

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SCOTT TOWNSHIP

VANDERBURGH COUNTY, INDIANA

January 1, 2018 to December 31, 2021



**FILED**  
12/12/2022



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Trustee	Bob F. Harris (deceased)	01-01-18 to 04-17-21
	Barbara Harris	04-18-21 to 05-31-21
	Keith Kahre	06-01-21 to 12-31-22
Chair of the Township Board	Jim McCutchan	01-01-18 to 12-31-19
	Steve Jackson	01-01-20 to 12-31-20
	Keith Kahre	01-01-21 to 05-31-21
	Jim McCutchan	06-01-21 to 12-31-21
	Michael Kane	01-01-22 to 12-31-22



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE SCOTT TOWNSHIP, VANDERBURGH COUNTY, INDIANA

This report is supplemental to our audit report of the Scott Township (Township), for the period from January 1, 2018 to December 31, 2021. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Township. It should be read in conjunction with our Financial Statements Audit Report of the Township, which provides our opinions on the Township's financial statements. This report may be found at [www.in.gov/sboa/](http://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.

Beth Kelley, CPA, CFE  
Deputy State Examiner

November 17, 2022

SCOTT TOWNSHIP, VANDERBURGH COUNTY  
AUDIT RESULTS AND COMMENTS

**CAPITAL ASSETS**

*Condition and Context*

The Township had not properly maintained a complete detailed inventory of capital assets owned, nor has the Township conducted a physical inventory. In addition, the Township did not have a Capital Asset Policy documenting the capital asset threshold. The Schedule of Capital Assets was not supported and was subsequently removed from the Annual Financial Report.

*Criteria*

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity 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](#)."

**INTERNAL CONTROLS**

A similar comment also appeared in prior Report B51093, entitled *INTERNAL CONTROLS*.

*Condition and Context*

There were several deficiencies in the internal control system of the Township related to financial transactions and reporting. The failure to established effective controls could have enabled material mis-statements to occur and remain undetected. There was no segregation of duties as the Township had not separated incompatible activities related to financial close and reporting, cash and investments, receipts, vendor disbursements, and payroll disbursements.

A process was not in place to develop a complete system of internal controls taking into consideration the Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities.

*Financial Close and Reporting*

The Township stated that they had established internal control procedures over financial close and reporting. The Township Clerk prepared and reported the Annual Financial Report (AFR). however, no evidence was presented for audit that indicated that the Township Board did a review of the AFR prior to submission.

SCOTT TOWNSHIP, VANDERBURGH COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

*Cash and Investments*

The Township stated that they had established internal control procedures over the bank reconcilements. The Township Clerk prepared the bank reconcilements; however, there was no indication of a review to verify that the bank reconcilements were accurate.

*Receipts*

Effective controls had not been developed over the receipting process from January 1, 2018 to May 31, 2021. The Township Clerk issued the receipts, prepared and made deposits, and posted receipts; there was no indication of a review to verify that the receipts were accurate or properly recorded in the ledger.

*Vendor Disbursements*

Effective controls had not been developed over vendor disbursement process from January 1, 2018 to May 31, 2021. When an order was received, all items on the invoice were confirmed to verify receipt of the item and the invoice was given to the Township Clerk to process payment. The Township Clerk prepared all the vendor checks and posted the payments; there was no indication of a review to verify that the disbursement was accurate.

*Payroll Disbursements*

Effective controls had not been developed over payroll disbursement process from January 1, 2018 to May 31, 2021. The Trustee collected and approved all timecards and gave them to the Township Clerk to prepare the payroll checks. There was no indication of a review to verify that the payroll and payroll deductions were accurate.

*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:

"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."

SCOTT TOWNSHIP, VANDERBURGH COUNTY  
 AUDIT RESULTS AND COMMENTS  
 (Continued)

"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. . . ."

"Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information. Internal communication enables personnel to receive a clear message that control responsibilities are taken seriously by the organization. External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . ."

**OVERDRAWN CASH BALANCES**

*Condition and Context*

The Township's financial statements included the following funds with overdrawn cash balances at December 31, 2020 and 2021:

Fund	Amount Overdrawn	
	2020	2021
Ball Park	\$ 627	\$ 1,613
Payroll Deduction	101	1,207

*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 Townships, Chapter 1).

SCOTT TOWNSHIP, VANDERBURGH COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on November 17, 2022, with Keith Kahre, Trustee; Kyndel Craig, Township Clerk; and Michael Kane, Chair of the Township Board.