

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF FRANKTON

MADISON COUNTY, INDIANA

January 1, 2019 to December 31, 2020



**FILED**  
10/08/2021



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jerry Ehman	01-01-19 to 12-31-21
President of the Town Council	Katherine Hudson Victoria J. Hart	01-01-19 to 12-31-19 01-01-20 to 12-31-21



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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TO: THE OFFICIALS OF THE TOWN OF FRANKTON, MADISON COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Frankton (Town), for the period from January 1, 2019 to December 31, 2020. 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/](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

September 22, 2021

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CLERK-TREASURER  
TOWN OF FRANKTON

CLERK-TREASURER  
TOWN OF FRANKTON  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS**

*Condition and Context*

*Cash and Investments*

Monthly bank reconcilements were completed by the Clerk-Treasurer without oversight or review.

*Payroll Disbursements*

The entire payroll process is handled by the Clerk-Treasurer without oversight or review. There is no review of time cards by an individual that would be knowledgeable of the employee's time worked. In addition, there is no review of the payroll transactions after payroll has been processed by the Clerk-Treasurer.

*Financial Close and Reporting*

The Clerk-Treasurer completed annual close-out procedures and entered the Town's financial information into the Indiana Gateway for Government Units financial reporting system, which is the source of the financial statement, without oversight or review. The following errors were noted in the financial statement presented for audit:

- The General Fund beginning balance was overstated by \$20,000 in 2019.
- The Motor Vehicle Highway fund beginning balance was overstated by \$20,000 in 2019.
- The Rainy Day Fund beginning balance was overstated by \$7,000 in 2019.
- The Electric Meter Deposit fund beginning balance was overstated by \$42,000 in 2019.
- The Water Meter Deposits fund beginning balance was overstated by \$18,000 in 2019.
- The Sewage - BAN Construction fund receipts were understated by \$408 in 2020.
- The Sewage - BAN Construction fund disbursements were overstated by \$6,396 in 2020.
- The CARES ACT Fund receipts and disbursements were understated by \$59,274 in 2020.

Adjustments were proposed, approved by the Town, and made to the financial statement.

*Information and Communication*

The Town established internal controls over information and communication regarding internal controls; however, the internal controls were not effective. The Town Council approved Ordinance 103-16 adopting Internal Control Standards that implemented requirements for annual internal controls training of all personnel whose official duties included receiving, processing, depositing, disbursing, or otherwise having access to funds. In addition, the ordinance authorized the fiscal committee to notify such personnel; however, the required internal controls training was not completed by the Town's Clerk-Treasurer.

CLERK-TREASURER  
TOWN OF FRANKTON  
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:

"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 5-11-1-4(a) states:

"The state examiner shall require from every audited entity 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](#)."

***MVH - RESTRICTED FUND***

*Condition and Context*

Effective January 1, 2019, State Examiner Directive 2018-2 established that 50 percent of state Motor Vehicle Highway (MVH) distributions shall be maintained in an MVH - Restricted fund to be allocated for construction, reconstruction, and preservation of the Town's highways. The Town did not receipt 50 percent of the 2019 MVH Distribution into the MVH - Restricted fund as required.

*Criteria*

The purpose of this Directive is to authorize and require . . . cities, and towns that receive distributions from the State Motor Vehicle Highway Account to create a new sub-fund within the MVH Fund to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018.

On the chart of accounts, the MVH Fund and MVH - Restricted sub-fund shall be shown as follows:

...

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

Cities and Towns

Fund 201 MVH  
Fund 203 MVH Restricted

Together, MVH and MVH Restricted shall constitute the total MVH Fund. MVH and MVH Restricted will be shown separately on the Annual Financial Report . . .

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)

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

**TRAINING AND CERTIFICATION ON INTERNAL CONTROLS**

*Condition and Context*

For the years 2019 and 2020, the Clerk-Treasurer had not completed the required internal control training. In addition, the Clerk-Treasurer incorrectly certified on the Indiana Gateway for Government Units financial reporting system that the Town employees had completed the training over the minimum internal controls standards.

*Criteria*

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

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity 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 FRANKTON  
AUDIT RESULTS AND COMMENTS  
(Continued)

**CAPITAL ASSETS**

*Condition and Context*

The Town did not have a capital assets policy that detailed the threshold at which an item is considered a capital asset, did not have a complete detailed listing of all capital assets owned which reflected their acquisition value, and had not performed a complete physical inventory at least every two years to verify account balances carried in the accounting records.

*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 FRANKTON  
EXIT CONFERENCE

The contents of this report were discussed on September 22, 2021, with Jerry Ehman, Clerk-Treasurer, and Victoria J. Hart, President of the Town Council.

TOWN COUNCIL  
TOWN OF FRANKTON

TOWN COUNCIL  
TOWN OF FRANKTON  
AUDIT RESULT AND COMMENT

**CAPITAL ASSETS**

*Condition and Context*

The Town did not have a capital assets policy that detailed the threshold at which an item is considered a capital asset, did not have a complete detailed listing of all capital assets owned which reflected their acquisition value, and had not performed a complete physical inventory at least every two years to verify account balances carried in the accounting records.

*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  
TOWN OF FRANKTON  
EXIT CONFERENCE

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