

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF MILLTOWN

CRAWFORD COUNTY, INDIANA

January 1, 2015 to December 31, 2018



FILED

11/14/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Susan Mills J. Shelby Young Donna Cox	01-01-12 to 01-31-15 02-01-15 to 12-31-18 01-01-19 to 12-31-22
President of the Town Council	Curt Hudson Monty Garrett	01-01-15 to 12-31-15 01-01-16 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF MILLTOWN, CRAWFORD COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Milltown (Town), for the period from January 1, 2015 to December 31, 2018. 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, 2019

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CLERK-TREASURER
TOWN OF MILLTOWN

CLERK-TREASURER
TOWN OF MILLTOWN
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Context and Condition

There were several deficiencies in the internal control systems for the Town related to cash and investments, receipts, disbursements, and financial close and reporting. The Town had not separated incompatible activities related to all areas of the financial statements.

Cash and Investments

Monthly reconcilements were not performed for or after November 2015. There was also no evidence of an oversight, review, or approval process over the bank reconcilements.

Receipts

The Clerk-Treasurer solely collected receipts at Town Hall or by EFT notification, made the bank deposits, and entered the information into the Keystone financial software program. There was no oversight to ensure receipts were properly recorded or deposited timely. A receipt book was not maintained to issue receipts to customers who made payments at Town Hall.

Disbursements

The Clerk-Treasurer solely prepared and sent out checks or EFT payments in payment of goods or services. Although the Town Council approved the claim dockets, there was not sufficient oversight to ensure that all disbursements were adequately supported and/or correctly and timely recorded in the Town's financial software.

The Town Council approved the claim dockets, which included amounts transferred from various funds to the Payroll fund, as well as lump sum disbursements made from the Payroll fund. The claim dockets did not include sufficient detail of amounts paid to individual employees to ensure that payroll disbursements were recorded and distributed correctly.

Financial Close and Reporting

The Clerk-Treasurer prepared and submitted the Annual Financial Report through the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the financial statements. The Town did not have controls in place, such as an oversight, review, or approval process, to ensure the accuracy of the information prior to submission.

The failure to establish these controls could have enabled material misstatements to go undetected.

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:

CLERK-TREASURER
TOWN OF MILLTOWN
AUDIT RESULTS AND COMMENTS
(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. . . ."

BANK ACCOUNT RECONCILIATIONS

Condition and Context

Depository reconcilements of the fund balances to the bank account balances were not performed from November 2015 through December 2018. During 2019, the Town hired a consultant to help them reconcile. The reconciliation performed by the consultant had reconciling items as of December 31, 2018, totaling \$231,210. However, many of the reconciling items could not be verified to any supporting documentation.

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."

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)

RECEIPT RECORDING

Condition and Context

A similar comment also appeared in prior Report B46057, entitled *DEPOSITS*.

Several receipts were not recorded timely to the Town's records. Receipts posted to the ledger ten or more days after the date of distributions were noted as followed:

2015

- 19 distributions from the County.
- 2 receipts from the Blue River Regional Water District.
- 1 receipt from the Sheriff.

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

2016

- 33 distributions from the County.
- 4 receipts from the Blue River Regional Water District.
- 3 receipts from miscellaneous sources.

2017

- 10 State distributions.
- 35 distributions from the County.
- 4 receipts from the Blue River Regional Water District.
- 4 receipts from miscellaneous sources.

2018

- 22 State distributions.
- 48 distributions from the County.
- 4 receipts from the Blue River Regional Water District.
- 4 receipts from miscellaneous sources.

Criteria

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)

ERRORS ON CLAIMS

Condition and Context

Of the 149 vendor claims and 37 payroll claims that were tested, the following errors were noted:

- 76 claims did not show evidence that the goods or services were received.
- 35 claims were not approved by the fiscal officer.
- 34 claims did not have any supporting documentation.
- 7 claims included a late fee or interest charges.
- 1 claim was for funeral flowers, which is considered personal in nature.

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

- 2 time cards were not signed by the employee's supervisor.
- Payroll claims were not approved by the fiscal officer.

In addition, the Town had a policy for paid time off for full-time employees; however, the Town did not document earned or used leave time.

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:

- (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. . . ."

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 and Towns, Chapter 1)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the unit. Any personal expenses paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Town, Chapter 1)

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

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

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 and Towns, Chapter 1)

PENALTIES, INTEREST, AND OTHER CHARGES

As Clerk-Treasurer, J. Shelby Young was responsible for the correct and timely payment of Town bills and payment of federal, state, and county withholding taxes, and state sales taxes during the audit period.

The Town paid penalties, interest, and other charges during the audit period as follows:

Payee	Penalty	Interest	Other Charges	Total
Indiana Department of Revenue	\$ 1,389	\$ 105	\$ 196	\$ 1,690
Blue River Regional Water District	-	-	200	200
First Savings Bank (for truck payment)	-	-	33	33
Credit Card Services	-	-	30	30
Fastop	-	-	10	10
Frontier	-	-	8	7
Total	\$ 1,389	\$ 105	\$ 477	\$ 1,970

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 and Towns, Chapter 1)

OVERDRAWN CASH BALANCES

Condition and Context

A similar comment also appeared in prior Report B46057, entitled *OVERDRAWN CASH BALANCES*.

The Town's financial statements included the following funds with overdrawn cash balances:

Fund	Amount Overdrawn			
	12-31-15	12-31-16	12-31-17	12-31-18
Trash	\$ -	\$ 1,347	\$ 1,397	\$ 3,554
Building Lease	-	-	-	818
Medical Building	-	-	6,428	6,070
Payroll	56,599	62,427	61,859	91,823

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

Criteria

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)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Town certified on Gateway that all personnel defined by Indiana Code 5-11-1-27(c) had received training concerning internal control standards adopted by the Town; however, no Town personnel had received internal control training.

Context

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](#)."

CLERK-TREASURER
TOWN OF MILLTOWN
EXIT CONFERENCE

The contents of this report were discussed on October 3, 2019 with Donna Cox, Clerk-Treasurer; Jerry Mackey, Town Council member; J. Shelby Young, former Clerk-Treasurer; and Josh Breeding, Town Manager.

TOWN COUNCIL
TOWN OF MILLTOWN

TOWN COUNCIL
TOWN OF MILLTOWN
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

Training on internal control standards and procedures had not been provided to all Town personnel.

Context

Indiana Code 5-11-1-27(g) states:

"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 MILLTOWN
EXIT CONFERENCE

The contents of this report were discussed on October 3, 2019, with Donna Cox, Clerk-Treasurer; Jerry Mackey, Town Council member; J. Shelby Young, former Clerk-Treasurer; and Josh Breeding, Town Manager.