

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF PARAGON

MORGAN COUNTY, INDIANA

January 1, 2017 to December 31, 2019



FILED
05/26/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Debbie Ellis Angelia Roberts	01-01-17 to 12-31-18 01-01-19 to 12-31-22
President of the Town Council	James Martin Evelyn Zoller	01-01-17 to 07-31-19 08-01-19 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF PARAGON, MORGAN COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Paragon (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

May 20, 2020

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CLERK-TREASURER
TOWN OF PARAGON

CLERK-TREASURER
TOWN OF PARAGON
AUDIT RESULTS AND COMMENTS

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Clerk-Treasurer incorrectly certified in the Annual Financial Report that Town employees had received training in regards to internal control standards.

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](#)."

UNPAID INTERFUND LOANS

The same comment also appeared in prior Reports B38722, B42007, and B49952.

Condition and Context

As of the date of this report, there are 12 outstanding temporary loans between funds, which total \$118,000. There were no additional temporary loans made between funds in the current audit period. The outstanding interfund loans as of December 31, 2019, are as follows:

Fund Receiving Loan	Fund Making Loan	Date Loan Made	Amount Unpaid
General	Water Depreciation	10-03-06	\$ 5,000
Water Operating	Sewage Bond and Interest	08-09-07	5,000
Sewage Bond and Interest	Sewage Depreciation	03-28-08	45,000
Sewage Operating	Storm Water Operating	02-26-09	5,000
General	Motor Vehicle Highway	04-30-09	1,000
General	Motor Vehicle Highway	06-05-09	8,000
General	Motor Vehicle Highway	01-14-10	10,000
Sewage Operating	Economic Development Income	01-27-10	14,000
Water Operating	Economic Development Income	12-27-10	2,000
Sewage Operating	Motor Vehicle Highway	01-13-11	10,000
Sewage Operating	Storm Water Operating	01-13-11	11,000
Sewage Operating	Storm Water Operating	07-22-11	2,000
Total			<u>\$ 118,000</u>

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

Criteria

Indiana Code 36-1-8-4 states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met: . . .

(3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.

(4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

(1) Passes an ordinance or a resolution that contains the following:

(A) A statement that the fiscal body has determined that an emergency exists.

(B) A brief description of the grounds for the emergency.

(C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.

(2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

INTERNAL CONTROLS

Condition and Context

There was a deficiency in the internal control system of the Town related to financial transactions and reporting. The Town had not separated incompatible activities related to financial close and reporting.

The Clerk-Treasurer entered the Town's financial information into the Indiana Gateway for Government Units financial reporting system, which was the source of the Annual Financial Reports and financial statements. There was no evidence of a review, oversight, or approval process prior to the submission.

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:

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

"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. . . ."

CLERK-TREASURER
TOWN OF PARAGON
EXIT CONFERENCE

The contents of this report were discussed on May 20, 2020, with Angelia Roberts, Clerk-Treasurer; Evelyn Zoller, President of the Town Council; and Rick Black, Town Council member.

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TOWN COUNCIL
TOWN OF PARAGON

TOWN COUNCIL
TOWN OF PARAGON
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

As of December 31, 2019, the Clerk-Treasurer had not completed the required training on internal control standards.

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 PARAGON
EXIT CONFERENCE

The contents of this report were discussed on May 20, 2020, with Angelia Roberts, Clerk-Treasurer; Evelyn Zoller, President of the Town Council; and Rick Black, Town Council member.