

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF OTTERBEIN

BENTON COUNTY, INDIANA

January 1, 2016 to December 31, 2019



FILED
05/21/2020

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Result and Comment:	
Financial Transactions and Reporting	6
Official Response.....	7-8
Exit Conference	9

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Treeva Sarles	01-01-16 to 12-31-20
President of the Town Council	Kevin Burk Rick Hadley Amy Brown	01-01-16 to 12-31-17 01-01-18 to 12-31-18 01-01-19 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF OTTERBEIN, BENTON COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Otterbein (Town), for the period from January 1, 2016 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 Result and Comment contained herein describes the identified reportable instance 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 Result and Comment, 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 OTTERBEIN

CLERK-TREASURER
TOWN OF OTTERBEIN
AUDIT RESULT AND COMMENT

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not adequately documented a separation of duties for incompatible activities related to cash and investments, payroll disbursements, and financial reporting.

Cash and Investments

The monthly bank reconcilements were prepared by one employee without a documented oversight or review process. A new procedure to document a review process was implemented beginning with the January 2020 bank reconcilements.

Payroll Disbursements

Officials stated that a review process had been established to ensure that payroll disbursements were posted properly and accurately; however, evidence of the oversight or approval process was not documented, nor retained on the distribution report, that detailed the amount disbursed per employee by fund.

Financial Reporting

The financial information was prepared and electronically submitted through the Indiana Gateway for Government Units financial reporting system, which was the basis for the Town's financial statements. An oversight or review process had not been documented to prevent, or detect and correct errors, and to ensure that the financial information recorded and reported was accurate and complete.

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. Clear documentation should be maintained for continuity as well as ease of communication to outside parties."



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May 19, 2020

State Board of Accounts
302 West Washington St., Room E418
Indianapolis, IN 46204-2765
Sent Electronically to ldavid@sboa.in.gov

OFFICIAL RESPONSE:

To Whom It May Concern:

The Town of Otterbein would like to make the following response to the Internal Control deficiencies opinion of State Board of Accounts.

First regarding Internal Controls in general:

It has been a difficult and time-consuming process in which we have been required to create internal controls for our municipality; with little training or guidance as to the expectations of State Board of Accounts.

This is the first audit since this has been implemented. When this was first implemented, the guidance was, based on the size of the community, would somewhat dictate how we would handle internal controls with 1-2 people offices. The Council would have to work to put together the best internal controls for our town and decide what risk they are willing to take. They used this as our guide to make the best decisions to protect our town with the knowledgeable manpower we have (without the expense of hiring more employees) for the tasks that were important to protect the financial integrity of our town. They have done this well. SBOA during audit stated they can not tell us what to fix, just make suggestions. However, they feel the need to say what the Council feels appropriate is not good enough. This is what is resulting in this one audit comment, which has 3 components. Therefore, let it be known that we can only attempt to correct what we felt was already good internal controls, and that we feel can be proven. However, we will not know until the next audit if these attempts below are sufficient with the auditor at that time; as different auditors see the same topic in differences of opinions as to what should or should not be acceptable. These should not be based on individual auditor opinions

but by specific requirements that can be fairly distributed to all towns throughout the State of Indiana.

Now I will address the individual Internal Control audit comment, components below:

Cash and Investments Monthly Bank Reconcilements. As stated by SBOA in the audit comment. We already corrected this process. This was adding one step to our process. The step we added was: A log sheet has been created to show the Deputy Clerk-treasurer prints off the bank statements and documents the balance; and verifies by initial on the log, (once the Clerk-Treasurer performs the reconciliation) that the reconciliation does balance to the amount she documented on the log.

In regards to payroll disbursements, this has been the most confusing. Several aspects of the review process are being documented satisfactory. We disagree that the approval process is not satisfactory. The gross amount of payroll, broken down by appropriation and the net amount of wages do appear to the claims register to be approved by council. The detail amount by employee from the payroll fund; can be cross-referenced to the amount on the claims register. This report can be generated at anytime for a verification. What they are stating they cannot prove; is that the verification is actually happening. The Clerk-Treasurer does this process, but there is no documentation that she does. The Clerk-Treasurer will now print the report and initial that the verification has happened and the report will be kept with other payroll documentation.

In response to the annual report being prepared and submitted to the gateway by the same individual. That is correct. This will be by having the Deputy Clerk-Treasurer compare the year-end financial reports to the annually report being submitted. A copy of the annual report will be printed and the Deputy Clerk-Treasurer will initial that she has reviewed for accuracy; as she is the person with the most knowledge to review the financial information being posted by the Clerk-Treasurer.

Lastly, let it be known that the Council does review reports on a monthly basis given to them by the Clerk-Treasurer via email, so email can verify that the Council receives the fund report and the appropriation report on a monthly basis. The Clerk-Treasurer also gives an annual financial report every year during the Council meeting and the minutes reflects she does. She also gives financial reports periodically as she feels the need for the Council to be aware of cash flow issues or before or during a major project. The minute reflects when she gives council financial review during a council meeting. The Council feels they are very involved and informed in the financial aspects of the town and are confident that the financial integrity of the town is sound and good based on the internal controls the town has implemented.

Sincerely,



Treeva, Sarles, IAMC, MMC, CPM

Clerk-Treasurer

CLERK-TREASURER
TOWN OF OTTERBEIN
EXIT CONFERENCE

The contents of this report were discussed on April 30, 2020, with Treeva Sarles, Clerk-Treasurer; Amy Brown, President of the Town Council; Doyle Allison, Town Council member; and Jackey Apache, Town Council member.