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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF BRAZIL

CLAY COUNTY, INDIANA

January 1, 2016 to December 31, 2017

FILED
02/27/2019

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SCHEDULE OF OFFICIALS

Office	Official	Term
Clerk-Treasurer	Karen McQueen	01-01-16 to 12-31-19
Mayor	Brian Wyndham	01-01-16 to 12-31-19
President of the Board of Public Works	Brian Wyndham	01-01-16 to 12-31-19
President Pro Tempore of the Common Council	Shane Litz	01-01-16 to 12-31-19
Utility Office Manager	Delores M. Elder	01-01-16 to 12-31-19

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF BRAZIL, CLAY COUNTY, INDIANA

This report is supplemental to our audit report of the City of Brazil (City), for the period from January 1, 2016 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 City. It should be read in conjunction with our Financial Statements Audit Report of the City, which provides our opinion on the City'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

February 13, 2019

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Reports B42495, B44827, B46838, and B46840.

The financial statements presented in this report included the following funds with overdrawn cash balances.

Years	Fund	Amount Overdrawn
2016	Pogues Run Grant	$ 62,128
2016	Payroll Fund	13,693
2017	Payroll - Civil PERF	34,663

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)

INTERNAL CONTROLS

There were deficiencies in the internal control system for the City related to financial transactions and reporting. The City had not separated incompatible activities over cash and investments, receipts (City and utilities) and financial reporting. The failure to establish these controls could have enabled material misstatements to remain undetected.

Cash and Investments

One person performed the monthly reconciliations. There was no evidence of an effective oversight, review, or approval process to ensure the accuracy of the reconciliations.

Receipts

Controls were not in place to ensure that the receipts, including utility collections, were recorded and deposited properly.

Financial Reporting

The City used a third-party to compile the financial information for submission to the Indiana Gateway for Government Units financial reporting system, which was the source for the Annual Financial Reports and the financial statements. There was no evidence of an effective oversight, review, or approval process to ensure the accuracy of the information submitted.

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. . . ."

CITY OF BRAZIL

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February 19, 2019

RE: Official SBOA Response to the 2016 & 2017 Audit Findings

This letter is in response to the 2016 & 2017 audit findings per SBOA. All issues in this report have been corrected or are in the process of being corrected. In 2017, the City of Brazil went through a conversion of systems from Tyler Technologies/Incode to Keystone. There were many reasons for the conversion to include adding transparency and correcting ongoing accounting/coding errors. While the switch of systems has been a huge improvement for the City of Brazil, there are still some minor errors that we are continuing to work on. The City of Brazil's Payroll account continues to be on our radar, as we believe it to be a coding error and not truly an overdrawn cash balance. We anticipate the Payroll Fund to be in the positive for the 2018 annual gateway report.

Sincerely,

Karen McQueen

Karen McQueen, Clerk-Treasurer

CLERK-TREASURER
CITY OF BRAZIL
EXIT CONFERENCE

The contents of this report were discussed on February 13, 2019, with Shane Litz, President Pro Tempore of the Common Council; Brian Wyndham, Mayor; Karen McQueen, Clerk-Treasurer; Delores M. Elder, Utility Office Manager; Connie Wyndham, Deputy Clerk; Melissa Dorsett, Deputy Clerk; Sheryl Hill, Assistant Office Manager; Traci M. Orman, City Attorney; and Steve Bell, Common Council member.