

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF MT. SUMMIT

HENRY COUNTY, INDIANA

January 1, 2012 to December 31, 2017



**FILED**  
04/30/2019



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sharon Jessup	01-01-12 to 12-31-19
President of the Town Council	Betty Gipe	01-01-12 to 12-31-18
Superintendent of Water Utility	Kenny Stockton	01-01-12 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF MT. SUMMIT, HENRY COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Mt. Summit (Town), 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 Town. It should be read in conjunction with our Financial Statements Audit 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 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

October 30, 2018

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CLERK-TREASURER  
TOWN OF MT. SUMMIT

CLERK-TREASURER  
TOWN OF MT. SUMMIT  
AUDIT RESULTS AND COMMENTS

***LATE SUBMISSION OF ANNUAL FINANCIAL REPORT***

The Town's Annual Financial Reports (AFR) for 2012, 2014, and 2016 were not filed electronically until March 5, 2013, April 28, 2015, and October 30, 2017, respectively, which was 4, 58, and 243 days, respectively, past the due date. Additionally, the financial information was entered into the AFRs for 2015 and 2017, but the electronic submission process for the AFRs was never completed by the Clerk-Treasurer.

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](#)."

***CERTIFICATION ON INTERNAL CONTROL STANDARDS***

The Clerk-Treasurer certified on the AFRs that the Town had adopted the acceptable minimum level of internal control standards and provided personnel with internal control training during 2016 and 2017. However, evidence supporting the certifications was presented for audit.

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](#)."

***CONDITION OF RECORDS***

The following items were identified regarding the condition and availability of accounting records:

- The Town did not provide detail of receipts or disbursements for Town ledgers for any of the six years. Only a January-to-June summary of transactions and balances and a July-to-December summary of transactions and balances were presented for audit.
- The totals from the first six months of the ledgers did not always agree to the amount carried forward to the second six months.
- Beginning cash balances plus receipts and less disbursements did not always equal the ending balance in the ledgers.
- Balances on the ledger did not always agree to the balances used in the bank account reconciliation.
- An April 2016 water utility ledger was not presented for audit.

CLERK-TREASURER  
TOWN OF MT. SUMMIT  
AUDIT RESULTS AND COMMENTS  
(Continued)

- Monthly utility ledgers were prepared for 2017, but previous months balances were not carried forward and no ending cash balances for any month were determined.
- The amounts posted to the payroll fund did not agree to payroll checks and withholdings paid.

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)

**OVERDRAWN CASH BALANCES**

The financial statements presented for audit reported the following funds with overdrawn cash balances at December 31 as follows:

Fund	Years	Amount Overdrawn
Payroll	2012	\$ 160
Payroll	2016	30,279
Police Fund	2017	594
Payroll	2017	36,213

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 Cities and Towns, Chapter 1)

**FINANCIAL TRANSACTIONS AND REPORTING**

There were deficiencies in the internal control system of the Town related to financial transactions and reporting for cash and investments, receipts, transfers, electronic payments, payroll, and financial close and reporting.

Cash and Investments - The Clerk-Treasurer completed the monthly bank reconcilements without a system of oversight, review, or approval.

Receipts - The Town had not segregated key functions related to receipts. The Town had two Utility Clerks who alternate weeks they work. For the week that they work, the Utility Clerk on duty wrote all receipts, prepared the bank deposits, and took the deposits to the bank. The Clerk-Treasurer posted the receipts to the ledger based on receipts prepared by the Utility Clerks. The Clerk-Treasurer did not receive the supporting documentation for the receipt until the end of the month to verify or approve the receipts posted.

Transfers - Transfers were made by the Clerk-Treasurer without approval of the Town Council and by posting to the ledgers without using receipts or checks.

CLERK-TREASURER  
TOWN OF MT. SUMMIT  
AUDIT RESULTS AND COMMENTS  
(Continued)

Electronic payments - Electronic payments were authorized by the Utility Clerk on duty when payments were needed. No accounts payable vouchers were prepared and disbursements were not approved by the Clerk-Treasurer or the Town Council.

Payroll - The Utility Clerks, who are also Town Council members, prepared and signed their own checks. No documentation or system of oversight, review, or approval was presented for audit.

Financial Close and Reporting - One individual prepared the financial reports without a system of oversight, review, or approval.

The financial statements presented for audit contained the following errors:

- Total receipts were understated by \$108,342.
- Total disbursements were understated by \$105,290.
- Total ending cash and investments were understated by \$3,052.

Adjustments for the items listed above were proposed, accepted by the Town, and made to the financial statement.

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 ACCOUNT RECONCILIATIONS**

The December 31, 2015 and December 31, 2016 bank account reconciliations as presented for audit were not in agreement with the Town's ledgers.

The December 31, 2015 bank reconciliation indicated the bank account balances had \$8,225 less than the Fund Report. Documentation was not presented to explain the variance.

The December 31, 2016 bank reconciliation indicated the bank account balances had \$250 less than the Fund Report. Documentation was not presented to explain the variance.

CLERK-TREASURER  
TOWN OF MT. SUMMIT  
AUDIT RESULTS AND COMMENTS  
(Continued)

Bank reconcilements for 2017 were not presented for audit.

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."

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)

***PRESCRIBED FORMS***

Beginning in 2012, the Clerk-Treasurer entered the Town's fund ledger information on computerized spreadsheet software and no longer maintained the prescribed manual forms. The funds ledger presented for audit did not contain all the information required on the Ledger of Receipts, Disbursements, and Balances (City or Town Form No. 208). The Town also did not present for audit either Clerk-Treasurer's, City Controllers and City Treasurer's Monthly Financial, Depository Statement and Cash Reconciliation (City or Town Form No. 206) or the Employee's Earning Record (General Form No. 99B).

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)

Many computer software programs can create exact replicas of prescribed forms. Exact replica may be used as a prescribed form. If it is desirable to use a form other than a prescribed form that is not an exact replica, the new form must be approved.

For any form that is to be approved, the unit can start using the form as they have it ready. A log of these forms must be kept indicating the form it replaced and the effective date of the new form. At the beginning of an engagement, this log must be presented to the examiner.

New forms must be in place during at least one engagement and must not be an element of a finding or result and comment that is responsible or partially responsible for an exception found during an engagement to be considered approved. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER  
TOWN OF MT. SUMMIT  
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2018, with Sharon Jessup, Clerk-Treasurer, and Betty Gipe, President of the Town Council.

TOWN COUNCIL  
TOWN OF MT. SUMMIT

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TOWN OF MT. SUMMIT  
AUDIT RESULTS AND COMMENTS

***ADOPTION OF INTERNAL CONTROL STANDARDS***

Audit evidence, such as an ordinance, was not presented indicating the Town Council had adopted internal control standards as required by statute.

Indiana Code 5-11-1-27(g) states in part:

"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; . . ."

***TRAINING ON INTERNAL CONTROL STANDARDS***

The President of the Town Council indicated that personnel had received training over internal control standards; however, no documentation to verify completion of the training was presented for audit.

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

***MOVING TRAFFIC VIOLATIONS***

The Town Council adopted an ordinance in 2015 to define and collect fines for moving traffic violations. Violators could pay their fine through the Town without being processed through a county, city, or town court as required by statute. Collections for moving traffic violations totaled \$1,575 in 2015; \$1,275 in 2016; and \$2,150 in 2017.

Indiana Code 36-1-6-3(c) states: "An ordinance defining a moving traffic violation may not be enforced under IC 33-36 and must be enforced in accordance with [IC 34-28-5](#)."

The accounts of each public official and public office should reflect the proper treatment of fines collected for moving traffic violations as required by Indiana Code § 36-1-6-3(c), Indiana Code Ch. 34-28-5, and this Directive. Failure to do so will result in a civil action against those public officials who are responsible for the improper enforcement and collection of fines for moving traffic violations as allowable by law. (State Examiner Directive 2015-1)

TOWN COUNCIL  
TOWN OF MT. SUMMIT  
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2018, with Sharon Jessup, Clerk-Treasurer, and Betty Gipe, President of the Town Council.