

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF KNOX

STARKE COUNTY, INDIANA

January 1, 2014 to December 31, 2017



FILED
10/06/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Result and Comment:	
Internal Controls	6
Exit Conference	7
City Court:	
Audit Results and Comments:	
Internal Controls	10-11
Reconciliation of Subsidiary Ledgers	11-12
Exit Conference	13

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jeffery J. Houston	01-01-12 to 12-31-19
Mayor	Rick L. Chambers James (Dennis) Estok	01-01-12 to 12-31-15 01-01-16 to 12-31-19
President of the Board of Public Works	Rick L. Chambers James (Dennis) Estok	01-01-12 to 12-31-15 01-01-16 to 12-31-19
President Pro Tempore of the Common Council	Donald Kring Ronald E. Parker	01-01-14 to 12-31-17 01-01-18 to 12-31-18
Judge	Charles F. Hasnerl	01-01-12 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF KNOX, STARKE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Knox (City), for the period from January 1, 2014 to December 31, 2017. 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 Statements Audit Report of the City, which provides our opinions on the City's financial statements. 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.

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

August 28, 2018

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CLERK-TREASURER
CITY OF KNOX

CLERK-TREASURER
CITY OF KNOX
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS

There were several deficiencies in the internal control system for the City related to financial transactions and reporting. There was a lack of segregation of duties as officials had not separated incompatible activities related to receipts, payroll disbursements, and financial reporting.

Receipts

There was no review process to ensure that receipts were recorded to the correct fund.

Payroll Disbursements

The Deputy Clerk-Treasurer entered pay rates without an oversight, review, or approval process. The same employee entered the hours worked into the payroll system, generated the pay checks, and recorded the payroll disbursements to the ledger. The Clerk-Treasurer and Common Council approved the docket, but there was not a review process to ensure that payroll disbursements were recorded accurately and to the correct fund.

Financial Reporting

The Deputy Clerk-Treasurer compiled the financial information for submission to the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source for the Annual Financial Reports (AFR) and the financial statements. The Clerk-Treasurer reviewed and submitted the AFR. However, the process and subsequent review was not documented. There was no evidence of an effective oversight, review, or approval process to ensure the accuracy of the information submitted.

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. . . ."

CLERK-TREASURER
CITY OF KNOX
EXIT CONFERENCE

The contents of this report were discussed on August 28, 2018, with Jeffery J. Houston, Clerk-Treasurer; James (Dennis) Estok, Mayor; Bertha Blue, Common Council member; and Donald Kring, Common Council member.

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CITY COURT
CITY OF KNOX

CITY COURT
CITY OF KNOX
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

A similar comment also appeared in the prior Report B44805, entitled *LACK OF SEGREGATION OF DUTIES*.

There were several deficiencies in the internal control system of the City Court related to financial transactions and reporting. There was a lack of segregation of duties as officials had not separated incompatible activities related to cash and investments, receipts, disbursements, and financial reporting.

Cash and Investments

The City Court Clerk completed the monthly bank reconciliements without evidence of a review or oversight.

Receipts

The City Court Clerk prepared and recorded the receipts, reconciled the cash drawer daily, prepared the bank deposit, deposited the collections, and completed the monthly bank reconciliements without evidence of a review or oversight.

Disbursements

The City Court Clerk prepared, signed, and mailed or distributed checks; recorded the disbursements to the ledger; and completed the monthly bank reconciliements without evidence of a review or oversight.

Financial Reporting

The City Court Clerk prepared the supplemental City and Town Annual Report (CTAR) and submitted it to the Clerk-Treasurer's office for inclusion in the Annual Financial Reports (AFR) which were the sources of the City's financial statements. The information was submitted without a documented oversight or review process. The following errors were included in the CTAR provided to the Clerk-Treasurer and reported in the City's AFR and financial statements:

- (1) The January 1, 2014 cash balance of the Court's computerized accounting software systems differed from the City's AFR ending balance at December 31, 2013, by \$11,899.
- (2) In 2014, the CTAR receipts were underreported by \$288,366 and CTAR disbursements were underreported by \$301,072, which resulted in the December 31, 2014 cash and investments balance being underreported by \$12,706.
- (3) In 2015, the CTAR receipts were underreported by \$119,006 and CTAR disbursements were underreported by \$110,869, which resulted in the December 31, 2015 cash and investments balance being underreported by \$4,569, cumulatively.
- (4) In 2016, The CTAR disbursements were over-reported by \$39,964, which resulted in the December 31, 2016 and December 31, 2017 cash and investments balances being under-reported by \$35,395, cumulatively.

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

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

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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

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](#)."

RECONCILIATION OF SUBSIDIARY LEDGERS

The same comment also appeared in prior Report B44805.

The City Court Clerk was unable to provide a detailed list of trust account or cash bonds held until disposition in the Key Court system. The totals were not reconciled to the December 31, 2014, 2015, 2016, and 2017 Cash Book balances. The Cash Book balances for trust and cash bonds in the Key Court System were as follows:

Description	Balance as of December 31,			
	2014	2015	2016	2017
Trust Account	\$ 53,137	\$ 51,390	\$ 51,200	\$ 51,030
Cash Bond	74,593	68,148	67,968	67,383
Total	\$ 127,730	\$ 119,538	\$ 119,168	\$ 118,413

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

REGISTER OF TRUST FUNDS (GENERAL FORM NO. 102) - This record is commonly referred to as the "trust fund register." It is a register wherein money received for the benefit of all persons or parties is entered in detail. The posting to this record is made from the duplicate receipts and checks and from the trust column of the court cash book. Items entered in other columns of the cash book must not be posted in the trust fund register. The total of all unpaid items as shown by the trust fund register must agree with the balance in trust as shown by the court cash book. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 1)

CITY COURT
CITY OF KNOX
EXIT CONFERENCE

The contents of this report were discussed on August 28, 2018, with Charles F. Hasnerl, Judge; Angela Jesuit, City Court Clerk; Jeffery J. Houston, Clerk-Treasurer; James (Dennis) Estok, Mayor; Bertha Blue, Common Council member; and Donald Kring, Common Council member.