a result of the unit's requests for reimbursements to the Indiana Housing and Community Development Authority being denied due to errors on the request for reimbursement forms.

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)

**ANNUAL FINANCIAL REPORT**

The Town of Oaktown did not include the Master Utility Planning Grant fund on the 2017 Annual Financial Report, which resulted in the understatement of receipts, disbursements, and overall cash balance in the amounts of \$30,000, \$26,500, and \$3,500 respectively.

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."

**DEPOSIT OF ACCOUNTABLE ITEMS**

The receipts and deposit slips presented for audit did not show the proper source classification (i.e., cash, check, etc.) of the monies being received and deposited; therefore, it could not determine if deposits were made intact.

Indiana Code 5-13-6-1(c) states in part: ". . . Public funds deposited under this subsection shall be deposited in the same form in which they were received."

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the units. The deposit ticket or attached documentation must provide a detail listing of the deposit, which includes at a minimum, check numbers and corresponding names of the payers. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER  
TOWN OF OAKTOWN  
EXIT CONFERENCE

The contents of this report were discussed on April 12, 2018 with Peggy Blann, Clerk-Treasurer; Stanley Hobbs, President of the Town Council; and Corey Morgan, Town Council member.