

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF THORNTOWN

BOONE COUNTY, INDIANA

January 1, 2013 to December 31, 2017



FILED
11/09/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Tracey Vaughn	01-01-13 to 12-31-15
	John Gillan	01-01-16 to 09-07-18
	Koren Gray	09-08-18 to 12-31-18
President of the Town Council	Larry Truitt	01-01-13 to 12-31-14
	Jeff Woodard	01-01-15 to 12-31-15
	Don E. Johnson	01-01-16 to 12-31-18
Town Court Judge	Donald G. Vaughn	01-01-13 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF THORNTOWN, BOONE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Thorntown (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 opinion on the Town's financial statements. This report may be found at 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

October 3, 2017

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CLERK-TREASURER
TOWN OF THORNTOWN

CLERK-TREASURER
TOWN OF THORNTOWN
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

There were deficiencies in the internal control system for the Town related to financial transactions and reporting. The Town had not separated incompatible activities related to cash and investments, receipts, payroll disbursements, and financial close and reporting. The failure to establish these controls could have enabled material misstatements to remain undetected.

Cash and Investments

When completed, bank reconcilements were performed by the Clerk-Treasurer. There was no evidence of an oversight, review, or approval process by any other official or employee.

Receipts

The Utility Clerk received utility payments/collections, posted customer accounts, prepared the bank deposit, and made the deposit. There was no evidence of an oversight, review, or approval process for the receipt of money.

Payroll Disbursements

The Clerk-Treasurer prepared the payroll and created, signed, and distributed the checks. The Clerk-Treasurer provided the Town Council an overall payroll amount, which did not include any detail, for approval. There was no other evidence of oversight, review, or approval that the payroll amounts were correct.

Financial Close and Reporting

The Annual Financial Report (AFR) was entered into the Indiana Gateway for Government Units financial reporting system by the Clerk-Treasurer. There was no evidence of an oversight, review, or approval process to ensure the financial activity reported was accurate and agreed to the Town's financial ledgers.

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 THORNTOWN
AUDIT RESULTS AND COMMENTS
(Continued)

ANNUAL FINANCIAL REPORT

The AFRs submitted for the years 2014 through 2017 omitted transactions of the Town Court. This resulted in the following understatements of receipts and disbursements:

Years	Receipts	Disbursements
2013	\$ 3,667	\$ -
2014	389,377	402,964
2015	366,529	265,600
2016	345,511	427,318
2017	430,034	433,735

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](#)."

PAYROLL

The following issues related to payroll were identified:

1. Payments were made to employees before they had worked all of the reported days in 100 percent of the payroll checks selected for testing.
2. Compensation and Benefits - Three of ten payroll checks tested were for compensation amounts that did not agree to the salary ordinance adopted by the Town Council.
3. Records of Hours Worked - Three of ten payroll checks tested did not have attendance/time records maintained for salaried and hourly employees, respectively. Seven of ten payroll checks tested were not approved by the appropriate official or department head, nor the fiscal officer.

Compensation and any other payments for goods and services must not be paid in advance of receipt of the goods or services unless specifically authorized by law. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities/Towns, Chapter 1)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities/Towns, Chapter 1)

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

Indiana Code 5-11-9-4(b) states in part:

"The state board of accounts shall require that records be maintained showing which hours are worked each day by officers and employees: . . .

1. employed by more than one (1) public agency or in more than one (1) position by the same public agency . . ."

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form 99A, Employee's Service Record
General Form 99B, Employee's Earnings Record
General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor. (Accounting and Uniform Compliance Guidelines Manual for Cities/Towns, Chapter 1)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

The Clerk-Treasurer certified on the AFRs for 2016 and 2017 that the minimum internal controls standards had been adopted and that training had been provided to employees. However, no evidence was presented for audit that training had been provided. Therefore, the AFRs for 2016 and 2017 were incorrect.

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](#)."

MALFEASANCE, MISFEASANCE, OR NONFEASANCE

A former Clerk-Treasurer added herself to the Utility's health insurance plan without the knowledge or approval of the Town Council. Town officials contacted law enforcement agencies and the Indiana State Police and the Tippecanoe County Prosecutor conducted an investigation. The former Clerk-Treasurer was ordered by the Boone County Circuit Court to pay restitution for the cost of the insurance in the amount of \$15,846. The restitution was paid in full on March 31, 2017.

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any official or employee 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 THORNTOWN
AUDIT RESULTS AND COMMENTS
(Continued)

PENALTIES, INTEREST, AND OTHER CHARGES

During 2016 and 2017, we identified 22 instances where state and federal tax withholdings were not paid in a timely fashion. The Town was assessed and paid penalties and interest totaling \$21,368 to the Internal Revenue Service and the Indiana Department of Revenue. On December 20, 2017, the Clerk-Treasurer personally reimbursed the Town the penalties and interest paid in the amount of \$21,368.

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/Towns, Chapter 1)

OVERDRAWN CASH BALANCES

The financial statements presented for audit included the following funds with overdrawn cash balances:

Fund	Amount Overdrawn 12-31-15	Amount Overdrawn 12-31-16	Amount Overdrawn 12-31-17
OPERATION PULLOVER	\$ 1,134	\$ 2,669	\$ 2,669
WATER UTL DEPRECIATION	-	125,954	103,063
WASTEWATER DEPRECIATION	-	-	89,029

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/Towns, Chapter 1)

BANK ACCOUNT RECONCILIATIONS

Bank reconciliations prepared for the Town were not accurate during 2016 and 2017. Utility and Payroll bank accounts were not reconciled to the ledgers during 2016 and 2017.

An outstanding deposit in the amount of \$4,862 was carried on the Town's bank reconciliation from January 2013 through December 2015. In December 2015, this amount was reduced \$607 to \$4,255, and then was removed entirely in January 2016, without a corresponding deposit in the bank account. Due to the condition of the records and bank reconciliations, it could not be determined if this was an actual outstanding deposit, posting error, or other type of variance.

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."

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

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

UTILITY RECEIPTS TAX

Utility receipt tax payments, which were required to be paid quarterly to the Indiana Department of Revenue, were not noted as having been paid after April 2016.

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/Towns, Chapter 1)

CUSTOMER DEPOSIT REGISTER

The detailed Customer Deposit Register did not reconcile with the fund balance from the Town's ledger. For example, there was a difference with the electric utility Customer Deposit Register balance and the balance of the Electric Utl Meter Dep fund of \$379,178. There were also variances between the water and wastewater Customer Deposit Registers and the corresponding meter deposit funds on the ledgers.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance 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 THORNTOWN
EXIT CONFERENCE

The contents of this report were discussed on October 3, 2018, with Don E. Johnson, President of the Town Council; Mark Garing, Town Council member; Bruce Burtner, Town Council member; Harold Cox, Utility Board member; Donald G. Vaughn, Judge; and Koren Gray, Clerk-Treasurer.

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TOWN COURT
TOWN OF THORNTOWN

TOWN COURT
TOWN OF THORNTOWN
AUDIT RESULT AND COMMENT

REMITTANCE OF COURT COSTS AND FEES

The same comment appeared in prior Report B42806.

In three of the ten items tested, the Town Court did not remit the amount owed to the Town or County monthly. The July 2013 receipts were not remitted until September 2013; the January 2014 receipts were not remitted until March 2014; and the November 2015 receipts were not remitted until January 2016.

In three of the ten items tested, a portion of the receipts that should have been remitted to the County prior to 2014 were instead remitted to the Town. On January 21, 2014, a check for \$156,344 was sent by the Town to the County to correct these errors.

The county's and city's/town's share of court costs, any city/town fines, document fees, administrative fees, facsimile fees, document storage fees, late payment fees, probation fees, credit card service fees, user fees or other items shall be remitted to the city/town fiscal officer on a monthly basis. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 1)

TOWN COURT
TOWN OF THORNTOWN
EXIT CONFERENCE

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TOWN COUNCIL
TOWN OF THORNTOWN

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AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROLS STANDARDS

The Town did not provide training on internal control standards.

Indiana 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

TOWN COUNCIL
TOWN OF THORNTOWN
EXIT CONFERENCE

The contents of this report were discussed on October 3, 2018, with Don E. Johnson, President of the Council; Mark Garing, Town Council member; Bruce Burtner, Town Council member; Harold Cox, Utility Board member; Donald G. Vaughn, Judge; and Koren Gray, Clerk-Treasurer.