INDIANA STATE BOARD of ACCOUNTS

City and Town Court Judge Orientation

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Indianapolis

Introduction – SBOA Contact Information

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**SBOA – An Overview**

**What is the State Board of Accounts?**

- Audits the records & accounts of all state and local governmental units
- Prepares reports indicating the financial condition of these units & noting any noncompliance with laws.
- Prescribed uniform system of accounting
“We are dedicated to providing the citizens of the State of Indiana with complete confidence in the integrity and financial accountability of state and local government.”
Internal Controls

Indiana State Board of Accounts

Why internal controls?

What are internal controls?
Indiana Code 5-11-1-27(e):

“... the state board of accounts shall define ... the acceptable minimum level of internal control standards and internal control procedures for internal control systems of political subdivisions, including the following:

1. Control environment.
2. Risk assessment.
3. Control activities.
4. Information and communication.
5. Monitoring.

The internal control standards and procedures shall be developed to promote government accountability and transparency.”
Internal Control Training

• [www.in.gov/sboa]
• Navigate to ‘cities’ or ‘towns’
• Scroll down to **Internal Control Standards**
• Then **Training**
• Find this

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Internal Controls – What Are They?

• Internal control is a **process** executed by officials and employees that is designed to provide reasonable assurance that the objectives of the political subdivision will be achieved.

• It is a basic element **fundamental** to the organization, rather than a list of added on tasks;

• It is an **adaptable** process that is a means to an end, not an end in itself;

• It is **focused** on the achievement of objectives; and

• It is **dependent** on officials and employees for effective implementation.

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Internal Controls – What Are They?

- Organizational roles are important
- All members of a city or town, including elected officials, board members, and employees full fill a role in the internal control system
- Leadership is key – the tone is set at the top
- Clear support from leadership engages a successful, effective internal control system

Internal Control Objectives

**Operations Objectives**
Operational & performance goals; best use of resources

**Reporting Objectives**

**Compliance Objectives**
Adherence to laws & regulations
Internal Controls – What Are They?

Components of Internal Control

- Control Environment
- Risk Assessment
- Control Activities
- Information & Communication
- Monitoring
Creating Internal Controls – Getting Started

Don’t reinvent the wheel
- Identify existing controls

Document, document, document
- Write down assigned tasks
- Make lists

Creating Internal Controls – Getting Started (continued)

Establish Control Environment
- “Tone at the top”
- Missions, goals, and objectives
- Structure, organization, reporting chains

Review & Analyze Current Controls
- Look for weak areas
- Assess risk & take appropriate actions
Creating Internal Controls – Getting Started (continued)

Evaluate Resources
- Staffing levels, other assets

Assign Duties/Tasks/Activities
- Control activities

Communicate
- Handbooks, training sessions, etc.

Creating Internal Controls – Getting Started (continued)

Monitoring
- Implement controls to ensure everything you’ve established is being completed

- Obtaining goals & objectives?
  - If not – modify existing controls
Segregation of Duties v. Compensating Controls

Splitting duties between individuals
- Preventative controls – segregated duties can prevent errors & irregularities
- No single person authorizing, recording, custody of transactions
- More difficult with fewer employees
  - Compensating controls may be necessary

Compensating for lack of segregation of duties
- One employee
- Control should prevent or detect errors or misstatements
- One person performs – another reviews/approves
  - Bank Reconciliation
  - Revenue reports
Internal Controls – What Do They Do / Don’t Do

**What Do They Do:**

- Preventative
  - Designed to prevent errors/irregularities
- Detective
  - Designed to detect undesirable occurrences
- Promote effective operations
- Safeguard resources
  - Loss due to waste, misuse, fraud, etc.
- Develop reliable data for accurately reporting

**What Don’t They Do:**

- Catch everything
  - Reduces risk / doesn’t 100% eliminate it
- Result from strong policies & procedures
- They don’t always work
  - If not effective, re-assess and make changes
Case Studies

Do internal controls really matter?

??????

Objective – Timely and Accurate Bank Reconciliements
Bank Reconcilements – Why?

**IC 5-13-6-1(e)**
- Requires reconcilement at least monthly the balance disclosed in your records with the bank statements provided by your financial institutions.

Without such a reconcilement, you won’t truly be able to know how much money your city/town has available.
- Necessary in order to make good financial decisions.

Bank Reconciliation Process – Internal Controls

- **Segregate Duties**
- **Have multiple people involved in the process**
- **No one person should be able to**
  - Receive money
  - Make deposits
  - Post Records
  - Write Checks
  - And Perform the Reconciliation
- **Controls should include review of reconciliation**
Internal Controls Case Study – Bank Reconciliation

Monthly Bank Reconciliation
  - Ind. Code 5-13-6-1

Unidentified Transactions

Communication
  - Notified bank – loss timely reimbursed

Receipts – Process for Receipting Money
Receipt Process

“Receipts shall be issued and recorded at the time of the transaction.”
(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

IC 5-13-6-1(d)

- Requires deposit of funds not later than the next business day following receipt of the funds into one of the city or town’s depositories.

Exception: IC 5-13-6-1(g)

- A city/town is not required to deposit funds by the next business day if the funds on hand do not exceed $500.

Court Collections

- Court Costs
- Other Fees
- Fines
- Judgments
Receipt Process – Internal Controls

- **Segregate Duties**
- **Have multiple people involved in the process**
- **No one person should be able to**
  - Receive money
  - Make deposits
  - Post Records
- **Reviews – fees collected, deposits match receipts issued, etc.**

Internal Controls Case Study – Receipts

- **Historical Comparison**
  - Reviewed receipts over a certain period

- **Unexplained Variances**
  - Significant decline noticed

- **Communication**
  - Notified SBOA and law enforcement

- Court Audit Reports
Disbursement Process

Court Distributions

- State
- County
- City or Town Fiscal Officer
Unclaimed Money

• All items that can be legally disbursed should be paid immediately to the person or persons entitled thereto.

• All fees and funds five or more years old, including old outstanding checks, should be scheduled on forms provided by the Attorney General and paid over to the Attorney General as required by IC 32-34-1-20(c).

• Items should not be allowed to accumulate beyond the five year anniversary date.

Clerk’s Record Perpetuation Fund – Sources
IC 33-37-5-2

• Revenue received by the clerk for transmitting documents by facsimile machine to a person under IC 5-14-3.

• Document storage fees required under section 20 of this chapter.

• Fees for preparing a transcript or copy of any record under section 1 of this chapter.
Clerk’s Record Perpetuation Fund – Uses
IC 33-37-5-2

- The preservation of records.
- The improvement of record keeping systems and equipment.
- Case management system.

Take Action

- Review Internal Control Manual
- Establish and Document Procedures
- Address all Five Internal Control Components
- Update Procedures as Needed
Reporting Losses, Variances, and Thefts

- IC 5-11-1-27(j)
- “Material” variances, losses, shortages, or thefts to be reported to SBOA
- City/town council must determine a materiality amount [State Examiner Directive 2015-6]

Misappropriation of public funds (loss or theft by public official) is to immediately be reported in writing to:
- SBOA
- County Prosecuting Attorney

No materiality threshold for misappropriation of public funds [State Examiner Directive 2015-6]
Responsibilities under IC 5-11-1-27

Pursuant to IC 5-11-1-27, all political subdivisions are required to report to us all erroneous or irregular material variances, losses, shortages, or thefts of local funds or property. For the purposes of this IC section, material is defined by the State Examiner in State Examiner Directive 2015-6. Please use the following form to report this information to us. All fields are required.

Name: *  
First Name  
Last Name  
Email: *
Contact Information

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