

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

**Paul D. Joyce, CPA
State Examiner**

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF LYNN

RANDOLPH COUNTY, INDIANA

January 1, 2022 to December 31, 2023



FILED
12/20/2024

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|--|--|
| Clerk-Treasurer | Kaylene Straley Michael Straley III | 01-01-22 to 12-31-23 01-01-24 to 12-31-24 |
| President of the Town Council | Arthur Kirtley | 01-01-22 to 12-31-24 |



Paul D. Joyce, CPA
State Examiner

INDIANA STATE BOARD OF ACCOUNTS

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TO: THE OFFICIALS OF THE TOWN OF LYNN, RANDOLPH COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Lynn (Town), for the period from January 1, 2022 to December 31, 2023. 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 the 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.

Beth Kelley, CPA, CFE
Deputy State Examiner

December 5, 2024



CLERK-TREASURER
TOWN OF LYNN

CLERK-TREASURER
TOWN OF LYNN
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Similar comments also appeared in prior Reports B49690 and B60195, entitled *INTERNAL CONTROLS*, and prior Report B55173, entitled *INTERNAL CONTROLS OVER CASH AND INVESTMENTS, RECEIPTS, AND FINANCIAL CLOSE AND REPORTING*.

Condition and Context

Financial Close and Reporting

Documentation of an internal control over the submission of the Town's 2022 Annual Financial Report (AFR) was not provided for audit. The Clerk-Treasurer completed the annual close out procedures and prepared and submitted the financial information into the Indiana Gateway for Government Units financial reporting system, which is the source of the AFR and financial statement. There was no documentation of a review by the Town Council or other designated person to ensure the accuracy of the information entered as a part of the internal control process.

Disbursements

The Town had not properly designed or implemented effective internal controls over disbursements. Though disbursements are processed by the Clerk-Treasurer, and reviewed and approved by the Town Council, this was not effective at ensuring disbursements were properly recorded in the financial ledgers of the Town. As a result, disbursements from the Town's Bank of New York bank accounts for 2023 were not recorded in the Town's financial ledgers. In addition, 7 of the 11 transfers tested were not included on the claims dockets and, therefore, did not have Town Council approval.

Compliance

The Town did not have adequate internal controls in place to ensure compliance with applicable laws and regulations. Additional details on noncompliance are noted in the following comments regarding:

- Monthly and Annual Uploads
- Capital Assets
- Annual Financial Report
- Motor Vehicle Highway (MVH) - Restricted
- Errors on Claims

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 LYNN
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. . . ."

MONTHLY AND ANNUAL UPLOADS

A similar comment appeared in a Management Letter addressed to the Town officials.

Condition and Context

Internal controls were not in place to ensure that monthly and annual files were properly uploaded to the Indiana Gateway for Government Units financial reporting system. The Town did not comply with the State Examiner Directive 2018-1 and did not upload all of the bank statements or the detail of receipts or disbursements during the audit period. In addition, of the 72 monthly required uploads, 26 were uploaded more than 45 days after the end of the month. The 2022 annual uploads were not uploaded until 123 days after the March 1 due date.

Criteria

Beginning with July 2018 files, which will be due September 15, 2018, **all** cities, towns, townships, libraries, and special districts will use the Upload App to upload files containing financial and governmental unit information on Gateway to allow the State Board of Accounts (SBOA) to conduct audit planning and audit processes prior to on-site work at a unit. (State Examiner Directive 2018-1)

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients. (Amended State Examiner Directive 2018-1, Updated November 9, 2020, and effective with uploads due February 15, 2021)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

CAPITAL ASSETS

A similar comment appeared in a Management Letter addressed to the Town officials.

Condition and Context

The Town did not have adequate internal controls in place to determine that the capital asset ledgers were properly updated. The Town passed a capital asset policy setting the capital asset threshold at \$1,000. Of the seven items over \$1,000 tested, none were added to the capital asset listing. Additionally, a review of the capital asset ledger determined that no new items have been added to the capital asset listing since 2020.

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 detailed 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 Cities and Towns, Chapter 1)

ANNUAL FINANCIAL REPORT

A similar comment appeared in prior Report B55173, entitled *FINANCIAL TRANSACTIONS AND REPORTING - TRUST ACCOUNTS*. The same comment also appeared in prior Report B60195.

Condition and Context

The Town did not have adequate internal controls in place to determine that information was properly entered in the Annual Financial Report. Financial, supplemental, grant, and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units financial reporting system. The AFRs contained the following errors:

Financial Data

- The Sewage Utl Bond & Int - BONY - 616657 fund 2022 beginning cash and investment balance and disbursements were each overstated by \$5,827.
- The Sewage Utl Bond & Int - BONY - 616657 fund 2023 receipts were understated by \$28,388.
- The Sewage Utl Debt Reserve - BONY - 616658 fund 2023 receipts and ending cash and investment balance were each understated by \$2,100.
- The Sewage Utl Bond & Int - BONY - 616657 fund 2023 disbursements were understated by \$26,080.
- The Sewage Utl Bond & Int - BONY - 616657 fund ending cash and investment balance was understated by \$2,308.

The financial data was corrected for these errors.

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

Capital Assets

The Town did not have detailed capital asset listings to support the amounts reported in the AFR.

Debt

- For 2023, the loan for the grass medic truck ending principal balance was understated by \$32,175.
- For 2023, the wastewater revenue bonds ending principal balance was overstated by \$678 and the Principal Due Within One Year was overstated by \$4,076.

The debt information was not adjusted for these errors.

Grants

The Town did not report any grant information for 2022 and 2023. As a result, the grant information was understated for 2022 and 2023 by \$34,246 and \$182, respectively.

Criteria

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](#)."

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and context

Effective January 1, 2019, the State Examiner Directive 2018-2 established that 50 percent of the state Motor Vehicle Highway (MVH) distributions shall be maintained in a Motor Vehicle Highway Restricted fund to be allocated for construction, reconstruction, and preservation of the Town's highways.

Internal controls were not in place to ensure the Town accurately recorded state MVH distributions. During the audit, the following errors were noted:

- Half of the April 2022 distribution of \$2,161 was incorrectly posted to the Local Road & Street fund instead of the MVH Restricted fund.
- The May, September, and November 2022 distributions of \$10,873, in total, were posted entirely to the Motor Vehicle Highway fund.
- The August 2022 distribution of \$1,807 was posted entirely to the MVH Restricted fund.

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

- The April 2023 distribution of \$3,715 was posted entirely to the Motor Vehicle Highway fund.
- The November 2023 distribution of \$3,562 was posted entirely to the MVH Restricted fund.

Criteria

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](#)."

Indiana Code 8-14-1-5(c) states: "Except as provided in subsection (d), for funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

The purpose of this Directive is to authorize and require counties, cities, and towns that receive distributions from the State Motor Vehicle Highway Account to **create a new sub-fund within the MVH Fund** to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018.

The sub-fund will be referred to throughout this Directive as "MVH Restricted" and will be used to account for MVH monies which have been statutorily restricted for construction, reconstruction, and preservation purposes. . . .

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted.

(State Examiner Directive 2018-2)

ERRORS ON CLAIMS

Condition and Context

The Town did not have adequate internal controls over disbursements. Of the 11 transfers tested, 7 of them did not have approval of governance. In addition, the Sewage Utility debt payments in 2023 were not properly posted or approved by the Clerk-Treasurer or governance.

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

Criteria

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

CLERK-TREASURER
TOWN OF LYNN
EXIT CONFERENCE

The contents of this report were discussed on December 5, 2024, with Michael Straley III, Clerk-Treasurer, and Arthur Kirtley, President of the Town Council.

TOWN COUNCIL
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- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

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TOWN OF LYNN
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