

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF CLARKSVILLE

CLARK COUNTY, INDIANA

January 1, 2018 to December 31, 2018



FILED
09/25/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Robert P. Leuthart	01-01-18 to 12-31-20
President of the Town Council	Paul Fetter Ryan Ramsey	01-01-18 to 12-31-19 01-01-20 to 12-31-20
Utility Director	Brittany Montgomery	01-01-18 to 12-31-20
Town Manager	Kevin Baity	01-01-18 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF CLARKSVILLE, CLARK COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Clarksville (Town), for the period from January 1, 2018 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 Statement Audit Report of the Town, which provides our opinions on the Town's financial statement. 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

September 21, 2020

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CLERK-TREASURER
TOWN OF CLARKSVILLE

CLERK-TREASURER
TOWN OF CLARKSVILLE
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

A similar comment appeared in the prior Report B52096, entitled *FINDING 2017-001*.

A similar comment also appeared in a Management Letter addressed to the Clerk-Treasurer and Town Council for the audit period ending December 31, 2017.

Condition and Context

There were several deficiencies in the internal control system of the Town related to financial transactions and reporting:

1. There was a lack of segregation of duties related to receipts. One employee was responsible for issuing receipts and recording receipts. There was no oversight or review over the receipts issued to ensure all receipt activity was recorded to the ledger.
2. Controls over the monthly reconciliation of the depository balance to the financial records was not effective. Monthly reconciliations of the Town funds to the depository balances was performed by designated employees, and then reviewed and approved by someone other than the person who prepared the monthly reconciliation; however, reconciling items and variances between the depository balances and the financial records were not being investigated timely. The following items were noted:
 - In May 2017, the Town transferred \$2,472,176 from a money market depository account to a checking account. The Town erroneously recorded a receipt transaction for the amount of the bank transfer resulting in the overstatement of the General fund cash balance reported as of January 1, 2018. The Town reported this erroneous receipt transfer as a reconciling item on their monthly reconciliations from May 2017 until July 2020. Audit adjustments were proposed, accepted by the Town, and made to the financial statement to restate the General fund beginning balance as of January 1, 2018.
 - Some monthly reconciliations indicated variances between the depository balance and the financial records and were carried forwarded each month with no evidence that the variance was being investigated.
3. Controls were not in place to ensure all financial activity of the Town was properly recorded in the financial records in a timely manner. As a result, the following errors were noted:
 - The Town received a loan in the amount of \$544,809 for the purchase of a fire truck. The financial activity associated with the loan proceeds and the corresponding disbursement for the purchase of the fire truck was not recorded in the Town's financial records. Instead, the loan proceeds were disbursed directly by the lending financial institution to the vendor for the purchase price of the fire truck. Audit adjustments were proposed, accepted by the Town, and made to the financial statements.
 - Earnest money of \$50,000 associated with the 2018 Sewage Works Bond Anticipation Note received in November 2018 was not recorded to the financial records until May 2019.

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

- Financial activity associated with the 2016 Parks Revenue Bond - B & I fund for January and June 2018 was not recorded to the records until January 2019. This resulted in the understatement of both receipts and disbursements in the amount of \$392,338.
- Financial activity associated with the Town Court was not recorded timely. Financial activity for 2017 was not recorded until 2018, and parts of 2018 financial activity was not recorded until 2019. As a result, the Town Court's beginning cash balance was overstated by \$111,127; receipts were understated by \$74,183; disbursements were understated by \$43,481; and the ending cash balance was overstated by \$80,425.
- Disbursements made at year end, totaling \$34,068, were not recorded until the end of 2019.
- Interest earned on depository accounts of \$185,212 was not recorded to the records.
- Investment activity for the Town's WW Const Bond fund and SW Bond fund was not properly reported in the Town's financial records. Investment statements received by the Town were not reviewed to ensure interest earned on the investments was properly reported and the investment balance was properly reflected.

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. . . ."

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)

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

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)

CAPITAL ASSETS

A similar comment appeared in a Management Letter addressed to the Clerk-Treasurer and Town Council for the audit period ending December 31, 2017.

Condition and Context

The Town did not have a complete detailed listing of its capital assets. All additions and deletions during the audit period were not properly recorded in the records. Additionally, a physical inventory had not been taken in the past two years.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK TREASURER
TOWN OF CLARKSVILLE
EXIT CONFERENCE

The contents of this report were discussed on September 21, 2020, with Robert P. Leuthart, Clerk-Treasurer; Ryan Ramsey, President of the Town Council; Sherry Lockard, Deputy Clerk-Treasurer; Michael G. Mustain, Town Council member; Brittany Montgomery, Utility Director; and Kevin Baity, Town Manager.