

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF REYNOLDS

WHITE COUNTY, INDIANA

January 1, 2013 to December 31, 2014



**FILED**  
05/06/2016



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Tracy A. Mayhill	01-01-12 to 12-31-19
President of the Town Council	Sid Holderly Scott E. Denton	01-01-13 to 12-31-14 01-01-15 to 12-31-16



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the Town of Reynolds (Town), for the period from January 1, 2013 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Town, which provides our opinions on the Town's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

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 Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

February 18, 2016

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CLERK-TREASURER  
TOWN OF REYNOLDS

CLERK-TREASURER  
TOWN OF REYNOLDS  
FEDERAL FINDINGS

***FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING***

We noted deficiencies in the internal control system of the Town related to financial transactions and reporting. Control activities should be selected and developed at various levels of the Town to reduce risks to the achievement of financial reporting objectives. The Town has not separated incompatible activities related to all areas of the financial statement. The Clerk-Treasurer was responsible for all aspects of the Town's financial transactions and recording, including cash and investment balances, receipts and disbursements, as well as for financial reporting. There was no segregation of duties, such as an oversight, review, or approval process.

During the audit, we noted that in 2013 and 2014, the Town received State Revolving Loan funds for constructions costs related to the Wastewater Utility of \$291,690 and \$70,220, respectively. These transactions were not reflected Town's records or in the financial statement. Audit adjustment were proposed, accepted by the Town, and made to the financial statement presented in this report.

The failure to establish these controls enabled material misstatements to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

All financial transaction pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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 objectives, 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)

***FINDING 2014-002 - THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The Town did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The Town should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected. The Clerk-Treasurer independently prepared the SEFA without oversight, review, or approval.

During the audit of the SEFA for 2014, we noted that federal awards were incorrectly reported. This error resulted in the SEFA presented for audit to be understated by \$27,395. Audit adjustments were proposed, accepted by the Town, and made to the SEFA presented in this report.

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 objectives, 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.

CLERK-TREASURER  
TOWN OF REYNOLDS  
FEDERAL FINDINGS  
(Continued)

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)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states in part:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. . . ."

***FINDING 2014-003 - INTERNAL CONTROL OVER COMMUNITY DEVELOPMENT  
BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII***

Federal Agency: Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/State's Program and  
Non-Entitlement Grants in Hawaii  
CFDA Number: 14.228  
Federal Award Number and Year: CF-12-108  
Pass-Through Entity: Indiana Office of Community & Rural Affairs

The Town has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Activities Allowed, Allowable Costs/Cost Principles, Cash Management, Davis-Bacon Act, Matching, Period of Availability, Procurement and Suspension and Debarment, Reporting, and Special Tests and Provisions compliance requirements.

CLERK-TREASURER  
TOWN OF REYNOLDS  
FEDERAL FINDINGS  
(Continued)

*Activities Allowed, Allowable Costs/Cost Principles, Period of Availability, Cash Management*

The Town has not designed or implemented adequate policies and procedures to ensure that amounts expended were for allowable activities, were allowable costs, were within the period of availability, or were accurately claimed for reimbursement. The Town hired a Grant Administrator to verify that the Town was in compliance with the Activities Allowed, Allowable Costs/Cost Principles, Period of Availability, and Cash Management requirements of the program. The Grant Administrator received invoices for payment from the construction contractor and then prepared and submitted the Claims for Reimbursement. There was no evidence of oversight, review, or approval by the Town.

*Davis-Bacon Act*

The Town has not designed or implemented adequate policies and procedures to ensure that the construction contractor submitted certified payrolls each week. The Grant Administrator received all payroll information to review to ensure compliance with the Davis-Bacon Act requirements. There was no oversight, review, or approval by the Town.

*Matching*

The Town has not designed or implemented adequate policies and procedures to ensure that the Town expended the required matching amount per the grant agreement. The Grant Administrator maintained documents verifying compliance with the matching requirement but there was no evidence of oversight, review, or approval by the Town.

*Procurement and Suspension and Debarment*

The Town has not designed or implemented adequate policies and procedures to ensure that the project was properly bid and or that the contractor was not suspended or debarred from participation in federal programs. The Grant Administrator maintained documents verifying compliance with the Procurement and Suspension and Debarment compliance requirements; however, there was no evidence of oversight, review, or approval by the Town.

*Reporting*

The Town has not designed or implemented adequate policies and procedures to ensure that required reports were accurate. The Grant Administrator prepared all semi-annual reports. The reports were presented to the Town Board President for his signature prior to submission; however, there was no evidence of oversight or review of the accuracy of the reports.

*Special Tests and Provisions*

The Town has not designed or implemented adequate policies and procedures to ensure compliance with the Special Tests and Provisions requirements. The Grant Administrator completed all the activities required for the Environmental Oversight, Environmental Review, and Citizen Participation requirements without evidence of oversight, review, or approval.

CLERK-TREASURER  
TOWN OF REYNOLDS  
FEDERAL FINDINGS  
(Continued)

The failure to establish an effective internal control system places the Town at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the Town.

We recommended that the Town's management establish controls, including segregation of duties, to ensure compliance with the grant agreement and the requirements listed above.

# Town of Reynolds

Reynolds, Indiana 47980

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## Corrective Action Plan

Contact Person Responsible for Corrective Action: Tracy Mayhill, Clerk Treasurer  
Contact Phone Number 219-984-6425

### Finding 2014-001

The Clerk Treasurer will make sure all activities are listed in the financial statement. The clerk will also try to get a board member to check over the reports if they are available to do so. The clerk will check all the internal controls to verify all balances are correct. Effort will be made to keep track of the Towns financial transactions. We will begin this process immediately.

### Finding 2014-002

The Clerk Treasurer will try to work closer with the grant writing firm to ensure proper reporting of the SEFA is accurate. Because the town is so small the Clerk will also try to get a member of the board to help check all reports to make sure they are done properly. Effort will be made to make sure proper control is being done. We will begin working on this problem immediately.

### Finding 2014-003

The Clerk Treasurer will try to get the board to help with the segregation of duties to make sure the papers are being filled out properly when received from the third party grant administration. With the Town being so small and only having the clerk with no other office help, the Town will try to segregate duties as much as possible. They will try to make sure all the proper internal controls are in place to make sure reports are done correctly. The clerk will begin in March 2016 to try and get the board more involved.

*Tracy Mayhill*

2-17-16

CLERK-TREASURER  
TOWN OF REYNOLDS  
AUDIT RESULTS AND COMMENTS

**APPROPRIATIONS**

The records presented for audit indicated that the Local Law Enforcement Continuing Ed fund expenditures exceeded the budgeted appropriations by \$574 for 2014.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

Indiana Code 6-1.1-18-10 states:

"Excessive appropriations; liability of officers; action for recovery Sec. 10.

(a) If the proper officers of a political subdivision make an appropriation for an item which exceeds the amount which they are permitted to appropriate under this chapter, they are guilty of malfeasance in office and are liable to the political subdivision in an amount equal to the sum of one hundred and twenty-five percent (125%) of the excess so appropriated and court cost.

(b) Upon the relation of a taxpayer who owns property which is subject to taxation by the political subdivision, the appropriate prosecuting attorney shall initiate an action in the name of this state to recover the amount for which the proper officers of the political subdivision are liable under this section."

**BANK ACCOUNT RECONCILIATIONS**

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliation did not include two depository accounts held in the name of the Town of Reynolds. In addition, these accounts are not included in the records of the Town.

The "Water Bill" bank account consists of deposits made by the local bank for the collection of Water and Wastewater payments. The Clerk-Treasurer periodically makes transfers to the Water and Wastewater Utility accounts based on the payment stubs provided by the bank. As of December 31, 2014, the Water Bill Account had a balance of \$29,228 that had not been identified between the Water and Wastewater. In January 2015, \$24,213 was transferred to the Water and Wastewater Utilities leaving an unidentified balance of \$5,015.

The "Town, State, and County" bank account consists of deposits made by the Town, for State and County tax withholdings, and the subsequent electronic payments of the withholdings to the State of Indiana. Monthly reconcilments are not performed to identify the balances in this account.

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines manual for Cities and Towns, Chapter 7)

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."

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

**OVERDRAWN CASH BALANCE**

The financial statement presented for the Town included the Water Utility - Operating fund with overdrawn cash balance of \$5,504 at December 31, 2013.

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

**CAPITAL ASSETS**

The Town has not properly maintained a complete inventory of capital assets owned. No capital asset records were provided for audit. In addition, no capital assets were reported in the 2013 or 2014 Gateway Annual Financial Reports.

Prior Report B37344 included a schedule with \$9,415,364 in capital assets.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded on the applicable Capital Asset Ledger. A complete inventory should be taken at least every two years 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)

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

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality 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."

CLERK-TREASURER  
TOWN OF REYNOLDS  
EXIT CONFERENCE

The contents of this report were discussed on February 18, 2016, with Tracy A. Mayhill, Clerk-Treasurer, and Scott E. Denton, President of the Town Council.