

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF SPENCER

OWEN COUNTY, INDIANA

January 1, 2015 to December 31, 2018



FILED

11/20/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Annual Financial Reports	6
Certification on Internal Control Standards	6
Moving Traffic Violations	7
Internal Controls over Financial Transactions and Reporting	7-9
Exit Conference	10
Town Council:	
Audit Result and Comment:	
Training on Internal Control Standards	12
Exit Conference	13

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Cheryl Moke	01-01-12 to 12-31-19
President of the Town Council	Dean Bruce	01-01-15 to 12-31-15
	Jon C. Stantz	01-01-16 to 12-31-17
	Michael Spinks	01-01-18 to 12-31-19
Superintendent of the Wastewater Utility	John Hodge	01-01-15 to 12-31-19



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 SPENCER, OWEN COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Spencer (Town), for the period from January 1, 2015 to December 31, 2018. 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/.

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, 2019

(This page intentionally left blank.)

CLERK-TREASURER
TOWN OF SPENCER

CLERK-TREASURER
TOWN OF SPENCER
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORTS

A similar comment also appeared in prior Report B47374.

Condition and Context

The Annual Financial Reports (AFR) for 2016, 2017, and 2018 contained a number of errors and did not properly reflect the financial activity of the Town. In total, the receipts, disbursements, and beginning and ending cash and investment balances reported were under/(over) reported as follows:

<u>Years</u>	<u>Beginning Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending Balance</u>
2016	\$ -	\$ 1,179,155	\$ 1,208,334	\$ (29,179)
2017	(29,179)	1,095,326	1,197,637	(131,490)
2018	(131,490)	1,413,875	1,354,714	(72,329)

Adjustments were proposed, approved by management, and made to the financial statements.

Criteria

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

Condition and Context

The Clerk-Treasurer certified on the Indiana Gateway for Government Units (Gateway) financial reporting system that training had been provided to the required personnel. Documentation to certify that the required Town personnel had taken the training was not provided during the audit.

Context

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](#)."

CLERK-TREASURER
TOWN OF SPENCER
AUDIT RESULTS AND COMMENTS
(Continued)

MOVING TRAFFIC VIOLATIONS

Condition and Context

The Town collected fines for moving traffic violations during 2018 without being properly established as a Traffic Violations Bureau in accordance with Indiana Code 34-28-5. None of these moving traffic violations were processed through a court system and court costs were not charged. The fines collected during 2018 totaled \$14,328.

Once Town officials were informed this was not allowed, the Town agreed to discontinue the collection of moving traffic violations and maintain the balance until a determination has been made for the disposition of these funds by the Auditor of State.

Criteria

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)

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

The Town had not established an adequate system of internal control related to financial transactions and reporting. A proper internal control system would include adequate control activities, control environment, performance of risk assessment procedures, and monitoring of internal controls. The Town had not separated incompatible activities related to cash and investments, receipts, payroll approval, and financial close and reporting.

Cash

There were no controls in place to ensure that monthly bank reconciliements were being prepared accurately. There was no segregation of duties, such as an oversight, review, or approval process.

Receipts

The Deputy Clerk-Treasurer was solely responsible for all aspects of receipting and depositing the monies of the Town. The Billing/Customer Clerk was solely responsible for all aspects of receipting and depositing the monies of Wastewater Utility. There was no segregation of duties, such as an oversight, review, or approval process.

CLERK-TREASURER
TOWN OF SPENCER
AUDIT RESULTS AND COMMENTS
(Continued)

Payroll Approvals

Controls over the approval of payroll time sheets were not considered effective, since several instances were identified where employee time sheets were not approved by the appropriate official or department head.

Financial Close and Reporting

The Clerk-Treasurer entered and submitted the financial information for the City into Gateway, which was the source for the AFR's and financial statements. There was no evidence of a control, such as an oversight, review, or approval process to ensure the accuracy of the information entered and submitted.

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:

"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. . . . 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."

CLERK-TREASURER
TOWN OF SPENCER
AUDIT RESULTS AND COMMENTS
(Continued)

"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. . . ."

"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 SPENCER
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2019, with Cheryl Moke, Clerk-Treasurer, and Michael Spinks, President of the Town Council.

TOWN COUNCIL
TOWN OF SPENCER

TOWN COUNCIL
TOWN OF SPENCER
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

No documentation was provided during the audit to indicate that the required personnel had received the training on internal control standards.

Criteria

Indiana Code 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 SPENCER
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2019, with Cheryl Moke, Clerk-Treasurer, and Michael Spinks, President of the Town Council.