

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, 2014 to December 31, 2017



FILED
10/31/2018

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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	Melissa Bryant Barbara J. Lowhorn	01-01-14 to 12-31-14 01-01-15 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2014 to December 31, 2017. 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 our Financial Statements Audit Report of the Town, which provides our opinion on the Town's financial statements. 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.

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

September 20, 2018

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CLERK-TREASURER
TOWN OF BROOKLYN

CLERK-TREASURER
TOWN OF BROOKLYN
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Monthly depository reconcilements were not performed for the period from September 1, 2014 to December 31, 2017. The last monthly reconciliation completed was for the month ending August 31, 2014.

Due to monthly reconcilements not being completed, there were transactions that were discovered not to be recorded in the ledger as follows:

- Electronic deposits received from the Auditor of State not recorded in the amounts of \$80,867 in 2016 and \$88,191 in 2017.
- Electronic disbursements related to payroll withholdings and utility sales tax that were not recorded. There were wire transfers for debt payments that were not recorded. These disbursements that were not recorded totaled \$32,955 in 2014; \$300,929 in 2015; \$286,464 in 2016; and \$338,042 in 2017.

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."

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)

FINANCIAL REPORTING ACCURACY AND COMPLETENESS

The Annual Financial Reports (AFR) and financial statements for 2014, 2016, and 2017 contained errors and did not properly match the Town's ledgers. The following errors were identified:

- The receipt and disbursement activity for the Sewer Bond and Interest fund was not included in the 2014 AFR and financial statement. Additionally, state distributions of \$26,386 were not included.
- The Levy Excess, Dog Fee Fund, 446-Donation PD, Brooklyn Police Dept Forfeiture, Electric Improvement/Depr, and Water Improvement/Depreci funds were not included in the 2016 AFR and financial statement.
- State distributions of \$4,136; local distributions of \$31,761; and miscellaneous receipts of \$9,009 were not reported in the 2016 AFR and financial statement.
- The 2017 AFR and financial statement, as originally submitted, was incomplete. The original submission included receipt activity for four funds and disbursement activity for one fund.

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

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

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](#)."

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 LATE FILING

The same comment also appeared in prior Report B51148, entitled *ANNUAL FINANCIAL REPORT*.

The AFRs for 2014, 2015, 2016, and 2017 were filed between 36 and 86 days late.

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](#)."

INTERNAL CONTROLS

The same comment also appeared in prior Report B51148, entitled *INTERNAL CONTROLS*, and B51149, entitled *FINDING 2013-002 FINANCIAL TRANSACTIONS AND REPORTING*.

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 could have enabled misstatements or irregularities to remain undetected.

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 public 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 AFR and financial statement. One employee prepared and submitted the AFR without evidence of a review or approval process.

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

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. . . ."

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."

UTILITY TRANSFERS PER ORDINANCE

Town Ordinance 1997-05 required the Town to make debt service transfers from the Water Utility Operating fund to the Water Bond and Interest fund in a sufficient amount to service the debt. Transfers made by the Water Utility Operating fund were \$53,157 less than the debt service payments made by the Water Bond and Interest fund.

Town Ordinance 2002-08 required the Town to make monthly transfers from the Electric Operating fund to the Electric Special Account fund based on the number of customer collections in a given month. There were no transfers made into the Electric Special Account fund in 2014, 2015, 2016, or 2017. The ordinance required a monthly amount for each customer payment. The amount that should have been transferred was \$64,120.

Town ordinance 2013-09 required the Town to make debt service transfers from the Sewer Operating Fund to the Sewer Bond and Interest fund in a sufficient amount to service the debt. Transfers made by the Sewer Operating Fund were \$248,050 less than the debt service payments made by the Sewer Bond and Interest fund.

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 1)

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 3)

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

OVERDRAWN CASH BALANCES

The same comment also appeared in the prior Report B51150, entitled *OVERDRAWN CASH BALANCES*.

The cash balance of the following funds were overdrawn as summarized below:

Fund	Amount Overdrawn As of December 31, 2014	Amount Overdrawn As of December 31, 2015	Amount Overdrawn As of December 31, 2016	Amount Overdrawn As of December 31, 2017
GENERAL FUND	\$ -	\$ -	\$ 47,937	\$ 146,348
CREDIT CARD RECEIPTS	1,707	3,698	5,418	7,362
INSURANCE	2,585	36,333	36,333	36,333
SEWER BOND AND INTEREST	64,910	81,852	218,135	357,730
WATER UTILITY OPERATING	-	4,436	-	-
WATER BOND AND INTEREST	-	-	35,625	53,156
Totals	<u>\$ 69,202</u>	<u>\$ 126,319</u>	<u>\$ 343,448</u>	<u>\$ 600,929</u>

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.