

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CENTER TOWNSHIP

MARION COUNTY, INDIANA

January 1, 2014 to December 31, 2017



FILED
02/21/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Trustee	Eugene W. Akers	01-01-11 to 12-31-18
Judge	Honorable Michelle Smith-Scott (Vacant) Honorable Brenda Roper	01-01-11 to 10-03-14 10-04-14 to 10-14-14 10-15-14 to 12-31-18
Chairman of the Township Board	Linda Journey Phyllis Carr Howard Smith Linda Journey Phyllis Carr	01-01-14 to 12-31-14 01-01-15 to 12-31-15 01-01-16 to 12-31-16 01-01-17 to 12-31-17 01-01-18 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 CENTER TOWNSHIP, MARION COUNTY, INDIANA

This report is supplemental to our audit report of Center Township (Township), 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 Township. It should be read in conjunction with our Financial Statements Audit Report of the Township, which provides our opinion on the Township'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

December 21, 2018

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TRUSTEE
CENTER TOWNSHIP, MARION COUNTY

TRUSTEE
CENTER TOWNSHIP, MARION COUNTY
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORTS

The same comment also appeared in prior Report B45432.

The Annual Financial Reports (AFR) reported during the audit period contained a number of errors and did not match the Township's records. The AFR is filed in the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Township's financial statements.

The financial statements presented for audit contained the following errors:

- The account balance and investment income of the Hoosier Fund investment account were not recorded in the Township's ledger or reported in the AFR during the audit period.
- The beginning balance of the Small Claims Court fund did not agree with the prior period ending balance, and due to unrecorded transactions, the financial statements did not properly reflect the financial activity of the Small Claims Court.

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

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](#)."

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 Special Districts, Chapter 1)

INTERNAL CONTROLS

The same comment also appeared in prior Report B45432.

Deficiencies in the internal control system of the Township related to financial transactions and reporting were identified. The Town had not implemented adequate segregation of duties as it had not separated incompatible activities related to receipts, disbursements, and financial reporting.

Receipts

Receiving money, posting receipts, preparing bank deposits, and reconciling bank statements to the Township's ledger were performed by a single employee, creating a lack of segregation of duties.

TRUSTEE
CENTER TOWNSHIP, MARION COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Disbursements

The processing and recording of vendor payments was performed by a single employee. A checklist review of the recorded disbursements was also often performed by the same employee, creating a lack of segregation of duties.

Employees track their time with manual timesheets or through use of a digital timeclock system. Manual timesheets are reviewed and approved by a supervisor; however, there was no documented review or approval for employees utilizing the timeclock system. Payroll is then entered and uploaded to a third-party processor and subsequently posted to the Township's ledger by a single employee, with no documented review by another individual.

Financial Close and Reporting

Annual Financial Report data is compiled for the Township, Community Outreach program, and Small Claims Court and entered into the Gateway reporting system by a single individual, with no documented oversight, review, approval, or other compensating control 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. . . ."

CREDIT CARDS

A similar comment also appeared in prior Report B45432, entitled *SUPPORTING DOCUMENTATION*.

In a sample of seven monthly credit card statements selected for testing, six statements did not include documentation to support the purchases made with a credit card. The amount of purchases that were unable to be supported totaled \$6,328. Due to the lack of supporting information, we could not verify the purpose of the disbursements.

TRUSTEE
CENTER TOWNSHIP, MARION COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

The SBOA will not take exception to the use of credit cards by a unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance/resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the governing body.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance/resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card must be returned to the custody of the responsible person.
5. The designated responsible official or employee must maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned.
6. Credit cards must not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing body and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment cannot be made on the basis of a statement or a credit card slip only. Procedures for payments must be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee may be the personal obligation of that officer or employee.
8. If authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Townships, 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 Townships, Chapter 1)

COMPENSATION AND BENEFITS

Compensation and benefits were to be paid to employees of the Township in accordance with the Salary Resolutions; however, seven employees were paid different amounts from what the Salary Resolution mandated. In addition, one employee did not have timecards during the audit period, and eight employees had timesheets during a tested payroll, but did not have them approved by an appropriate supervisor.

TRUSTEE
CENTER TOWNSHIP, MARION COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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)

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form 99A, Employee's Service Record
General Form 99B, Employee's Earnings Record
General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor.

(Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

DEPOSITS

A check issued June 15, 2015, by the Small Claims Court to the Township for unremitted fees in the amount of \$3,397,777 was not deposited by the Township until December 1, 2016.

Indiana Code 5-13-6-1(c) states in part: ". . . The public funds collected by township trustees shall be deposited in the designated depository on or before the first and fifteenth day of each month. . . ."

OVERDRAWN CASH BALANCE

The financial statement presented in the AFR of the Township contained one fund with an overdrawn cash balance. The Small Claims Court fund reported a negative cash balance of \$1,946,099 at December 31, 2015.

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 unit. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

TRUSTEE
CENTER TOWNSHIP, MARION COUNTY
EXIT CONFERENCE

The contents of this report were discussed on December 21, 2018, with Eugene W. Akers, Trustee; Eric Bailey, Budget Director; George Palmer, Attorney; Honorable Brenda Roper, Judge; and Venturia Drain, Court Supervisor.

SMALL CLAIMS COURT
CENTER TOWNSHIP, MARION COUNTY

SMALL CLAIMS COURT
CENTER TOWNSHIP, MARION COUNTY
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS

The same comment also appeared in prior Reports B45432 and B40189.

Financial records presented for audit were incomplete for the Small Claims Court (Court). The records presented did not provide sufficient information to verify beginning balances or the accuracy or correctness of the transactions and ending balances for the audit period.

The Court started using the state-developed Odyssey system in September 2008; however, the Financial Manager module of the software had not been fully implemented. As a result, the Odyssey Court Reports were not completely reconciled to depository balances of the Court, nor did they reflect all of the financial activity of the Court. Without having a reconciled ledger, management could not properly review the overall activity of the Court, and there is an increased likelihood that errors or fraud may not be detected timely.

In 2015, the Court worked in coordination with the state's Trial Court Technology to correct the deficiencies in the Court's use of the Odyssey Financial Manager and to reconcile the ledger to the depository balance at December 31, 2014. During the audit, we identified two disbursements of material amounts which, due to the condition of the records and lack of supporting documentation provided, were unable to be verified for the accuracy or validity of these transactions:

- A \$3,397,777 payment was issued by the Court on June 15, 2015, to the Township for unremitted fees. The amount was determined from a list of court case fees provided by the state; however, that amount could not be verified to the Court's records.
- A ledger adjustment of \$2,001,162 was posted as a disbursement in 2015, however, it was backdated to December 31, 2014. This adjustment represented an amount calculated in order to force the balance carried in the Court's Odyssey Financial Manager to reconcile with the depository balance at December 31, 2014. The Court was unable to provide a detailed breakdown of transactions which would have supported the adjustment.

In addition, we identified two checks, totaling \$2,086,332 that had been issued by the Township and payable to the Court that were not recorded in Odyssey as receipts. The Court was unable to provide documentation to substantiate the amount paid to the Court for one of the two receipts, in the amount of \$1,742,791.

Due to the condition of records described above for the Small Claims Court fund, the Indiana State Board of Accounts was unable to provide an unmodified opinion on the accuracy of the financial statements.

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 Townships, Chapter 1)

BANK ACCOUNT RECONCILIATIONS

The same comment also appeared in prior Report B45432.

Monthly depository reconciliations of the Small Claims Court fund balances were not completed during the audit period. In addition, complete outstanding check lists at December 31, 2014, and December 31, 2015, were not provided, and an outstanding check list at December 31, 2017, was not prepared.

SMALL CLAIMS COURT
CENTER TOWNSHIP, MARION COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

INTERNAL CONTROLS

Deficiencies in the internal control system of the Small Claims Court related to financial transactions were identified. Controls related to cash, receipts, and disbursements of the Court had not been properly designed or implemented.

Cash

No internal controls were in place to ensure monthly reconciliations of the bank statements to the Court's Odyssey ledger were performed or sufficiently completed during the audit period.

Receipts

Receipts were collected by clerks and recorded in the system. At the end of each day, the collections were reconciled to the Odyssey ledger and a deposit slip was prepared by the supervisor. Collections were deposited in the bank by another employee. Based on a review of deposit slips and bank receipts, we were unable to determine if this control was in place.

Disbursements

Disbursements required by statute to be made on a monthly and semiannual basis were completed by the supervisor. Garnishments and all other disbursements were completed by another employee. No documented reconciliation or review of payments issued by the Court was in place to ensure the accuracy of disbursements.

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:

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SMALL CLAIMS COURT
CENTER TOWNSHIP, MARION COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

OVERDRAWN CASH BALANCE

The financial statement presented in the Financial Statements Audit Report of the Township contained one fund with an overdrawn cash balance. The Small Claims Court fund reported a negative cash balance of \$1,946,099 at December 31, 2015.

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 unit. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

TIMELY RECORDING

Two checks issued by the Township and payable to the Small Claims Court were not recorded in the Odyssey accounting system of the Court. The two unrecorded checks, dated December 1, 2016, and May 4, 2017, totaled \$2,086,332.

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 Guidelines Manual for Townships, Chapter 1)

SMALL CLAIMS COURT
CENTER TOWNSHIP, MARION COUNTY
EXIT CONFERENCE

The contents of this report were discussed on December 21, 2018, with Eugene W. Akers, Trustee; Eric Bailey, Budget Director; George Palmer, Attorney; Honorable Brenda Roper, Judge; and Venturia Drain, Court Supervisor.