

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

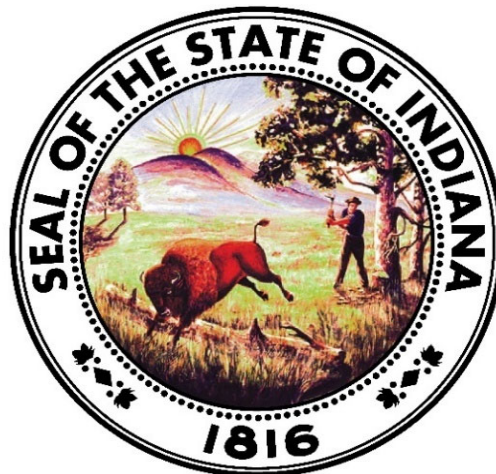
COMPLIANCE ENGAGEMENT REPORT

OF

TOWN OF REYNOLDS

WHITE COUNTY, INDIANA

January 1, 2019 to December 31, 2019



**FILED**

02/06/2024



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Megan Applegate	01-01-19 to 12-31-19
	Jennifer Segal	01-01-20 to 07-31-21
	(VACANT)	08-01-21 to 12-31-21
	Pam Cochran	01-01-22 to 12-31-23
President of the Town Council	Rick Buschman	01-01-19 to 10-21-20
	Charlie Vanvoorst	10-22-20 to 06-01-21
	Stacie Morgan	06-02-21 to 08-02-21
	Carol Hendress	08-03-21 to 02-08-22
	Aaron Ruemler	02-09-22 to 12-31-22
	Allison Loy	01-01-23 to 12-31-23



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF REYNOLDS, WHITE COUNTY, INDIANA

As authorized under Indiana Code 5-11-1, we performed certain procedures to the accounting records and related documents of the Town of Reynolds (Town), White County, for the period of January 1, 2019 to December 31, 2019. The objective of this engagement was to determine compliance with applicable Indiana laws, regulations, and uniform compliance guidelines (Guidelines) established by the Indiana State Board of Accounts pursuant to Indiana Code 5-11-1-24. The objective of this engagement is not to opine on compliance or financial activity of the Town as this engagement was not conducted in accordance with any standards established by an authoritative standard setting body and, as such, we do not provide any opinions on compliance or financial activity.

Management is responsible for preparing and maintaining its accounting records and related documents in accordance with applicable Indiana laws, regulations, and Guidelines. Management's responsibility also includes, but is not limited to, complying with other applicable Indiana laws, regulations, and Guidelines concerning how it operates: authorized sources and uses of funds; what reports are required to be prepared and filed; and what depositories and investment types are allowable.

We fulfilled our responsibility as detailed in the first paragraph, using procedures that verified the appropriate accounting for and reporting of cash, receipts, and disbursements; and the appropriate sources and uses of funds in accordance with applicable Indiana laws, regulations, and Guidelines. Expanding the scope and nature of these procedures can and does occur in specific circumstances.

The Comments contained herein describe the identified reportable instances of noncompliance found during our engagement. Our procedures were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified. Any Official Response to the Comments incorporated within this report was not verified for accuracy.

The Schedule of Officials is informational only. The Statement of Receipts, Disbursements, and Schedule of Cash and Investment Balances - Regulatory Basis (Statement) has not been included in this report due to the issues detailed in the Comments included within this report.

This report is intended solely for the information and use of management, governance, and others within the organization. This restriction is not intended to limit the distribution of this report, which is a matter of public record. Reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/> and the Town's Annual Financial Reports filed by management can be found on the Gateway website: <http://www.gateway.ifionline.org>.

The contents of this report were communicated to Pam Cochran, Clerk-Treasurer; Allison Loy, President of the Town Council; and Bob Hall, Town Superintendent, on January 29, 2024.

Respectfully,



Beth Kelley, CPA, CFE  
Deputy State Examiner

January 29, 2024

TOWN OF REYNOLDS  
COMMENTS

**CONDITION OF RECORDS**

A similar comment appeared in prior Report B53938, entitled *CONDITION OF RECORDS*.

*Condition and Context*

The Town is required to enter annually the financial reports covering the full period of each fiscal year via the Indiana Gateway for Government Units financial reporting system. This is the source of the Annual Financial Report (ARF) that is audited and based on the Town's records. An audit of the Town was to be performed for the years 2019 through 2022. Upon review of the records to start the audit, it was determined that the Town had not safeguarded the records for the 2019 engagement period. The following records were not available to support the amount reported in the AFR or to determine compliance with applicable laws and regulations for 2019: Fund reports, detailed receipt and disbursement ledgers, bank reconciliements, receipts, accounts payable vouchers, Utility billing reports (including Customer Account Reports, Utility Billing Collection Reports, Customer Deposit Register), Transfer Ordinances, and Contracts.

The Town was able to provide documentation to verify the accuracy of the AFR for 2020 through 2022, and, as a result, we were able to audit those years. This report can be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

*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](#)."

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)

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

TOWN OF REYNOLDS  
COMMENTS  
(Continued)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**ANNUAL FINANCIAL REPORT AND OTHER INFORMATION**

*Condition and Context*

The Annual Financial Report (AFR) and Other information was required to be entered annually into the Indiana Gateway for Government Units (Gateway) financial reporting system. The Town had not established effective internal controls over the AFR and other information entered into Gateway, which resulted in the following errors:

1. Based upon the bank statements provided for audit, the Town understated the receipts and disbursements on the AFR under the Utility Clearing Fund (formerly known as Utility Billing Account 2015) by \$330,281 and \$282,099, respectively.
2. The Schedule of Accounts Payable and Accounts Receivable information was not reported in the AFR. Since the Town has a utility, we would have expected an amount to be reported for Accounts Receivable.
3. The Schedule of Leases and Debt did not include the Town's debt, which resulted in an understatement of \$739,301 for the Ending Principal Balance and an understatement of \$30,313 for Principal due within 1 year.
4. The Schedule of Capital Assets was not reported in the AFR. The Town could not provide a detailed capital asset schedule; however, the Town does own capital assets.

*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](#)."

TOWN OF REYNOLDS  
COMMENTS  
(Continued)

**INTERNAL CONTROLS**

The same comment appeared in prior Report B53938.

*Condition and Context*

There were deficiencies in the internal control system of the Town related to cash and investments, receipts, and disbursements. The Town did not have policies or procedures in place to detect, prevent, or reduce the risk of improper recording, reporting, or fraud. The Town could not provide documentation to verify that internal controls were in place to ensure accurate recording and reporting.

*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. . . ."

**BANK ACCOUNT RECONCILIATIONS**

The same comment appeared in prior Report B53938, entitled *BANK ACCOUNT RECONCILIATIONS*.

*Condition and Context*

The Town could not provide monthly bank reconciliations for the compliance engagement period.

*Criteria*

Indiana Code 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 must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TOWN OF REYNOLDS  
COMMENTS  
(Continued)

**MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND**

*Condition and Context*

The Town did report a Motor Vehicle Highway (MVH) restricted fund per the State Examiners Directive on the Annual Financial Report; but the Town could not provide detailed ledgers or receipts that ensured that they were in compliance with the laws and regulations related to MVH Restricted receipts. Due to the lack of supporting documentation, it could not be determined that at least 50 percent of the state MVH distributions were allocated to the MVH - Restricted fund at the time of the distribution.

*Criteria*

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)

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

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**FUND SOURCES AND USES**

*Condition and Context*

The Town was not in compliance with the debt payments for the 2004 Sewage Works Revenue Bond. The Town paid the 2004 Sewage Works Revenue Bond Payment from the Wastewater Utility Operating fund; however, it should have been paid from the Wastewater Utility Bond & Int fund.

*Criteria*

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**CUSTOMER DEPOSIT REGISTER**

The same comment appeared in a letter communicating noncompliance to management in the prior audit.

*Condition and Context*

The Town could not provide a customer deposit register for audit. A similar comment was also contained in the previous seven audit reports.

TOWN OF REYNOLDS  
COMMENTS  
(Continued)

*Criteria*

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**APPROVAL OF CLAIMS**

A similar comment appeared in the prior audit in the form of a letter communicating noncompliance.

*Condition and Context*

The Town could not provide claims and/or approved claims dockets to ensure the claims were certified by the Clerk-Treasurer or approved by the Town Council.

*Criteria*

Indiana Code 5-11-10-2 states in part:

"(a) Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer.

(b) The state board of accounts shall prescribe a form which will permit claims from two (2) or more claimants to be listed on a single document and, when such list is signed by members of the governing body showing the claims and amounts allowed each claimant and the total claimed and allowed as listed on such document, it shall not be necessary for the members to sign each claim. . . ."

**CAPITAL ASSETS**

*Condition and Context*

The Town had not adopted a Capital Asset Policy. The Town had not completed a physical inventory every two years. The Town had not maintained a complete detailed listing of all capital assets which reflects the acquisition value.

*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 Cities and Towns, Chapter 1)

TOWN OF REYNOLDS  
COMMENTS  
(Continued)

**MONTHLY AND ANNUAL GATEWAY UPLOADS**

*Condition and Context*

The Town was required to upload into the Indiana Gateway Government Units (Gateway) financial reporting system monthly and annual files and governmental unit information. The Town had not uploaded any of the required monthly fund reports or monthly bank reconcilements to Gateway. In addition, the Town had not uploaded any of the required annual uploads into Gateway.

*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)

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)

**ADOPTION OF, AND TRAINING ON, INTERNAL CONTROLS - TOWN COUNCIL**

The same comment appeared in prior Report B53938, entitled *ADOPTION AND TRAINING OF INTERNAL CONTROLS*.

*Condition and Context*

The Town had not adopted the acceptable minimum level of internal control standards. In addition, the Town failed to provide training to applicable personnel on internal control standards.

*Criteria*

Indiana Code 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."