

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, 2018 to December 31, 2019



FILED
07/15/2021

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
Penalties, Interest, and Other Charges.....	8
Errors on Claims	8-9
Capital Assets	9
Official Bond	9-11
Insurance	11
Official Response.....	12
Exit Conference	13
Summary of Charges	14
Affidavit	15

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	John Gillan	01-01-18 to 09-07-18
	Koren Gray (interim)	09-08-18 to 12-31-18
	Mikada Davis	01-01-19 to 06-16-19
	Koren Gray	06-17-19 to 12-31-21
President of the Town Council	Don E. Johnson	01-01-18 to 12-31-18
	Koren Gray	01-01-19 to 06-16-19
	Mark Garing	06-17-19 to 12-31-19
	Bruce Burtner	01-01-20 to 12-31-21
Town Court Judge	Donald G. Vaughn	01-01-18 to 12-31-21



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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, 2018 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

May 20, 2021

(This page intentionally left blank.)

CLERK-TREASURER
TOWN OF THORNTOWN

CLERK-TREASURER
TOWN OF THORNTOWN
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

The same comment also appeared in prior Report B51250.

Condition and Context

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 internal controls could have enabled material misstatements to remain undetected.

Cash and Investments

The internal controls related to preparation, oversight, and review of the bank reconcilements were not properly established and implemented. Bank reconcilements for the Town for calendar year 2018 were not presented for audit. Bank reconcilements for calendar year 2019 were not consistently completed and reviewed timely.

Receipts

Segregation of duties related to the receipting process were not properly established for monies remitted directly to the Clerk-Treasurer or directly to the Town's bank accounts. The Clerk-Treasurer was responsible for posting various receipt types without evidence of oversight or review of the receipt posting. Audit testing found receipts written in 2018 were posted to the wrong fund or posted twice.

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.

Payroll Disbursements

Internal controls related to oversight and review of the payroll function were not established for a portion of the audit period. During the initial part of the audit period, the Clerk-Treasurer was responsible for processing payroll without oversight and review of the employee gross pay amounts. Internal controls were established starting with the July 26, 2019 pay date. The July 26, 2019 and later payroll claims were included on the Allowance of Claims Voucher register and reviewed by the Town Board.

The Town had not properly established or documented internal controls related to the Risk Assessment, Information and Communication, and Monitoring components of internal control.

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

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:

"Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. Each identified risk is evaluated in terms of its impact and likelihood of occurrence. Overall, risk assessment is the basis for determining how risk will be managed. . . .

Management identifies risks to the achievement of the political subdivision's objectives across the unit as a whole and within each office or department. Analysis of risk through determination of objective measures and variance tolerance is the basis for determining how the risks should be managed. The response to risk is selected: acceptance, avoidance, reduction, or sharing. . . .

Internal control is a process, and part of that process is the responsibility for management to be continually aware of changes, both external and internal, that could affect the achievement of the political subdivision's objectives. Those changes should be analyzed for both their immediate effect and for any future impact. Management would then determine any modifications needed in the internal control process to adapt to these changes."

"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. . . ."

"Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information. Internal communication enables personnel to receive a clear message that control responsibilities are taken seriously by the organization. External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . ."

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

PENALTIES, INTEREST, AND OTHER CHARGES

The same comment also appeared in prior Report B51250.

Condition and Context

During the audit period, the Town paid \$1,576.77 in penalties and interest to the Indiana Department of Revenue (IDOR) for late payments and reporting errors of utility sales tax, along with \$5,939.36 in penalties and interest to the IDOR for late payments of utility receipts tax. The Town also paid \$19,968.69 in penalties and interest to the Internal Revenue Service for federal withholding taxes remitted late. Additionally, the Town paid a penalty of \$1,000 to INPRS for late payment and reporting of retirement fund contributions.

Of the penalties and interest charges paid relating to utility sales taxes, \$5,939.36 were incurred prior to the audit period in 2016 and 2017.

Of the penalties and interest charges paid relating to federal withholding taxes, \$15,935.92 were incurred prior to the audit period in 2016 and 2017.

During the time frame in which John Gillan served as Clerk-Treasurer, January 1, 2016 to September 7, 2018, the penalties and interest incurred was \$22,735.01. (See Summary of Charges, page 15)

During the time frame in which Mikala Davis served as Clerk-Treasurer, January 1, 2019 to June 16, 2019, the penalties and interest incurred was \$1,717.04. During the time frame in which Koren Gray served as interim Clerk-Treasurer and Clerk-Treasurer, September 8, 2018 to December 31, 2018, and June 17, 2019 to current date, the penalties and interest incurred was \$4,032.77.

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)

ERRORS ON CLAIMS

Condition and Context

From a sample of 149 vendor claims audited, 11 claims had no supporting documentation, such as an invoice, etc., and no evidence of Town Council approval. An additional 22 claims were also not approved by the Town Council.

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.

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

(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. . . ."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation 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 a formal capital asset policy, a detailed listing of capital assets, or evidence that a capital asset inventory had been completed at least every two years.

The Town approved a threshold of \$5,000 for capitalizing assets at the December 30, 2019 Town Council meeting, but the threshold has not been documented in a formal capital asset policy.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the applicable Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

OFFICIAL BOND

Condition and Context

No official bonds covering the term of the former Clerk-Treasurer John Gillan, January 1, 2016 to September 7, 2018, were provided by the Town for inspection.

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

Criteria

Indiana Code 5-4-1-18 states in part:

"(a) Except as provided in subsections (b), (c), and (d), the following individuals shall file and maintain in place an individual surety bond during each year that the individual serves as an officer, employee, or contractor: . . .

(2) Town judges and clerk-treasurers. . . .

(b) The fiscal body of a city, town, county, or township may by ordinance authorize the purchase of a blanket bond that:

(1) is endorsed to include faithful performance to cover the faithful performance of; and

(2) includes aggregate coverage sufficient to provide coverage amounts specified for;

all employees, commission members, and persons acting on behalf of the local government unit, including the officers, employees, and contractors described in subsection (a) who are required to file a bond under this chapter.

(c) The fiscal body of a city, town, or county may by ordinance of the fiscal body of a township may be resolution authorize the purchase of a name or position schedule bond that:

(1) names each individual or each position covered under the schedule bond;

(2) is endorsed to include faithful performance to cover the faithful performance of all officers, employees, and contractors described in subsection (a) who are required to file a bond under this chapter; and

(3) includes aggregate coverage sufficient to provide coverage amounts specified for all officers, employees, and contractors described in subsection (a) who are required to file a bond under this chapter.

(d) The fiscal body of a city, town, county, or township may by ordinance (or for a township, by resolution) authorize the purchase of a crime insurance policy that:

(1) provides coverage for criminal acts or omissions committed by;

(2) is endorsed to include the faithful performance to cover the faithful performance of; and

(3) includes aggregate coverage sufficient to provide coverage amounts specified for;

all officers, employees, contactors, commission members, and persons acting on behalf of the local government unit and required to file a bond under this chapter. For the sole purpose of recovering public funds on behalf of a local government unit, the state is considered to be an additional name insured on all crime insurance policies and endorsements obtained under this subsection.

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

(e) Except as provided in subsections (k) and (l), the fiscal bodies of the respective units shall fix the amount of the bond of city controllers, city clerk-treasurers, town clerk-treasurers, Barrett Law fund custodians, county treasurers, county sheriffs, circuit court clerks, township trustees, and conservancy district financial clerks as follows:

- (1) The amount must equal thirty thousand dollars (\$30,000) for each one million dollars (\$1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2).
- (2) The amount may not be less than thirty thousand dollars (\$30,000) nor more than three hundred thousand dollars (\$300,000) unless the fiscal body approves a greater amount for the officer or employee. . . ."

INSURANCE

The following is information regarding liability insurance for errors and omissions obtained by the Town:

Term	Amount of Coverage
05-28-16 to 05-28-17	\$ 1,000,000
05-28-17 to 05-28-18	1,000,000
05-28-18 to 05-28-19	1,000,000



Thorntown Indiana

Town of Thorntown 1830

"A Good Town in a Good County & State"

Municipal Water Plant 1909

May 27, 2021

State Board of Accounts
302 West Washington Street, Room E 418
Indianapolis, IN 46204-2765

Re: OFFICIAL RESPONSE

To Whom It May Concern:

I am responding to findings in the 2018-2019 Audit of the Town of Thorntown. I was not the elected Clerk/Treasurer during some of this period. Our Clerk/Treasurer elected to take office January 1, 2016, resigned in August 2018. I resigned from our Town Council and the Council appointed me to finish the year doing CT duties. During these months from September 2018 – December 2018, I tried as best as I could to get credentials to enter PERF on the automated system. I was also working a full time job during the day. I was never able to get the proper credentials. I have learned that a penalty of \$1000 to INPRS was incurred because of this situation. I have also learned during my interim time as Clerk/Treasurer in 2018, there were penalties incurred which I believe originated with the issues from 2016-2017.

We had a new Clerk/Treasurer elected for January 1, 2019, and I was re-elected back to the Town Council. By mid-May 2019 the elected CT decided the position wasn't for her. Effective June 17, 2019 the Council voted to appoint me to fulfil the CT position until December 31, 2022. Again, I resigned from the Town Council.

During the period January 1, 2016 – June 2019, the bookkeeping was a mess. Bank statements had not been processed for reconciliation. The Internal Controls procedures had not been prepared among many other duties of the Clerk/Treasurer. I am currently working on the Internal Controls process. It has been a slow process but with the help of our software company and a consultant we have gotten the books in order and have maintained balance during the year 2020 and to present. We have taken care of the issues causing penalties with the IRS.

The Utility Clerk and I have a system where proper documentation is attached to all utility deposits showing the payments for the daily deposit. Documentation is attached to the APVs for payroll. A Voucher Register is prepared for the Council now and they also have the availability to review each claim. Files are neatly organized and readily available. The 2016-2017 audits could not be completed properly due to lack of information.

Other items mentioned in our exit conference are being taken seriously and will be properly handled in the future.

Respectfully,


Koren Gray, Clerk/Treasurer

CLERK-TREASURER
TOWN OF THORNTOWN
EXIT CONFERENCE

The contents of this report were discussed on May 20, 2021, with Koren Gray, Clerk-Treasurer; Bruce Burtner, President of the Town Council; Donald G. Vaughn, Town Court Judge; and Sandy Gates, Utility Clerk.

TOWN OF THORNTOWN
SUMMARY OF CHARGES
(Due to Malfeasance, Misfeasance, or Nonfeasance)

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
John Gillan, former Clerk-Treasurer:			
Penalties, Interest, and Other Charges page 8	\$ 22,735.01	\$ -	\$ 22,735.01
Totals	<u>\$ 22,735.01</u>	<u>\$ -</u>	<u>\$ 22,735.01</u>

This report was forwarded to the Office of the Indiana Attorney General.

AFFIDAVIT

STATE OF INDIANA)
Boone COUNTY)

We, Eric Smith, CPA and Brett Johnson, CPA, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the Town of Thorntown, Boone County, Indiana, for the period from January 1, 2018 to December 31, 2019, is true and correct to the best of our knowledge and belief.

Brett Johnson
Field Examiner

Eric Smith
Field Examiner

Subscribed and sworn to before me this 17 day of June, 2021

Theresa A. Nichols
Notary Public

My Commission Expires: Dec 07, 2023

County of Residence: Marion

