

B37443

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

AUDIT REPORT

OF

TOWN OF LYNNVILLE

WARRICK COUNTY, INDIANA

January 1, 2008 to December 31, 2009



FILED
08/23/2010

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sheridan Jones	01-01-08 to 12-31-11
President of the Town Council	Catherine Wilson Bruce Clark	01-01-08 to 06-26-10 06-27-10 to 12-31-10



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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE TOWN OF LYNNVILLE, WARRICK COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lynnville (Town), as of and for the years ended December 31, 2008 and 2009, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the Town prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Town's management did not report accurate information in the Annual Report filed with the Indiana State Board of Accounts for the years audited. The Annual Report is used to compile the GASB 34 cash basis financial statements. Therefore, accurate GASB 34 financial statements were not presented for audit. The cash receipts, disbursements, and balances as shown in the Annual Report, for the years ended December 31, 2008 and 2009, do not reconcile to the unit's books and ledgers nor do they reconcile to the corresponding bank statements. A statement showing beginning cash balances, cash receipts, cash disbursements and ending cash balances was presented for audit. These statements differ from the statements required by accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these statements and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of December 31, 2008 and 2009, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note 1.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

In accordance with Government Auditing Standards, we have also issued a report dated June 28, 2010, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Town has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined are necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial statements. The Schedule of Long-Term Debt has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

June 28, 2010



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE TOWN OF LYNNVILLE, WARRICK COUNTY, INDIANA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lynnville (Town), as of and for the years ended December 31, 2008 and 2009, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 28, 2010. The opinions to the financial statements were qualified due to the failure to supply timely or accurate financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in items 2009-1 and 2009-2 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider items 2009-1 and 2009-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2009-1 and 2009-2.

The Town's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town's management, the Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 28, 2010

TOWN OF LYNNVILLE
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Years Ended December 31, 2008 And 2009

	Cash and Investments 01-01-08	Receipts	Disbursements	Cash and Investments 12-31-08
Governmental Funds:				
General	\$ 50,869	\$ 113,441	\$ 136,044	\$ 28,266
Motor Vehicle Highway	53,497	31,950	4,602	80,845
Local Road and Street	33,921	8,138	3,866	38,193
Park and Recreation	94,100	95,662	112,152	77,610
Rainy Day	5,729	-	5,729	-
Ballpark Donation	240	-	-	240
Park Donation	540	-	-	540
IHFA Housing	16,183	-	16,183	-
Fire Department	-	69,506	61,892	7,614
Cumulative Capital Improvement	22,798	2,540	-	25,338
Cumulative Capital Development	35,954	21,602	-	57,556
Proprietary Funds:				
Water Utility - Operating	20,325	169,672	185,424	4,573
Water Utility - Bond and Interest	1,747	9,600	-	11,347
Water Utility - Depreciation	60,693	25,200	-	85,893
Water Utility - Customer Deposit	36,291	2,900	1,046	38,145
Water Utility - Debt Service	28,300	-	11,275	17,025
Wastewater Utility - Operating	95,843	704,891	765,371	35,363
Wastewater Utility - Bond and Interest	23,393	32,580	-	55,973
Wastewater Utility - Depreciation	21,042	-	-	21,042
Wastewater Utility - Tecumseh School Line	350	-	-	350
Wastewater Utility - Debt Service	43,950	-	-	43,950
Fiduciary Fund:				
Payroll	-	156,436	151,256	5,180
Totals	<u>\$ 645,765</u>	<u>\$ 1,444,118</u>	<u>\$ 1,454,840</u>	<u>\$ 635,043</u>

	Cash and Investments 01-01-09	Receipts	Disbursements	Cash and Investments 12-31-09
Governmental Funds:				
General	\$ 28,266	\$ 65,444	\$ 68,490	\$ 25,220
Motor Vehicle Highway	80,845	26,470	8,509	98,806
Local Road and Street	38,193	7,135	-	45,328
Park and Recreation	77,610	126,195	107,537	96,268
Ballpark Donation	240	-	-	240
Park Donation	540	-	-	540
Fire Department	7,614	156,555	115,784	48,385
Cumulative Capital Improvement	25,338	1,178	-	26,516
Cumulative Capital Development	57,556	52,057	14,871	94,742
Proprietary Funds:				
Water Utility - Operating	4,573	190,366	193,544	1,395
Water Utility - Bond and Interest	11,347	8,800	355	19,792
Water Utility - Depreciation	85,893	23,100	6,782	102,211
Water Utility - Customer Deposit	38,145	3,327	1,282	40,190
Water Utility - Debt Service	17,025	-	-	17,025
Wastewater Utility - Operating	35,363	304,382	269,888	69,857
Wastewater Utility - Bond and Interest	55,973	29,865	60,037	25,801
Wastewater Utility - Depreciation	21,042	-	-	21,042
Wastewater Utility - Tecumseh School Line	350	-	-	350
Wastewater Utility - Debt Service	43,950	-	-	43,950
Fiduciary Fund:				
Payroll	5,180	198,483	197,942	5,721
Totals	<u>\$ 635,043</u>	<u>\$ 1,193,357</u>	<u>\$ 1,045,021</u>	<u>\$ 783,379</u>

The accompanying notes are an integral part of the financial information.

TOWN OF LYNNVILLE
NOTES TO FINANCIAL STATEMENTS

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety, highways and streets, culture and recreation, public improvements, general administrative services, water, wastewater and urban redevelopment.

Note 2. Fund Accounting

The Town uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Town in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the Town on or prior to December 31 of the year collected.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

TOWN OF LYNNVILLE
AUDIT RESULTS AND COMMENTS

ANNUAL REPORT

Annual reports for 2008 and 2009 were submitted late and were not complete.

IC 5-3-1-3(a) states in part: "Within sixty (60) days after the expiration of each calendar year, the fiscal officer of each civil city and town in Indiana shall publish an annual report of the receipts and expenditures of the city or town . . ."

CUSTOMER DEPOSIT REGISTER (Applies to Water Utility)

The detailed customer deposit register does not reconcile with the customer deposit amount recorded on the Simplified Cash Journal. A similar comment was contained in several prior reports.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS

The Town and the Utilities do not maintain sufficient detailed records of capital assets. Upon purchase, the costs of some capital assets are added to the records. However, records providing historical costs for some of the Town and Utilities' capital assets are not available, and records classifying and summarizing the Town and Utilities' capital assets are incomplete. Deletions or disposals of capital assets are not recorded. A similar comment was contained in several prior reports.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

EXCESS COMPENSATION

The Clerk-Treasurer received \$175 in 2008 and \$175 in 2009 in excess of the salary ordinance.

The overpayment of \$350 was repaid by the Clerk-Treasurer to the Town on June 17, 2010.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF LYNNVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

UTILITY RECEIPTS TAX

The Water Utility did not pay Utility Receipts Tax estimates to the Indiana Department of Revenue as required during 2009. A properly completed Form URT-1 Indiana Utility Receipts Tax Return for 2008 could not be located for audit.

Generally, retail receipts from all utility services consumed within Indiana are subject to the utility receipts tax regardless of the point of generation or transmission across state lines. Receipts from the provision of mobile telecommunication service are subject to utility receipts tax to the extent that the receipts are sourced to Indiana pursuant to Indiana Code 6-8.1-15. However, gross receipts received by a political subdivision for sewage and sewage service are not subject to the tax. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All questions concerning the law or procedure for paying utility receipts tax and filing the Utility Receipts Tax Return should be directed to the Indiana Department of Revenue.

ORDINANCES AND RESOLUTIONS – CUSTOMER DEPOSITS

The Water Utility has an ordinance concerning customer deposits. However, several Water Utility customers did not have a deposit listed in the Guarantee Deposit Register.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PENALTIES, INTEREST, AND OTHER CHARGES

Penalties and interest totaling \$792.38 were paid to the Indiana Department of Revenue on late payments of withholding and sales tax for the audit period.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONDITION OF RECORDS

Financial records presented for audit were incomplete and not reflective of the activity of the Town or Water or Wastewater Utilities. The records presented did not provide sufficient information to audit or establish proper classification of disbursements or the accuracy or correctness of the transactions.

TOWN OF LYNNVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

NONFEASANCE

The Lynnville Clerk-Treasurer failed to post the ledgers for the Town or the Utilities. Therefore bank reconciliements or financial statement preparations were not done on a timely basis as required by Indiana Code.

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

IC 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories"

ORDINANCES AND RESOLUTIONS - BOND PAYMENTS

The Water Utility has an ordinance concerning the 1990 Waterworks Revenue Bonds. However, the 2008 and 2009 bond payments were made from the Wastewater Utility. No loan documentation and no evidence of repayments or corrections were available for audit.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DEPOSITS (Applies to Water and Wastewater Utilities)

In numerous instances, receipts were deposited later than the next business day. A similar comment was included in the prior report

IC 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

TOWN OF LYNNVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

ORDINANCES AND RESOLUTIONS - WATER RATE ORDINANCE

The Water Utility adopted an ordinance on July 1, 2008, concerning an increase in water rates. However, the Clerk-Treasurer did not implement the rate change as required by the ordinance.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TIMELY RECORDKEEPING

We noted instances of months passing from the time of the original date of the transactions until entry was made in the Town or Utilities ledgers.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FINANCIAL REPORT OPINION MODIFICATIONS

Completed (CTAR-1) Annual Financial Reports for the years 2008 and 2009 were not presented for audit. Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Auditors' Report for the financial statements.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE TOWN OF LYNNVILLE, WARRICK COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Lynnville (Town) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the years ended December 31, 2008 and 2009. The Town's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town's compliance with those requirements.

Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A control deficiency in a Town's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

The Town's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town's management, the Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 28, 2010

TOWN OF LYNNVILLE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Years Ended December 31, 2008 and 2009

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-08	Total Federal Awards Expended 12-31-09
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Office of Community and Rural Affairs Community Development Block Grants/State's Program Community Focus Fund	14.228	CF-07-105	\$ 396,522	\$ -
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Pass-Through Indiana Finance Authority Capitalization Grants for Clean Water State Revolving Fund	66.458	WW0647871	<u>139,628</u>	<u>18,558</u>
Total federal awards expended			<u>\$ 536,150</u>	<u>\$ 18,558</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF LYNNVILLE
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Lynnville (Town) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of Towns with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

TOWN OF LYNNVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Adverse

Internal control over financial reporting:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	yes

Noncompliance material to financial statements noted? yes

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	no

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grants/States Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FEDERAL FINDING 2009-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be

TOWN OF LYNNVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.

2. **Monitoring of Controls:** Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.
3. The Town's management did not report accurate information in the Annual Report filed for this audit period. Therefore, the governmental activities are not fairly presented.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FEDERAL FINDING 2009-2, CONDITION OF RECORDS

The following deficiencies, relating to the recordkeeping, were present during our period of audit:

1. Ledgers were not maintained on a timely basis;
2. Ledgers were not extended to show the allocation of different types of expenditures;
3. Monthly bank reconcilements were not performed due to lack of posted records;
4. Annual reports were not filed timely; and
5. Annual reports were not filed accurately.

IC 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF LYNNVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

TOWN OF LYNNVILLE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

**THE TOWN OF LYNNVILLE
312 Church Street
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Lynnville, IN 47619**

**(Phone 812-922-5111)
(Fax 812-922-3264)**

Sheridan Jones

Corrective Action Plan for the following:

FEDERAL FINDING 2009-1

The Town has not identified risks and has failed to design controls over the preparation of the financial statements. The Town Council has not monitored their system of internal controls. The Clerk-Treasurer did not report accurate information on the Annual Report.

Plan to Correct:

Extend appropriations across the ledger in a timely manner so as to have appropriation amounts totaled monthly in order to prepare the Annual Report accurately. Also, have Town Council members monitor the records of the Clerk-Treasurer to see that they are kept in a timely manner.

FEDERAL FINDING 2009-2

The ledgers were not maintained in a timely manner and they were not extended to show the different types of expenditures. Bank reconcilements were not done monthly. Also, the Annual Report was not filed on time or accurately.

Plan to Correct:

maintain ledgers daily and extend to show the types of expenditures. Make sure bank statements are reconciled monthly. Work to prepare the Annual Report on time and accurately.

Sheridan Jones, Clerk-Treasurer
June 28, 2010

TOWN OF LYNNVILLE
EXIT CONFERENCE

The contents of this report were discussed on June 28, 2010, with Sheridan Jones, Clerk-Treasurer; Judith Writsel, Town Council member; and Bruce Clark, Town Council member. The officials concurred with our audit findings.