

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

TOWN OF BROOKLYN
MORGAN COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
10/26/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Federal Findings:	
Finding 2013-001	
Preparation of the Schedule of Expenditures of Federal Awards	6-7
Finding 2013-002	
Financial Transactions and Reporting	8-9
Corrective Action Plan	10-11
Audit Results and Comments:	
Federal and State Agencies - Compliance Requirements	12
Overdrawn Cash Balances	12
Exit Conference	13

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Karen Howard-Frentress	01-01-12 to 12-31-19
President of the Town Council	Ken Hayden	01-01-13 to 12-31-13
	Melissa Bryant	01-01-14 to 12-31-14
	Barbara J. Lowhorn	01-01-15 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE TOWN OF BROOKLYN, MORGAN COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Brooklyn (Town), for the period from January 1, 2013 to December 31, 2013. 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/.

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 and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

September 20, 2018

(This page intentionally left blank.)

CLERK-TREASURER
TOWN OF BROOKLYN

CLERK-TREASURER
TOWN OF BROOKLYN
FEDERAL FINDINGS

FINDING 2013-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

Condition

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).

There was no oversight or review of the submission of the SEFA as one employee was solely responsible for the preparation and submission of the SEFA.

Context

The lack of adequate internal controls was a systemic issue, which occurred during the preparation of the SEFA. Due to the lack of controls, the Capitalization Grants for Drinking Water State Revolving Funds grant expenditures of \$319,746 were not originally included on the SEFA.

Audit adjustments were proposed, accepted by the Town, and made to the SEFA.

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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

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 § _____.310. . . ."

CLERK-TREASURER
TOWN OF BROOKLYN
FEDERAL FINDINGS
(Continued)

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

"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.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

Cause

Management of the Town had not established a proper system of internal control that would have ensured proper reporting of the SEFA.

Effect

The failure to establish controls enabled material misstatements of the SEFA.

Recommendation

We recommended that the Town establish controls to prevent, or detect and correct, errors on the SEFA prior to submission.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

CLERK-TREASURER
TOWN OF BROOKLYN
FEDERAL FINDINGS
(Continued)

FINDING 2013-002

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Condition

The Town did not have a proper system of internal controls in place related to financial transactions and reporting. The Town had not separated incompatible activities related to bank reconcilements, vendor claims, and financial reporting. The failure to establish adequate internal controls enabled noncompliance.

There was not sufficient oversight of the monthly bank reconcilements. One employee was responsible for completing the bank reconcilements without evidence of oversight or review.

There was not sufficient oversight of the issuance of vendor claims. One employee was responsible for approving vendor claims, posting the claims to the records, and writing the checks. In addition, claims were approved by the Town Council at the next regularly scheduled meeting after the claims were already paid.

The Town had not established effective internal controls over the accuracy and timeliness of the financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source for the Annual Financial Report (AFR) and financial statement. One employee prepared and submitted the Gateway information without evidence of a review or approval process. The 2013 AFR due by March 1, 2014, was not filed until April 21, 2014.

Context

The lack of controls and noncompliance were systemic issues throughout the audit period.

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. . . ."

CLERK-TREASURER
TOWN OF BROOKLYN
FEDERAL FINDINGS
(Continued)

Indiana Code 5-11-10-2(a) states:

"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."

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 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](#)."

Cause

Management of the Town had not established a proper system of internal control that segregated key functions.

Effect

The failure to establish adequate internal controls enabled noncompliance.

Recommendation

We recommended that the Town establish a system of internal controls related to financial transactions and reporting, and to ensure that claims will be approved by the Town Council prior to payment and that the AFR will be submitted timely.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this

Town of Brooklyn

10 East Mill Street – P.O. Box 159

Brooklyn, IN 46111

317-831-3343 Fax: 317-831-3368

CORRECTIVE ACTION PLAN

FINDING 2013-001 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Karen Howard-Frentress
Contact Phone Number: 317-831-3343

Views of Responsible Official: I concur with the finding.

Description of Corrective Action Plan:

In the future we will ask more questions to understand all funding sources and the necessary threshold for reporting requirements. This will be accomplished through education, history of experience and frankly asking more questions from the hired professionals.

Anticipated Completion Date: 09/18/18

FINDING 2013-002 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Karen Howard-Frentress
Contact Phone Number: 317-831-3343

Views of Responsible Official: I concur with the finding.

Description of Corrective Action Plan: The Town Council President will review and sign off on reconciled bank statements. Duties divided and to be completed by multiple staff. This will be accomplished through cross training.

Claims will be process for the Council docket but will not be mailed prior to Council approval.

Annual report will be filed in accordance with the SBOA deadlines.

Complete written policies regarding financial transactions regarding claims.

Anticipated Completion Date: 02/28/19


(Karen Howard-Frentress)

Clerk-Treasurer

(Title)

9/19/18

(Date)

CLERK-TREASURER
TOWN OF BROOKLYN
AUDIT RESULTS AND COMMENTS

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

The gross wages subject to federal tax reported on Internal Revenue Service Wage and Tax Statement Form W-2 for two employees were overstated in 2013. The wages for one employee were overstated by \$1,892 and the wages for the second employee were overstated by \$5,038.

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)

OVERDRAWN CASH BALANCES

The cash balance of the following funds were overdrawn at December 31, 2013.

Fund	Amount Overdrawn
ANTHEM INSURANCE	\$ 1,814
SEWER BOND AND INTEREST	12,089

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 unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF BROOKLYN
EXIT CONFERENCE

The contents of this report were discussed on September 20, 2018, with Karen Howard Frentress, Clerk-Treasurer, and Barbara J. Lowhorn, President of the Town Council.