

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF SWITZ CITY

GREENE COUNTY, INDIANA

January 1, 2012 to December 31, 2016



**FILED**  
03/08/2018



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Carla Porter	01-01-12 to 12-31-19
President of the Town Council	Glenda Sue Headley	01-01-12 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE TOWN OF SWITZ CITY, GREENE COUNTY, INDIANA

This report is supplemental to our examination report of the Town of Switz City (Town), for the period from January 1, 2012 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 for accuracy.

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

January 22, 2018

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CLERK-TREASURER  
TOWN OF SWITZ CITY

CLERK-TREASURER  
TOWN OF SWITZ CITY  
EXAMINATION RESULT AND COMMENT

**ANNUAL FINANCIAL REPORT**

The Annual Financial Report did not properly reflect the financial activity of the Waterworks SRF Loan fund for the years 2015 and 2016. This fund was omitted from the financial statements of both years, resulting in material understatements of receipts and disbursements.

Examination adjustments were proposed, accepted by management, and made to the financial statements.

In addition, there was no evidence that a proper internal control structure existed in the Town. A proper internal control structure would have adequate control environment, risk assessment process, control activities, information and communication, and monitoring of internal controls. The Town had not separated incompatible activities related to Receipts, Disbursements, Cash and Investments, and Financial Reporting. The failure to establish these controls enabled material misstatement to occur and remain undetected.

The Clerk-Treasurer was the sole person responsible for all transactions related to Receipts, Disbursements, Cash and Investments, and Financial Reporting. There were no controls in place to monitor, review, or determine the accuracy of the financial transactions and reporting.

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

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality 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."

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:

"The control environment is the basic commonality for all and comprises the integrity and ethical values of the political subdivision established by the oversight body and management. The standards, processes, and structures which form the control environment pervasively impact the overall system of internal control. The oversight body and management convey leadership expectations, and overall tone which are reinforced by all officials and management throughout the various offices and departments. The control environment also contains the overall accountability structure for all employees through performance and reward measures. Within this structure, leadership demonstrates commitment to the political subdivision by having a process for attracting, developing, and retaining competent individuals. This component is static in that its underpinnings do not generally change with a given objective."

"Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. Each identified risk is evaluated in terms of its impact and likelihood of occurrence. Overall, risk assessment is the basis for determining how risk will be managed. . . ."

CLERK-TREASURER  
TOWN OF SWITZ CITY  
EXAMINATION RESULT AND COMMENT  
(Continued)

Management identifies risks to the achievement of the political subdivision's objectives across the unit as a whole and within each office or department. Analysis of risk through determination of objective measures and variance tolerance is the basis for determining how the risks should be managed. The response to risk is selected: acceptance, avoidance, reduction, or sharing.

. . .

Internal control is a process, and part of that process is the responsibility for management to be continually aware of changes, both external and internal, that could affect the achievement of the political subdivision's objectives. Those changes should be analyzed for both their immediate effect and for any future impact. Management would then determine any modifications needed in the internal control process to adapt to these changes."

"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. . . ."

"Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information. Internal communication enables personnel to receive a clear message that control responsibilities are taken seriously by the organization. External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

CLERK-TREASURER  
TOWN OF SWITZ CITY  
EXIT CONFERENCE

The contents of this report were discussed on January 22, 2018, with Carla Porter, Clerk-Treasurer, and Glenda Sue Headley, President of the Town Council.

TOWN COUNCIL  
TOWN OF SWITZ CITY

TOWN COUNCIL  
TOWN OF SWITZ CITY  
EXAMINATION RESULT AND COMMENT

***ADOPTION OF INTERNAL CONTROL STANDARDS***

The Town Council did not adopt the minimum internal controls standards during the period of examination. Subsequent to the examination period, the Town Council passed an ordinance adopting the minimum internal controls standards on December 28, 2017. The training of personnel on the internal control standards required by statute had yet to have been conducted.

Indiana 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."

TOWN COUNCIL  
TOWN OF SWITZ CITY  
EXIT CONFERENCE

The contents of this report were discussed on January 22, 2018, with Carla Porter, Clerk-Treasurer, and Glenda Sue Headley, President of the Town Council.