B55329

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF ROYAL CENTER

CASS COUNTY, INDIANA

January 1, 2019 to December 31, 2019

FILED
05/26/2020

TABLE OF CONTENTS

Description	Page
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Internal Controls	6-7
Annual Financial Report	7
Exit Conference	8
Town Council:	
Audit Result and Comment:	
Internal Controls	10
Exit Conference	11

SCHEDULE OF OFFICIALS

Office	Official	Term
Clerk-Treasurer	Leah Campbell	01-01-19 to 03-31-19
	Katie Pearson	04-01-19 to 12-31-20
President of the Town Council	Marion Campbell	01-01-19 to 12-31-19
	Berthold Stover	01-01-20 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 ROYAL CENTER, CASS COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Royal Center (Town), for the period from January 1, 2019 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 Statement Audit Report of the Town, which provides our opinions on the Town's financial statement. 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 19, 2020

(This page intentionally left blank.)

CLERK-TREASURER
TOWN OF ROYAL CENTER

INTERNAL CONTROLS

A similar comment appeared in prior Report B55305, entitled *INTERNAL CONTROLS.*

Condition and Context

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

Receipts

The Town did not have controls in place to ensure accurate recording and reporting of receipts. The Clerk-Treasurer was solely responsible for the receipting process without an oversight or review process.

Disbursements

The Town did not have controls in place to ensure accurate recording and reporting of disbursements. While disbursements were reviewed for amount and fund, there was no oversight or review for the classification of disbursements.

Financial Reporting

The Clerk-Treasurer entered and submitted financial information into the Indiana Gateway for Government Units financial reporting system, which was the source of the Annual Financial Report and the financial statement. There was no oversight or review process to ensure accuracy prior to 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:

"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. . . ."

ANNUAL FINANCIAL REPORT

A similar comment appeared in prior Report B55305, entitled *ANNUAL FINANCIAL REPORT.*

Condition and Context

The Town's financial information reported in the Annual Financial Report and the financial statement presented for audit included the following errors:

1. The January 1, 2019 Wastewater Construction Fund cash and investments balance was understated by $479,742, and receipts were overstated by the same amount, for amounts actually received in 2018.

2. Disbursements for a $1,378,655 bond payoff were reported as Capital Outlay, but should have been classified as Debt Service - Principal and Interest.

3. The Town omitted $879,000 and $475,000 from the 2019A and 2019B Sewage Revenue Bonds, respectively, from the Changes in Long-term Debt schedule in the Notes to Financial Statement. This resulted in the understatement of the Principal Additions, Ending Principal Balance 12-31-19, and Principal and Interest Due Within One Year.

Audit adjustments were proposed, accepted by the Town, and made to the financial statement and notes to the financial statement.

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."

CLERK-TREASURER
TOWN OF ROYAL CENTER
EXIT CONFERENCE

The contents of this report were discussed on May 19, 2020, with Katie Pearson, Clerk-Treasurer, and Berthold Stover, President of the Town Council.

TOWN COUNCIL
TOWN OF ROYAL CENTER

INTERNAL CONTROLS

A similar comment appeared in prior Report B55305, entitled *INTERNAL CONTROLS*.

Condition and Context

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

Receipts

The Town did not have controls in place to ensure accurate recording and reporting of receipts. The Clerk-Treasurer was solely responsible for the receipting process without an oversight or review process.

Disbursements

The Town did not have controls in place to ensure accurate recording and reporting of disbursements. While disbursements were reviewed for amount and fund, there was no oversight or review for the classification of disbursements.

Financial Reporting

The Clerk-Treasurer entered and submitted financial information into the Indiana Gateway for Government Units financial reporting system, which was the source of the Annual Financial Report and the financial statement. There was no oversight or review process to ensure accuracy prior to 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:

"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. . . ."

TOWN COUNCIL
TOWN OF ROYAL CENTER
EXIT CONFERENCE

The contents of this report were discussed on May 19, 2020, with Katie Pearson, Clerk-Treasurer, and Berthold Stover, President of the Town Council.