

**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, 2015 to December 31, 2018



**FILED**

12/05/2019



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Linda A. McMahan (Vacant) Rachael Morrow	01-01-12 to 10-16-18 10-17-18 to 12-10-18 12-11-18 to 12-31-19
President of the Town Council	William "Bill" Davis Kelly Land	01-01-15 to 07-31-17 08-01-17 to 12-31-19
Superintendent of Utilities	Joshua Douglas	01-01-15 to 12-31-19



**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, 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/](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

November 7, 2019

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CLERK-TREASURER  
TOWN OF CARTHAGE

CLERK-TREASURER  
TOWN OF CARTHAGE  
AUDIT RESULTS AND COMMENTS

**LATE SUBMISSION OF ANNUAL FINANCIAL REPORT**

A similar comment appeared in the prior Report B46746.

*Condition and Context*

The Town's Annual Financial Reports for 2015, 2016, 2017, and 2018, were not filed electronically until March 24, 2016, April 1, 2017, April 21, 2018, and April 12, 2019, respectively, which was 24, 31, 51, and 42 days past the due date.

*Criteria*

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](#)."

**OVERDRAWN CASH BALANCES**

The same comment also appeared in the prior Report B46746.

*Condition and Context*

The financial statements presented in this report included the following funds with overdrawn cash balances:

<u>Years</u>	<u>Fund</u>	<u>Amount</u> <u>Overdrawn</u>
2015	Payroll Fund	\$ 257,858
2016	Payroll Fund	324,792
2017	Payroll Fund	431,699
2018	Payroll Fund	396,031
2015	Sanitation Fund	7,939
2016	Sanitation Fund	9,855
2017	Sanitation Fund	9,983
2018	Sanitation Fund	17,345
2015	Water Construction	232
2016	Water Construction	232
2017	Water Construction	232
2018	Water Construction	232
2015	Water Operating	7,087
2016	Water Operating	5,150

CLERK-TREASURER  
TOWN OF CARTHAGE  
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)

**INTERNAL CONTROLS**

*Condition and Context*

The Town had not separated incompatible activities, such as an oversight, review, or approval process to prevent, or detect and correct, misstatements within the financial reporting system in relation to cash and investments and receipts. There was a deficiency in the internal control system of the Town related to disbursements.

The Clerk-Treasurer performed the monthly bank reconciliations without any additional oversight. Receipts received via an Electronic Funds Transfer are recorded solely by the Clerk-Treasurer without a segregated review process in place. Additionally, the internal control process over disbursements was not implemented properly.

*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:

"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. . . ."

**PUBLIC RECORDS RETENTION**

*Condition and Context*

The Town's accounting records containing the detail of all receipts and disbursements for the period of July 1, 2017 through November 30, 2017, were not retained and presented for audit.

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

Additionally, Town Board minutes for the following months were not presented for audit: October 2017, June 2018, and August 2018.

*Criteria*

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

1. The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
2. The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

**ERRORS ON CLAIMS**

*Condition and Context*

During the audit period, 51 percent of claims tested were paid without documentation of the approval of the governing board and fiscal officer.

*Criteria*

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. . . ."

CLERK-TREASURER  
TOWN OF CARTHAGE  
EXIT CONFERENCE

The contents of this report were discussed on November 7, 2019, with Rachael Morrow, Clerk-Treasurer, and Charles Watkins, Town Council member.