

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

PENN TOWNSHIP

ST. JOSEPH COUNTY, INDIANA

January 1, 2021 to December 31, 2022



FILED

10/11/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Trustee	Doris J. Portolese	01-01-21 to 12-31-23
Chair of the Township Board	Kent Hizer	01-01-21 to 12-31-21
	David Schmidt	01-01-22 to 12-31-22
	Kent Hizer	01-01-23 to 12-31-23



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF PENN TOWNSHIP, ST. JOSEPH COUNTY, INDIANA

This report is supplemental to the audit report of Penn Township (Township), for the period from January 1, 2021 to December 31, 2022. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Township. It should be read in conjunction with the Financial Statement Audit Report of the Township, which provides our opinions on the Township'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 21, 2023

PENN TOWNSHIP, ST. JOSEPH COUNTY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS

The same comment also appeared in the prior Report B58015.

Condition and Context

There were several deficiencies in the internal control system of the Township related to financial transactions. The Township had not separated incompatible activities related to receipts and disbursements.

Receipts

The Township had not designed or implemented an oversight or review process over receipts to ensure the accuracy, completeness, and timeliness of the receipts posted.

Prior to February 2022, the Trustee was responsible for completing the deposit ticket, taking the deposit to the bank, and preparing the list of deposits to be posted to the financial system by an outside consultant. Starting in February 2022, the Trustee was responsible for completing the deposit ticket, taking the deposit to the bank, preparing the list of deposits to be posted to the financial system, posting the deposits to the financial accounting system, and the reconciliation process. Furthermore, the Township had a review process of a receipt report after receipts were posted to the financial system; however, the receipt report did not include the fund numbers to ensure receipts were posted to the proper fund.

Payroll Disbursements

The Township did not have adequate internal controls in place to ensure the accuracy, completeness, and classification of payroll disbursements posted to the financial system. The Township contracted with an outside vendor for the processing of payroll. Each pay period, the Township received a payroll data report which was uploaded to the financial system. An oversight or review process was not in place to ensure the accuracy and completeness of the payroll disbursements posted.

Payroll Deductions Fund

The Township reports a Payroll Deductions fund. The purpose of a payroll deductions fund is to accumulate payroll deductions withheld from employees' wages until paid to the appropriate agency. When paid, the disbursement is to be posted to the Payroll Deductions fund. Furthermore, any balance remaining at month's end in the Payroll Deductions fund should be identifiable to the appropriate agency.

The Township receipted the employee medical deductions to the Payroll Deductions fund. However, the related medical insurance disbursements were posted to the same fund the employee pay was posted for both the employer and employee costs of the medical insurance purchased. This resulted in the accumulation of a large ending cash and investments balance in the Payroll Deductions fund. The Township did not design an oversight or review process to ensure that the Payroll Deductions fund balance remaining at month's end was identifiable to the appropriate agency.

PENN TOWNSHIP, ST. JOSEPH COUNTY
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. . . ."

COMPENSATION

Condition and Context

Due to the lack of effective internal controls over payroll disbursements, the following items were detected in the 22 payroll checks tested:

1. The Township Board approved an employee appreciation bonus to be paid to part-time and full-time employees. However, an individual described as a volunteer firefighter that was not compensated for any other hours worked during the audit period was paid the \$250 employee appreciation bonus.
2. The Township hired two independent contractors to provide accounting services. The contractors were paid an hourly rate which was processed through payroll even though the Township did not consider them to be employees. The rates paid were not included in the Township Board approved salary schedule or supported by a written contract. In addition, one of the contractors also worked at another governmental unit. The Township did not maintain records that showed which hours were worked each day to ensure the individual was not being paid by more than one governmental unit for the same period worked.
3. The 2022 salary schedule included a total amount to be paid for three Township Assistance Investigators. We were unable to determine the amount paid to each investigator complied with the salary schedule. Additionally, one of the investigators was not paid at the rate the Township sent to the outside vendor that processed payroll.
4. Two part-time and two full-time firefighters were paid less than the approved rate noted in the 2022 salary schedule.
5. The Township's salary schedules include both hourly rates and salary amounts based upon position. Various Township employees worked multiple positions which have varying rates of pay. However, the timesheets were not detailed by position and hours worked to ensure that employees were paid the proper pay rate in accordance with the salary schedules.

PENN TOWNSHIP, ST. JOSEPH COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

Indiana Code 5-11-9-4(b) states:

"The state board of accounts shall require that records be maintained showing which hours were worked each day by officers and employees:

- (1) covered by section 1 or 2 of this chapter; and
- (2) employed by more than one (1) public agency or in more than one (1) position by the same public agency described in section 1 or 2 of this chapter."

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

ANNUAL FINANCIAL REPORT

Condition and Context

Financial, supplemental, and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. The Township's AFR contained the following errors:

Accounts Receivables

The Township did not prepare and submit the accounts receivable information into Gateway as required, although the Township had account receivables for ambulance services. The Township approved the omission of the Schedule of Payables and Receivables from the Financial Statement Audit Report.

Capital Assets

The Township prepared and submitted the capital asset information into Gateway. However, the Township did not maintain appropriate detailed capital asset records. Assets were included in the records that the Township had previously disposed of. The Township approved the omission of the Schedule of Capital Assets from the Financial Statement Audit Report.

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 as set forth in the uniform compliance guidelines. 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](#)."

PENN TOWNSHIP, ST. JOSEPH COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

CAPITAL ASSETS

Condition and Context

The Township maintained a capital asset listing. However, 5 out of the 10, or 50 percent, of the assets tested remained on the listing even though the Township had previously disposed of the asset. In addition, the deletion of an asset sold was not properly recorded. The Township did not complete a proper physical inventory as required.

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 Townships, Chapter 1)

MONTHLY AND ANNUAL UPLOADS

Condition and Context

The Township is required to upload monthly and annual information to the Indiana Gateway for Government Units financial reporting system.

The files and governmental unit information that are required to be uploaded monthly include the bank reconciliations, bank statements, outstanding check lists, approved Township Board minutes and the funds ledger, summarizing total receipts, disbursements, and balances by fund.

Annual upload requirements include the year-end investment statements, detail of receipts and disbursements for the year (unless manual records are maintained), current year salary schedule and amendments, annual vendor history report (unless manual records are maintained), annual payroll history report, annual funds ledger, summarizing year-to-date total receipts, disbursements, and beginning and ending balances of funds.

The Township did not comply with the State Examiner Directive and failed to upload 20 of the 24 monthly bank statements, one annual payroll history report, and one annual salary schedule for 2021 and 2022. In addition, another governmental unit's bank reconciliation packet was uploaded for one of the months.

Criteria

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients.

A user guide for the Engagement Uploads is available and located at: <https://gateway.ifionline.org/userguides/engagementguide> **It is pertinent that this user guide be used in conjunction with this Directive.** It provides critical information to you that will help guide you to uploading the correct documents. (Amended State Examiner Directive 2018-1)

PENN TOWNSHIP, ST. JOSEPH COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

CONTRACT

Condition and Context

The Township entered into a contract with CORE Construction (CORE) to be the construction manager for the new fire station. When the contract was executed, a budget was not included because the plans had not yet been completed. An amount was agreed to between the Township and CORE; however, it was not included or detailed in the written contract.

For \$503,201 of the \$698,212 paid to CORE, we could not determine if the payments were accurate and complied with provisions of the contract since the contract did not include a total amount to be paid.

Criteria

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

PENN TOWNSHIP, ST. JOSEPH COUNTY
EXIT CONFERENCE

The contents of this report were discussed on September 21, 2023, with Doris J. Portolese, Trustee, and Kent Hizer, Chair of the Township Board.