

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF NORTH SALEM

HENDRICKS COUNTY, INDIANA

January 1, 2019 to December 31, 2020



**FILED**

12/15/2021



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Beth Russell	01-01-19 to 12-31-21
President of the Town Council	Rebecca A. Fancher	01-01-19 to 12-31-21



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF NORTH SALEM, HENDRICKS COUNTY, INDIANA

This report is supplemental to our audit report of the Town of North Salem (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

December 10, 2021

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CLERK-TREASURER  
TOWN OF NORTH SALEM

CLERK-TREASURER  
TOWN OF NORTH SALEM  
AUDIT RESULTS AND COMMENTS

**ORDINANCES AND RESOLUTIONS - DEPUTY CLERK-TREASURER SALARY**

*Condition and Context*

The 2020 Salary Ordinance (Ordinance) states that all employees are salaried; however, the Deputy Clerk-Treasurer was paid based on an hourly rate. This resulted in the Deputy Clerk-Treasurer being paid \$3,731 less than the amount approved in the Ordinance.

*Criteria*

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**INTERNAL CONTROLS**

A similar comment also appeared in the prior Report B53082, entitled *FINANCIAL TRANSACTIONS AND REPORTING*.

*Condition and Context*

There were deficiencies in the internal control system of the Town related to financial transactions and reporting for cash and investments, payroll, and financial close and reporting.

*Cash and Investments*

The Clerk-Treasurer and Deputy Clerk-Treasurer completed the monthly bank reconciliations together. There was no system of internal controls, such as an oversight, review, or approval process, to ensure the accuracy of the bank reconciliations.

*Payroll*

The Clerk-Treasurer processed payroll, posted payroll, and issued weekly payroll checks. There was no system of internal controls, such as an oversight, review, or approval process, to ensure the accuracy of the information processed.

*Financial Close and Reporting*

The Clerk-Treasurer compiled and submitted the Annual Financial Report in the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the financial statement. There was no system of internal controls, such as an oversight, review, or approval process, to ensure the accuracy of the information submitted and reported. The lack of internal controls over financial close and reporting resulted in a material amount of funds being omitted from the Annual Financial Report and the financial statement.

Audit adjustments were proposed, accepted by the Town, and made to the financial statement.

CLERK-TREASURER  
TOWN OF NORTH SALEM  
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](#)."

**ADVANCE PAYMENTS**

This same comment appeared in a Management Letter addressed to the Officials of the Town of North Salem, for the audit period ending December 31, 2018.

*Condition and Context*

All payroll claims tested during the audit period were paid in advance. The payroll checks are dated on a Friday for the pay period ending on the same Friday.

*Criteria*

Compensation and any other payments for goods and services must not be paid in advance of receipt of the goods or services unless specifically authorized by law. Payments made for goods or services which are not received 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 NORTH SALEM  
AUDIT RESULTS AND COMMENTS  
(Continued)

**MOTOR VEHICLE HIGHWAY (MVH) AND MVH RESTRICTED FUND COMPLIANCE**

*Condition and Context*

The Town did not report the MVH and MVH Restricted funds separately on the Annual Financial Report submitted in the Indiana Gateway for Government Units financial reporting system.

*Criteria*

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

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. (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)

**CUSTOMER DEPOSIT REGISTER**

This same comment appeared in a Management Letter addressed to the Officials of the Town of North Salem, for the audit period ending December 31, 2018.

*Condition and Context*

The detailed customer deposit register did not reconcile with the customer deposit amount recorded on the general ledger.

*Criteria*

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

**PERSONAL EXPENSES**

*Condition and Context*

The Town purchased memberships to Costco and Sam's Club in 2019 and 2020. There were no purchases made by the Town from Costco or Sam's Club during these years to justify the need for these memberships. The memberships were for the Clerk-Treasurer, Town Board member, Town Marshal, and a person who was not employed by the Town. This individual was to repay their portion of the membership to the Town; however, it was found that the repayment was not made for 2019. This individual was made aware of the situation and repaid the Town before conclusion of this audit.

*Criteria*

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the unit. Any personal expenses 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)

CLERK-TREASURER  
TOWN OF NORTH SALEM  
EXIT CONFERENCE

The contents of this report were discussed on December 10, 2021, with Beth Russell, Clerk-Treasurer, and Rebecca A. Fancher, President of the Town Council.