

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, 2019 to December 31, 2019



FILED
01/19/2021

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Internal Controls	6-7
Bank Account Reconciliations	7
MVH Restricted Fund Receipts	7-8
Penalties, Interest, and Other Charges	8
Capital Assets	8-9
Official Response	10-11
Exit Conference	12
Town Council:	
Audit Result and Comment:	
Capital Assets	14
Official Response	15-16
Exit Conference	17

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Donna Cox Alicia A. Lutz	01-01-19 to 12-31-19 01-01-20 to 12-31-20
President of the Town Council	Monty Garrett Jerry Mackey	01-01-19 to 12-31-19 01-01-20 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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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, 2019 to December 31, 2019. 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

December 17, 2020

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CLERK-TREASURER
TOWN OF MILLTOWN

CLERK-TREASURER
TOWN OF MILLTOWN
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

A similar comment also appeared in prior Report B53712, entitled *INTERNAL CONTROLS*.

Condition and Context

There were several deficiencies in the internal control system for the Town related to financial transactions and reporting. The failure to establish effective controls could have enabled material misstatements to occur and remain undetected. The Town had not separated incompatible activities related to the following areas:

Cash and Investments

Monthly reconcilements were not performed for all bank accounts during the audit period. There was no evidence of an oversight, review, or approval process to make sure bank reconcilements were being timely and accurately performed.

Receipts

The Clerk-Treasurer received money at the Town Hall (or EFT notifications), made the deposits, and entered the information into the software system. There was no oversight or review process to ensure receipts were properly recorded or deposited timely.

Disbursements

The Clerk-Treasurer prepared and sent out checks (or EFT payments) for goods or services and posted the transactions to the software system. Although the Town Council approved the claims docket, there was not sufficient oversight to ensure that all disbursements were adequately supported and/or recorded in the Town's financial software timely.

Financial Close and Reporting

The Clerk-Treasurer prepared and submitted the Annual Financial Report through the Indiana Gateway for Government Units 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.

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.

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

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

A similar comment also appeared in prior Report B53712, entitled *BANK ACCOUNT RECONCILIATIONS*.

Condition and Context

Depository reconcilements of the fund balances to the bank account balances were not being performed timely and for all funds and bank accounts during 2019. In 2019, the Town hired a consultant to help them reconcile. The reconcilements performed by the consultant had reconciling items totaling \$93,698 that could not be verified to any supporting documentation. The record balance in the Town funds exceeded the net bank account balances by this same amount from January 2019 up to December 14, 2020.

It was determined that the variance was due to numerous posting errors occurring between November 2015 and December 2018. On December 14, 2020, the Town Council signed a resolution to adjust the January 1, 2019 record balances of certain Town funds, in the amount of \$60,422, to balance the Town's records to its Bank 1 account. On December 16, 2020, the Town Council also approved an adjustment of \$20,938 to the Sewage Utility Operating fund for a posting error that occurred during 2018. As of December 31, 2019, the balance of the Town's Funds Ledger still exceeds the net reconciled bank balance in the amount of \$12,338.

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)

MVH RESTRICTED FUND RECEIPTS

Condition and Context

The Town did not allocate or deposit at least 50 percent of the distribution from the State Motor Vehicle Highway Account (MVH) at the time of the receipt into the MVH - Restricted fund.

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

Criteria

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted. (State Examiner Directive 2018-2)

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 and Towns, Chapter 1)

PENALTIES, INTEREST, AND OTHER CHARGES

A similar comment also appeared in prior Report B53712, entitled *PENALTIES, INTEREST, AND OTHER CHARGES*.

Condition and Context

During the prior audit it was noted that the Town had been assessed penalties and interest from the Internal Revenue Service (IRS) for not properly and timely remitting the Quarterly 941s for the period December 2015 through December 2018. At that time, the current Clerk-Treasurer was attempting to petition the IRS to waive some or all of the amounts assessed. Once denied by the IRS, the Town entered into an Installment Agreement dated December 16, 2019, to pay \$23,940 plus any applicable additional accrued penalties and interest. The Town made a down payment of \$3,000 and is paying monthly installments of \$1,175 starting February 15, 2020, until all amounts are paid in full.

Criteria

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)

CAPITAL ASSETS

Condition and Context

The Town did not provide evidence that a capital asset inventory had been completed at least every two years. The detailed capital asset listing that was provided during the audit had not been updated since 2014.

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

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)

Town Council
Jerry Mackey
Jean Melton
Justin Barnes
Clerk-Treasurer
Alicia Lutz
Town Manager
Josh Breeding
Town Marshal
Jimmie Vincent



Town of Milltown
Milltown, Indiana

Town of Milltown
215 West Main Street
PO Box 127
Milltown, Indiana 47145

Telephone (812) 633-4848
Fax (812) 633-4212

January 14, 2021

Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: Official Response to 2019 Audit Results & Comments

Dear Auditors,

As the Clerk-Treasurer & Council President of the Town of Milltown we would like to make an official response concerning the following issue results of our recent 2019 audit:

- **INTERNAL CONTROLS**

1. *Cash & Investments*

In January of 2019, the Town hired a consultant, Suzy Bass, to assist with problems found and to reconcile all the bank accounts which had not been completed for quite some time. This effort was timely and the 2019 Clerk-Treasurer uploaded January – June reconcilements to the Gateway in September of 2019. I uploaded November & December in March of 2020 after their completion, and it was at that time that it was brought to my attention July – October had not been uploaded. After an extensive search, I found and uploaded said reconcilements to the Gateway.

2020 Process Put in Place: This issue has been rectified by my sending of the bank statements each month to Suzy Bass, which remains contracted by the Town which consists of a one-person office (Clerk-Treasurer), to in-fact complete each monthly reconciliation, both Clerk-Treasurer & consultant sign off on statements, and then Clerk-Treasurer uploads to the gateway in a timely manner.

2. *Receipts*

2020 Process Put in Place: The Clerk-Treasurer receives, posts transactions to software system, and deposits all money. Monthly she prints out a "Detail Revenue Report" for which the Council President reviews all deposits received and signs off on the report. Deposits are also checked by Consultant during reconciliation.

3. *Disbursements*

2020 Process Put in Place: The Clerk-Treasurer prepares and sends out checks and/or EFTs for goods and services along with posting transactions to the software system. Monthly she prints out an "Accounts Payable Register" for which the Council President reviews all payments and signs off on the report. The Council then approves and signs the Claims Docket at each monthly meeting. All checks and/or EFTs are also checked by Consultant during reconciliation.

215 WEST MAIN STREET • MILLTOWN, INDIANA 47145 • OFFICE (812) 633-4848
FAX (812) 633-4212 • TOWN_OF_MILLTOWN@FRONTIER.COM

4. *Financial Close and Reporting*

2020 Process Put in Place: Consultant reviews the AFR along with the Clerk-Treasurer before submission to the Gateway. The Council President will also sign off on the AFR before submission.

- **BANK ACCOUNT RECONCILIATIONS**

Resolution 2020-004 was approved by Council to rectify the \$60, 422.00 variance in the General Fund (Bank 1) for posting errors that occurred from November 2015 – December 2018. The Council also approved an adjustment of \$20,938.00 to the Sewage Utility Operating Fund (Bank 5) for posting errors that occurred during 2018. The variance of \$12,338.00 still existing in the frame will be approached and considered by the Council when funding is available.

- **MVH RESTRICTED FUND RECEIPTS**

Clerk-Treasurer will review all monies received by the Auditor of the State in 2019, review funds that might need to be moved to the Restricted MVH Fund with Consultant, and advise Council of any changes.

2020 Process Put in Place: Upon receipt of MVH funds from the Auditor of the State, the Clerk-Treasurer deposits 50% in the MVH Restricted Fund and 50% in the MVH Fund according to state guidelines.

- **PENALTIES, INTEREST, AND OTHER CHARGES**

Concerning said issue, the Town is paying monthly installments of \$1,175.00 until balance is paid in full. All state, federal and unemployment (payroll) taxes are now paid monthly before deadline according to state guidelines.

- **CAPITAL ASSETS**

2020 Process Put in Place: The Town Manager is currently working on an updated Capital Asset inventory and inventory will be updated every two years according to state guidelines.

We appreciate your time and consideration in adding our comments to the 2019 Audit Report.

Sincerely,



Alicia A. Lutz
Clerk-Treasurer



Jerry Mackey
Council President

/aal

cc: Jeanie Melton, Council Vice-President
Justin Barnes, Council Member
Josh Breeding, Town Manager
David Hutson, Town Attorney

CLERK-TREASURER
TOWN OF MILLTOWN
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2020, with Alicia A. Lutz, Clerk-Treasurer, and Jerry Mackey, President of the Town Council.

TOWN COUNCIL
TOWN OF MILLTOWN

TOWN COUNCIL
TOWN OF MILLTOWN
AUDIT RESULT AND COMMENT

CAPITAL ASSETS

Condition and Context

The Town did not provide a formal capital asset policy and evidence that a capital asset inventory had been completed at least every two years. A detailed capital asset listing was provided but had not been updated since 2014.

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)

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