

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF KEMPTON

TIPTON COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED

11/10/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Federal Findings:	
Finding 2016-001	
Preparation of the Schedule of Expenditures of Federal Awards	6-8
Finding 2016-002	
Financial Transactions and Reporting	8-10
Corrective Action Plan	11-12
Exit Conference	13

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Rebecca Sherrill	01-01-16 to 12-31-19
President of the Town Council	Alice Book Troy Bitner	01-01-16 to 12-31-16 01-01-17 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

TO: THE OFFICIALS OF THE TOWN OF KEMPTON, TIPTON COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Kempton (Town), for the period from January 1, 2016 to December 31, 2016. It has been provided as a separate report so that the reader may easily identify any Federal Findings that pertain to the Town. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Town, which provides our opinions on the Town's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

October 1, 2018

(This page intentionally left blank.)

CLERK-TREASURER
TOWN OF KEMPTON

CLERK-TREASURER
TOWN OF KEMPTON
FEDERAL FINDINGS

FINDING 2016-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

Condition

The Town did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

The Town had not established effective internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Town's SEFA. The Clerk-Treasurer prepared the federal award information entered into Gateway without a control in place to prevent, or detect and correct, errors prior to submission.

Context

The SEFA presented for audit contained the following errors:

1. The Community Development Block Grant was overstated by \$16,780.
2. Capitalization Grants for Clean Water State Revolving Fund was understated by \$1,701,057.

Audit adjustments were proposed, accepted by the Town, and made to the SEFA.

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. . . ."

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 Financial statements. . . ."

CLERK-TREASURER
TOWN OF KEMPTON
FEDERAL FINDINGS
(Continued)

2 CFR 200.510(b) states:

"Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

Cause

Management had not established a system of internal control that would have ensured proper reporting of the SEFA.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Context*.

Recommendation

We recommended that the Town's management establish controls related to the preparation of the SEFA.

CLERK-TREASURER
TOWN OF KEMPTON
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2016-002

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Condition

There were several deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not separated incompatible activities related to cash and investments, receipts, and financial close and reporting.

Cash and Investments

The Town had not established controls to ensure that reconciled cash and investment balances agreed to the ledgers or the financial statement. The Clerk-Treasurer completed monthly bank reconciliations without any documented oversight or review procedures in place to ensure their accuracy.

Receipts

The Town had not established controls or separated incompatible activities related to receipts. The Clerk-Treasurer independently receives, records, and reports all receipts for the Town. There is no documented oversight, review or approval process, or other compensating control in place to ensure receipts are processed, recorded, and reported accurately.

Financial Close and Reporting

The Clerk-Treasurer entered the Town's financial information into the Indiana Gateway for Government Units financial reporting system, which was the source of the Town's financial statement; however, the process was completed without a documented oversight, review or approval process, or other compensating control in place to ensure that information was submitted accurately. The following errors were noted in the financial statement presented for audit:

1. The Wastewater Utility Bond and Interest fund was originally omitted, which resulted in receipts and disbursements being understated by \$14,044.
2. The Wastewater Utility Reserve fund was originally omitted, which resulted in receipts and disbursements being understated by \$4,873.
3. The Wastewater Utility Construction fund was originally omitted, which resulted in receipts and disbursements being understated by \$216,192.
4. The Wastewater Utility 2016 BAN A fund was originally omitted, which resulted in receipts and disbursements being understated by \$196,304.

CLERK-TREASURER
TOWN OF KEMPTON
FEDERAL FINDINGS
(Continued)

5. The Wastewater Utility 2016 BAN B fund was originally omitted, which resulted in receipts and disbursements being understated by \$1,453,012.
6. The Wastewater Utility Operating fund receipts were overstated by \$10,761 and disbursements were overstated by \$3,837.
7. The Community Development Block Grant fund receipts and disbursements were overstated by \$7,030.

Audit adjustments were proposed, approved by the Town, and made to the financial statement.

Context

The lack of controls and noncompliance were systemic issues, which occurred throughout 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:

"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. . . ."

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](#)."

Cause

Management had not established a proper system of internal control that segregated key functions related to cash and investments, receipts, and the financial close and reporting process.

CLERK-TREASURER
TOWN OF KEMPTON
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish controls enabled misstatements of the financial statement to remain undetected. The financial statement contained the errors identified in the *Context*.

Recommendation

We recommended that the Town's management establish a system of internal controls, including segregation of duties, related to cash and investments, receipts, and the financial close and reporting process.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

Town of Kempton
205 S. Main Street, Kempton, IN 46049
765-947-5694

CORRECTIVE ACTION PLAN

FINDING 2016-001 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Rebecca Sherrill, Clerk-Treasurer
Contact Phone Number: 765-947- 5694

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: For the 2018 fiscal year, the Town has implemented a system of internal control designed to prevent, detect, and correct errors on the Schedule of Expenditures of Federal Awards to ensure the accurate reporting of federal awards. The Utility Manager will review and approve the federal awards at the end of the year.

Anticipated Completion Date: September 30, 2018

FINDING 2016-002 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Rebecca Sherrill, Clerk-Treasurer
Contact Phone Number: 765-947-5694

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: For the 2018 fiscal year, the Town has implemented a system of internal controls designed to prevent, detect, and correct errors related to Financial Transactions and Reporting. The Utility Manager will be used to review and approve the numerous activities described in the finding. Bank reconciliations will now be approved by the Utility Manager each month. Receipts will be approved by the Utility Manager at the end of each month. At year end, the Annual Financial Report will be reviewed and approved by the Utility Manager after it is prepared by the Clerk-Treasurer. All processes that are being completed by the Clerk-Treasurer will be approved by the Utility Manager. The Town has designed these controls in place to ensure that the Annual Financial Report at the end of the year will be accurate.

Anticipated Completion Date: September 30, 2018

Rebecca J. Sherrill
(Signature)
Clerk / Treasurer
(Title)
Sept. 18, 2018
(Date)

CLERK-TREASURER
TOWN OF KEMPTON
EXIT CONFERENCE

The contents of this report were discussed on October 1, 2018, with Rebecca Sherrill, Clerk-Treasurer; Alice Book, Town Council member; and Ron Hammock, Town Council member.