

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF FRANKFORT

CLINTON COUNTY, INDIANA

January 1, 2020 to December 31, 2021



FILED
09/30/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Judith Sheets Wanda Mitchell (interim) Carol Bartley	01-01-20 to 03-01-20 03-02-20 to 03-15-20 03-16-20 to 12-31-22
Mayor	Chris McBarnes Judith Sheets	01-01-20 to 03-01-20 03-02-20 to 12-31-22
President of the Board of Public Works and Safety	Chris McBarnes Judith Sheets	01-01-20 to 03-01-20 03-02-20 to 12-31-22
President Pro Tempore of the Common Council	Eric Woods	01-01-20 to 12-31-22
City Court Judge	Matthew Beardsley	01-01-20 to 12-31-22
President of the Utility Service Board	Michael Kelly Kent Brewer	01-01-20 to 12-31-21 01-01-22 to 12-31-22
General Manager of Utilities	Todd Corrie	01-01-20 to 12-31-22
Utility Office Manager	Stacy Uitts	01-01-20 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE CITY OF FRANKFORT, CLINTON COUNTY, INDIANA

This report is supplemental to our audit report of the City of Frankfort (City), for the period from January 1, 2020 to December 31, 2021. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement Audit Report of the City, which provides our opinions on the City'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.

Beth Kelley, CPA, CFE
Deputy State Examiner

September 13, 2022

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CLERK-TREASURER
CITY OF FRANKFORT

CLERK-TREASURER
CITY OF FRANKFORT
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING - BANK OF NEW YORK

Condition and Context

The City did not have internal controls in place for cash, receipts, disbursements, and financial close and reporting regarding the Bank of New York (BNY) activity.

Due to the lack of internal controls over the BNY transactions the following errors were identified:

1. In 2020, receipts, disbursements, and ending cash balances related to three BNY Wastewater funds were not recorded in the financial ledger or reported in the Annual Financial Report (AFR), which was used to generate the financial statement. Therefore, the AFR and financial statement receipts were understated by \$26,665,907, disbursements were understated by \$9,140,399, and the ending cash and investments balance was understated by \$17,525,508.
2. In 2021, the City recorded a receipt in the financial ledger and the AFR for \$17,525,508 to add the beginning cash balances for the accounts mentioned above. This overstated receipts for 2021 by \$17,525,508.
3. In December 2021, the City failed to record two disbursements for the BNY Water Construction fund in the financial ledger and the AFR. Therefore, disbursements were understated by \$377,307, and the ending cash and investments balance was overstated by \$377,307.

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

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. . . ."

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)

CLERK-TREASURER
CITY OF FRANKFORT
AUDIT RESULTS AND COMMENTS
(Continued)

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](#)."

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)

FUND SOURCES AND USES

Condition and Context

Some receipts were not receipted into the appropriate funds. The following errors were identified:

1. A Local Road and Street fund state distribution received in April 2021 in the amount of \$7,926 was receipted to the MVH Restricted Fund.
2. A Motor Vehicle Highway fund local distribution received in December 2020 in the amount of \$23,544 was posted to the Police Pension #1 fund.
3. There was a Riverboat fund established in the financial software system; however, the Riverboat local distributions, in the amounts of \$65,060 and \$32,223 received in August 2020 and October 2020, respectively, were receipted to the General fund instead of the Riverboat fund.
4. The Cumulative Fire fund local distribution received in May 2021 in the amount of \$135 was receipted to the Cumulative Capital Development fund.
5. The Cumulative Capital Development fund local distribution amount received in May 2021 in the amount of \$551 was receipted to the Cumulative Fire fund.
6. The Cumulative Fire fund local distribution amount received in December 2021 in the amount of \$242 was receipted to the Cumulative Capital Development fund.
7. The Cumulative Capital Development fund local distribution amount received in December 2021 in the amount of \$985 was receipted to the Cumulative Fire fund.
8. The LIT Economic Development local distribution amount received in August 2021, in the amount of \$58,262, was receipted to the LIT Public Safety fund instead of the Economic Development Income Tax fund.
9. There was a Riverboat fund established in the financial software system; however, the Riverboat local distributions, in the amounts of \$64,961 and \$32,207 received in August 2021 and September 2021, respectively, were receipted to the General fund instead of the Riverboat fund.

CLERK-TREASURER
CITY OF FRANKFORT
AUDIT RESULTS AND COMMENTS
(Continued)

10. The LIT Certified Shares local distribution amount received in December 2021 in the amount of \$227,016 was receipted to the General fund in the amount of \$33,016 and the Motor Vehicle Highway fund in the amount of \$194,000. However, the entire amount of \$227,016 should have been receipted to the General fund.

Criteria

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TIMELY RECORDING AND DEPOSITS

Condition and Context

The City did not have adequate controls in place for receipts to ensure that all receipts received from the City Court were posted promptly in the financial ledger and deposited in a timely manner.

The Clerk-Treasurer was not receipting and depositing monies received from the City Court.

There were 8 checks written in 2020 to the Clerk-Treasurer, totaling \$17,285, for the monthly collections received by the City Court that were in the possession of the Clerk-Treasurer that had not been posted into the records or deposited. Additionally, there was a check issued by the City Court to the Clerk-Treasurer in January 2020 for \$2,359 that was not in the possession of the Clerk-Treasurer and had not been receipted or deposited in the bank.

There were 14 checks written in 2021 to the Clerk-Treasurer, totaling \$42,314, for the monthly collections received by the City Court that were in the possession of the Clerk-Treasurer that had not been posted into the records or deposited in the bank.

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:

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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. . . ."

CLERK-TREASURER
CITY OF FRANKFORT
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)

Indiana Code 5-13-6-1(d) states in part:

"Except as provided in subsection (g), a city . . . or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories:

- (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and
- (2) approved as depositories of state funds."

SUPPLEMENTAL SCHEDULES IN ANNUAL FINANCIAL REPORT

Condition and Context

The supplemental schedules in the Annual Financial Report (AFR), as reported on the Indiana Gateway for Government Units financial reporting system, contained various errors.

The City did not properly classify any Debt Service disbursements or Utility Operating disbursements for 2020 on the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances.

The City did not accurately report receivables for the utilities on the Schedule of Payables and Receivables. The total amount of \$3,064,940 was omitted as of December 31, 2021. Adjustments were proposed, accepted by the City, and made to the schedule.

The City did not accurately report capital assets for the utilities on the Schedule of Capital Assets. The total amount of \$8,112,755 was omitted as of December 31, 2021. Adjustments were proposed, accepted by the City, and made to the schedule.

The City did not accurately report annual lease payments, ending principal balances, and principal and interest due within one year on the Schedule of Leases and Debt. The total amount of \$365,000 was over reported for two leases. There were two bonds that were omitted as of December 31, 2021, with a total ending principal balance of \$13,630,000, and a principal and interest due within one year amount of \$280,985. The ending principal and interest due within one year amount for three bonds was overstated in the amount of \$1,492,762. Adjustments were proposed, accepted by the City, and made to the schedule.

Additionally, the City did not properly report federal grant information in the AFR submission. The City reported \$300,000 on the grant schedule for 2020 for the Donaldson Grant. However, that was not a federal grant. There was also \$65,882 in federal grants that were not reported on the grant schedule. Additionally, grant information was not uploaded for 2021. However, there should have been \$253,565 in federal grants reported on the grant schedule for 2021.

CLERK-TREASURER
CITY OF FRANKFORT
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

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](#)."



City of Frankfort

Carol J. Bartley
CLERK-TREASURER

301 E. Clinton St. • Frankfort, IN 46041-1955

OFFICIAL RESPONSE

9/20/2022

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

Re:

FINANCIAL TRANSACTIONS AND REPORTING – BANK OF NEW YORK

1. *The Bank of New York financial information was added to the City's accounting system in January of 2021. This caused the 2020 receipts and disbursements to be understated and overstated respectively.*
2. *In 2021, the City added the 2020 Bank of New York financial information which created overstated receipts.*
3. *In January of 2022 the City added 2 BNY disbursements which occurred in December 2021. This created understated disbursement and an overstated cash balance for 2021.*

In January of 2021, the City realized that we did not have the proper controls in place for the BNY accounts. In January 2021 we remedied this issue by having adding the bank information as well as adding a process for reviewing the receipts and disbursements for this bank account. Because this error was found in 2021, it affected both 2020 and 2021 as described in items 1 and 2.

Item 3 was an oversight which also affected two separate accounting years due to it occurring in December 2021 and being corrected in January 2022. We have adjusted our control process by adding a third layer of review.

Carol J. Bartley
Clerk Treasurer, City of Frankfort

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Email: cbartley@frankfort-in.gov



City of Frankfort

Carol J. Bartley
CLERK-TREASURER

301 E. Clinton St. • Frankfort, IN 46041-1955

OFFICIAL RESPONSE

9/20/2022

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

Re:
FUND SOURCES AND USES

The Clerk Treasurer's office had used pre-written templates for entry of these types of receipts. The fund receipts as described in the report are verified to these existing receipt templates as a reference. These templates were in use for the last few years, but contained incorrect receipting information. They have been updated to the correct funds as of September 2022. These receipts were previously completed by one employee, but will now be reviewed by a second party as an additional control.

Carol J. Bartley
Clerk Treasurer, City of Frankfort

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City of Frankfort

Carol J. Bartley
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301 E. Clinton St. • Frankfort, IN 46041-1955

OFFICIAL RESPONSE

9/20/2022

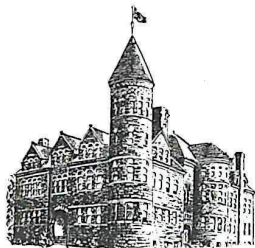
Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re:
TIMELY RECORDING AND DEPOSITS

The City of Frankfort Court processes were not reviewed upon the beginning of my tenure as the Clerk Treasurer beginning in March 2020. The previous court system had been in place for several years. I have carefully reviewed the entire process and have implemented an updated routine with firm deadlines and oversight by a second employee to ensure that these monthly disbursements and receipts occur in a timely manner.

Carol J. Bartley
Clerk Treasurer, City of Frankfort

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City of Frankfort

Carol J. Bartley
CLERK-TREASURER

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9/20/2022

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

Re:
SUPPLEMENTAL SCHEDULES IN ANNUAL FINANCIAL REPORT

The City of Frankfort has (for several years) used a third party financial accounting firm to complete the Annual Financial Report. As a new Clerk Treasurer in March 2020, my office relied on this firm to correctly complete the AFR Report for 2020 and 2021. I will now be the lead person to complete this report to ensure these types of errors will not reoccur.

Carol J. Bartley
Clerk Treasurer, City of Frankfort

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CLERK-TREASURER
CITY OF FRANKFORT
EXIT CONFERENCE

The contents of this report were discussed on September 13, 2022, with Carol Bartley, Clerk-Treasurer; Judith Sheets, Mayor; Eric Woods, President Pro Tempore of the Common Council; Kent Brewer, President of the Utility Service Board; Todd Corrie, General Manager of Utilities; and Matthew Beardsley, City Court Judge.

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CITY COURT
CITY OF FRANKFORT

CITY COURT
CITY OF FRANKFORT
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Condition and Context

The City Court did not have internal controls in place over cash to ensure that the bank reconciliations were completed monthly.

Bank reconciliations for the City Court bank account were not performed for any month of the audit period.

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:

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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."

CITY COURT
CITY OF FRANKFORT
AUDIT RESULTS AND COMMENTS
(Continued)

MONTHLY DISTRIBUTIONS OF COURT FEES

Condition and Context

The City Court did not always remit the monthly disbursements to the Clerk-Treasurer and the Clinton County Treasurer in a timely manner. Disbursements for the months of March to December 2020, July to October 2021, and December 2021 were remitted up to five months after the month collected.

Criteria

Indiana Code 33-37-7-8 states in part:

". . . (e) The clerk of a city or town court shall distribute monthly to the county auditor the following:

- (1) Seventy-five percent (75%) of the drug abuse, prosecution, interdiction, and correction fees collected under [IC 33-37-4-1\(b\)\(5\)](#).
- (2) Seventy-five percent (75%) of the alcohol and drug countermeasures fees collected under [IC 33-37-4-1\(b\)\(6\)](#), [IC 33-37-4-2\(b\)\(4\)](#), and [IC 33-37-4-3\(b\)\(5\)](#). . . .

(f) The clerk of a city or town court shall distribute monthly to the city or town fiscal officer (as defined in [IC 36-1-2-7](#)) one hundred percent (100%) of the following:

- (1) The late payment fees collected under [IC 33-37-5-22](#).
- (2) The small claims service fee collected under [IC 33-37-4-6\(a\)\(1\)\(B\)](#) or [IC 33-37-4-6\(a\)\(2\)](#).
- (3) The small claims garnishee service fee collected under [IC 33-37-4-6\(a\)\(1\)\(C\)](#) or [IC 33-37-4-6\(a\)\(3\)](#).
- (4) Twenty-five percent (25%) of the safe schools fee collected under [IC 33-37-5-18](#). . . ."



City of Frankfort

Carol J. Bartley
CLERK-TREASURER

301 E. Clinton St. • Frankfort, IN 46041-1955

OFFICIAL RESPONSE

9/20/2022

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

Re:
BANK ACCOUNT RECONCILIATIONS

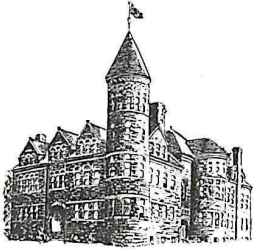
The City of Frankfort Court processes were not reviewed upon the beginning of my tenure as the Clerk Treasurer beginning in March 2020. The previous court system had been in place for several years. I have carefully reviewed the entire process and have implemented an updated routine with firm deadlines and oversight by a second employee to ensure that these monthly disbursements and receipts occur in a timely manner.

Monthly Bank Reconciliations were started beginning August 2022 and will be reviewed by a second party. These will be completed by the 10th of the subsequent month.

Carol J. Bartley
Clerk Treasurer, City of Frankfort

Matthew K. Beardsley
Judge, Frankfort City Court

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City of Frankfort

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OFFICIAL RESPONSE

9/20/2022

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

Re:
MONTHLY DISTRIBUTIONS OF COURT FEES

The City of Frankfort Court Clerk was not completing timely monthly disbursements. The Clerk Treasurer has addressed the employee situation and also has closely reviewed and updated these processes. Monthly Disbursements will be done in a timely manner and reviewed by a second party to prevent a recurrence of any untimely disbursements. These will be completed by the 10th of the subsequent month.

Carol J. Bartley
Clerk Treasurer, City of Frankfort

Matthew K. Beardsley
Judge, Frankfort City Court

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CITY COURT
CITY OF FRANKFORT
EXIT CONFERENCE

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