

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF KEMPTON

TIPTON COUNTY, INDIANA

January 1, 2017 to December 31, 2019



FILED
05/13/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Rebecca Sherrill	01-01-17 to 12-31-20
President of the Town Council	Adam Troy Bitner Duane Powell Alice Book	01-01-17 to 12-31-19 01-01-20 to 03-24-20 03-25-20 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF KEMPTON, TIPTON COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Kempton (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 30, 2020

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CLERK-TREASURER
TOWN OF KEMPTON

CLERK-TREASURER
TOWN OF KEMPTON
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Condition and Context

There were deficiencies in the internal control system for the Town related to financial transactions and reporting. The Town had not separated incompatible activities related to receipts, wastewater utility disbursements, and financial close and reporting. The failure to establish these controls enabled material misstatements to occur and remain undetected.

Receipts

The Town had not properly designed and implemented proper segregation of duties related to receipts. Receipts were reconciled with deposits; however, there was no oversight or review to ensure receipts were recorded in the proper fund.

Wastewater Utility Disbursements

The Town did not have controls in place to ensure accurate recording of wastewater utility disbursements. There was no oversight or review process.

Financial Close and Reporting

The Clerk-Treasurer entered financial information into the Indiana Gateway for Government Units (Gateway) financial reporting system, which is the source of the Annual Financial Report and financial statements. There was no oversight or review process prior to submission in the Gateway system.

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. . . ."

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

ANNUAL FINANCIAL REPORT

Condition and Context

The Clerk-Treasurer input the financial information for the Annual Financial Report into the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statements. The financial statements presented for audit contained the following errors:

1. The Motor Vehicle Highway fund was understated for disbursements by \$400 in 2017.
2. The Grant fund was understated for receipts and disbursements by \$34,750 in 2017.
3. The Kempton Utilities fund was understated for receipts by \$153 and disbursements by \$3,202 in 2018.
4. The Wastewater Utility Bond & Interest fund was understated for receipts and disbursements by \$24,364 in 2018.
5. The Wastewater Utility Reserve fund was understated for receipts and disbursements by \$4,873 in 2018.
6. The Kempton Utilities fund was overstated for disbursements by \$2,999 in 2019.
7. The Wastewater Utility Bond & Interest fund was understated for receipts and disbursements by \$24,365 in 2019.
8. The Wastewater Utility Reserve fund was understated for receipts and disbursements by \$4,873 in 2019.

Audit adjustments were proposed, accepted by the Town, 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](#)."

MOTOR VEHICLE HIGHWAY RESTRICTED FUND

Condition and Context

Effective January 1, 2019, State Examiner Directive 2018-02 established that 50 percent of State Motor Vehicle Highway distributions shall be maintained in a Motor Vehicle Highway Restricted Fund to be allocated for construction, reconstruction, and preservation of the Town's highways.

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

As of December 31, 2019, the Town had not created the Motor Vehicle Highway Restricted Fund and was not allocating 50 percent of State Motor Vehicle Highway distributions for construction, reconstruction, and preservation of the Town's highways.

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 the House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018. (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)

CLERK-TREASURER
TOWN OF KEMPTON
EXIT CONFERENCE

The contents of this report were discussed on April 30, 2020, with Rebecca Sherrill, Clerk-Treasurer, and Alice Book, President of the Town Council.