

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF EARL PARK

BENTON COUNTY, INDIANA

January 1, 2017 to December 31, 2019



FILED
04/17/2020

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Financial Transactions	6
Overdrawn Cash Balances	6-7
MVH Restricted Fund.....	7
Exit Conference	8
Town Council:	
Audit Results and Comments:	
Financial Transactions	10
Overdrawn Cash Balances	10
Exit Conference	11

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kristen Hardebeck	01-01-17 to 12-31-20
President of the Town Council	Phillip McGinnis	01-01-17 to 12-31-20



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 EARL PARK, BENTON COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Earl Park (Town), for the period from January 1, 2017 to December 31, 2019. 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 opinions 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

April 7, 2020

(This page intentionally left blank.)

CLERK-TREASURER
TOWN OF EARL PARK

CLERK-TREASURER
TOWN OF EARL PARK
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions. The Town had not separated incompatible activities related to the receipts area of the financial statements. A separation of duties had not been designed or implemented, to prevent or detect and correct errors.

The Clerk-Treasurer issued the official receipts, recorded the receipts to the computerized accounting system, prepared the bank deposits, and completed the bank reconciliations. The Town did not have enough employees to provide adequate segregation of duties. The Town Council did provide oversight of monthly fund reports; however, a documented oversight or review process at the receipt transaction level was not designed or implemented to prevent or detect and correct errors.

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. . . ."

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Reports B43404 and B48905.

Condition and Context

The Town's Sanitation fund had a \$6,833, \$10,290, and \$14,862 overdrawn cash balance at December 31, 2017, 2018, and 2019, respectively.

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

Criteria

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)

MVH RESTRICTED FUND

Condition and Context

In 2019, the Town failed to create and report the MVH Restricted sub-fund, Fund 203, as directed by the State Examiner. In addition, the Town failed to allocate or deposit at least 50 percent of the distributions from the State Motor Vehicle Highway Account at the time of receipt into a MVH Restricted sub-fund.

Criteria

The purpose of this Directive is to authorize and require . . . cities, and towns that receive distributions from the State Motor Vehicle Highway Account to create a new sub-fund within the MVH Fund to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018. (State Examiner Directive 2018-2)

On the chart of accounts, the MVH Fund and MVH Restricted sub-fund shall be shown as follows: . . . Cities and Towns Fund 201 MVH Fund 203 MVH Restricted. Together, MVH and MVH Restricted shall constitute the total MVH Fund. MVH and MVH Restricted will be shown separately on the Annual Financial Report . . . (State Examiner Directive 2018-2)

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted. (State Examiner Directive 2018-2)

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

CLERK-TREASURER
TOWN OF EARL PARK
EXIT CONFERENCE

The contents of this report were discussed on April 7, 2020, with Kristen Hardebeck, Clerk-Treasurer, and Phillip McGinnis, President of the Town Council.

TOWN COUNCIL
TOWN OF EARL PARK

TOWN COUNCIL
TOWN OF EARL PARK
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions. The Town had not separated incompatible activities related to the receipts area of the financial statements. A separation of duties had not been designed or implemented, to prevent or detect and correct errors.

The Clerk-Treasurer issued the official receipts, recorded the receipts to the computerized accounting system, prepared the bank deposits, and completed the bank reconciliations. The Town did not have enough employees to provide adequate segregation of duties. The Town Council did provide oversight of monthly fund reports; however, a documented oversight or review process at the receipt transaction level was not designed or implemented to prevent or detect and correct errors.

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. . . ."

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Reports B43404 and B48905.

Condition and Context

The Town's Sanitation fund had a \$6,833, \$10,290, and \$14,862 overdrawn cash balance at December 31, 2017, 2018, and 2019, respectively.

Criteria

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)

TOWN COUNCIL
TOWN OF EARL PARK
EXIT CONFERENCE

The contents of this report were discussed on April 7, 2020, with Kristen Hardebeck, Clerk-Treasurer, and Phillip McGinnis, President of the Town Council.