

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF EARL PARK

BENTON COUNTY, INDIANA

January 1, 2013 to December 31, 2016



**FILED**  
10/11/2017



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kristen Hardebeck	01-01-11 to 12-31-18
President of the Town Council	Phillip L. McGinnis	01-01-13 to 12-31-17



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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TO: THE OFFICIALS OF THE TOWN OF EARL PARK, BENTON COUNTY, INDIANA

This report is supplemental to our examination report of the Town of Earl Park (Town), for the period from January 1, 2013 to December 31, 2016. It has been provided as a separate report so that the reader may easily identify any Examination Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statements Examination Report of the Town, which provides our opinion on the Town's financial statements. 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 Examination 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 Examination Results and Comments, incorporated within this report, was not verified accuracy.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

July 13, 2017

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CLERK-TREASURER  
TOWN OF EARL PARK

CLERK-TREASURER  
TOWN OF EARL PARK  
EXAMINATION RESULTS AND COMMENTS

**INTERNAL CONTROLS**

The Clerk-Treasurer did not establish an effective system of internal controls to prevent, or detect and correct, errors on the financial statements. The Clerk-Treasurer independently prepared the financial statements for inclusion into the Gateway Portal without any oversight, review, or approval process to verify the accuracy of the information and amounts. This resulted in the following errors on the financial statements not being detected:

1. The 2014 Payroll Clearing fund had underreported the receipts and disbursements by \$11,243 and \$9,844, respectively.
2. The 2013 OCRA Grant fund had overreported receipts and disbursements by \$86,416.
3. The SRF EARL PARK SINKING FUND in 2013 reported the beginning balance as a receipt and excluded receipts of \$20,547 and disbursements of \$19,473.

A similar comment also appeared in prior Reports B38645 and B43404, entitled *ANNUAL REPORT*.

Financial adjustments were proposed, accepted, and made to the financial statement by management.

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. . . ."

**BANK RECONCILEMENT**

The bank reconciliation at December 31, 2016, included unexplained reconciling items dating back to 2007. After eliminating these unexplained reconciling items from the bank reconciliation, we calculated a cash necessary to balance of \$7,066.

A similar comment also appeared in prior Reports B38645 and B43404, entitled *BANK ACCOUNT RECONCILIATIONS*.

CLERK-TREASURER  
TOWN OF EARL PARK  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

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)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

***TIMELY RECORDKEEPING***

The Town's state distributions that were electronically deposited into the Town's bank account from October 3, 2013 through December 31, 2013, totaling \$3,896, were not recorded in the ledgers until January 2014, which was up to four months after it was deposited.

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Manual for Cities and Towns, Chapter 1)

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 Manual for Cities and Towns, Chapter 1)

***PAYROLL FUND***

Biweekly transfers were made from the General Fund and WATER UTILITY OPERATING fund into the PAYROLL fund for the expenses related to payroll withholdings and employer share of payroll taxes. Beginning in 2014, the payments for these taxes were to be paid from the PAYROLL fund, but instead the payments were paid from the General Fund. As a result, the PAYROLL fund cash balance had increased by \$28,127 over the last three years. Adjustments were proposed and accepted by the Town to transfer the money from the PAYROLL fund back to the General Fund.

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)

***RECORDS RETENTION***

Utility postcards, which served as receipts for customer payments on the water and sanitation bills for 2014 through 2016, were not retained for examination.

CLERK-TREASURER  
TOWN OF EARL PARK  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

**TRAVEL REIMBURSEMENTS**

Mileage Claim, General Form No. 101, was not used to reimburse the mileage expenses of one employee traveling on Town business. Routinely, travel reimbursements were reimbursed for 100 miles at the rate of 55.5 cents per mile on the employee's timesheet. No other documentation, such as places traveled to, relation to Town business, or dates of travel, was provided to substantiate the mileage paid.

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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)

**OVERDRAWN CASH BALANCES**

The financial statements presented for examination included the SANITATION fund with overdrawn cash balances for each of the following years ending December 31:

<u>Years</u>	<u>Amount</u> <u>Overdrawn</u>
2013	\$ 1,850
2014	2,505
2015	3,207
2016	5,120

A similar comment also appeared in prior Report B43404, entitled *OVERDRAWN CASH BALANCE*.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER  
TOWN OF EARL PARK  
EXIT CONFERENCE

The contents of this report were discussed on July 13, 2017, with Kristen Hardebeck, Clerk-Treasurer, and Phillip L. McGinnis, President of the Town Council.

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TOWN COUNCIL  
TOWN OF EARL PARK

TOWN COUNCIL  
TOWN OF EARL PARK  
EXAMINATION RESULTS AND COMMENTS

***INTERNAL CONTROLS***

The Town Council did not establish a proper system of internal controls to prevent, or detect and correct, errors on the financial statements. One individual independently prepared the financial statements for inclusion into the Gateway Portal without any oversight, review, or approval process to verify the accuracy of the information and amounts. This resulted in the following errors on the financial statements not being detected:

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TOWN COUNCIL  
TOWN OF EARL PARK  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

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***SALARY ORDINANCE/RESOLUTION***

The Town Council did not adopt a salary ordinance for 2013 through 2016 for employees. The compensation of new employees was addressed in the minutes of the Town Council for the first year of employment; however, subsequent pay adjustments were not addressed. We were unable to verify if the correct amount was paid to the employees with more than one year of service.

Indiana Code 36-5-3-2(b) states: "The town legislative body shall, by ordinance, fix the compensation of its own members, the town clerk-treasurer, and the town marshal. The legislative body shall provide reasonable compensation for other town officers and employees."

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. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

***DISBURSEMENTS***

Payments were made for cleaning at \$50 per occurrence that were not supported by a written contract.

Payments made or received for contractual services must be supported by a written contract. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TOWN COUNCIL  
TOWN OF EARL PARK  
EXIT CONFERENCE

The contents of this report were discussed on July 13, 2017, with Phillip L. McGinnis, President of the Town Council, and Kristen Hardebeck, Clerk-Treasurer.