

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF WEST BADEN SPRINGS

ORANGE COUNTY, INDIANA

January 1, 2016 to December 31, 2018



FILED
12/27/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Cathy L. Carnes	01-01-16 to 12-31-19
President of the Town Council	Steve White Billy Shipman	01-01-16 to 12-31-16 01-01-17 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF WEST BADEN SPRINGS, ORANGE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of West Baden Springs (Town), for the period from January 1, 2016 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

December 5, 2019

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CLERK-TREASURER
TOWN OF WEST BADEN SPRINGS

CLERK-TREASURER
TOWN OF WEST BADEN SPRINGS
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Condition and Context

There were several deficiencies in the internal control system of the Town and Wastewater Utility related to financial transactions and reporting as follows:

Annual Financial Reports

Segregation of duties related to the preparation of the Town's Annual Financial Reports (AFR) in the Indiana Gateway for Government Units (Gateway) financial reporting system were not adequately documented. There was no evidence of an oversight, review, or approval process of the AFRs.

Cash and Investments

Segregation of duties related to the Town's and the Wastewater Utility's bank reconciliation process was not properly documented. There was no evidence of an oversight, review, or approval of the bank reconciliations by someone other than the person who prepared them. The individual preparing the bank reconciliations also had duties involved with the receipting and disbursement processes.

Receipts

The Town's receipts were issued by one individual who was also responsible for reconciling the day's collections; preparing deposits, and making bank deposits. There was no evidence of an oversight, review, or approval process over receipt transactions.

One individual was responsible for preparing customer billings; accepting and posting customer payments; posting adjustments to customer accounts; reconciling daily collections; preparing and making bank deposits; and recording financial transactions to the Wastewater Utility ledger.

Disbursements

Segregation of duties over the Town's disbursements was not evident. One individual was responsible for issuing checks and recording the disbursement transactions in the ledger. This same individual was also responsible for performing bank reconciliations without any oversight or review.

The individual responsible for preparing claims, preparing checks, and recording disbursement transactions to the Wastewater Utility ledger and had access to blank pre-signed checks. This same individual was also responsible for performing bank reconciliations and collecting funds.

Monitoring of Controls and Assessment of Risk

The Town had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the Town to monitor and assess the quality of the system of internal control.

CLERK-TREASURER
TOWN OF WEST BADEN SPRINGS
AUDIT RESULTS AND COMMENTS
(Continued)

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:

"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."

"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. . . ."

"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. . . .

CLERK-TREASURER
TOWN OF WEST BADEN SPRINGS
AUDIT RESULTS AND COMMENTS
(Continued)

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. . . ."

CAPITAL ASSETS

Condition and Context

All assets owned by the Town were not properly listed and identified on the Town's capital asset ledger.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Clerk-Treasurer had incorrectly certified in 2016 and 2018 that the Town had not adopted an Internal Control Policy, when in fact, they had adopted the policy in March of 2016.

The Clerk-Treasurer incorrectly certified in Gateway that Town personnel had received training regarding internal control standards for 2016, 2017, and 2018. As of the current date, no training has been provided to any Town personnel.

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 WEST BADEN SPRINGS
EXIT CONFERENCE

The contents of this report were discussed on December 5, 2019, with Cathy L. Carnes, Clerk-Treasurer; Billy Shipman, President of the Town Council; and John Carnes, Town Council member.

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TOWN COUNCIL
TOWN OF WEST BADEN SPRINGS

TOWN COUNCIL
TOWN OF WEST BADEN SPRINGS
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

Training on internal control standards and procedures had not been provided to Town personnel.

Criteria

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."

TOWN COUNCIL
TOWN OF WEST BADEN SPRINGS
EXIT CONFERENCE

The contents of this report were discussed on December 5, 2019, with Cathy L. Carnes, Clerk-Treasurer; Billy Shipman, President of the Town Council; and John Carnes, Town Council member.