

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF LYNNVILLE

WARRICK COUNTY, INDIANA

January 1, 2015 to December 31, 2018



FILED
06/25/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sheridan Jones Lauri Stockus	01-01-15 to 12-31-18 01-01-19 to 12-31-22
President of the Town Council	Eric Erwin Doris Horn Eric Erwin	01-01-15 to 12-31-15 01-01-16 to 12-31-18 01-01-19 to 12-31-19
Superintendent of Utilities	Mike Ruedlinger Stephen Bailes	01-01-15 to 05-13-18 05-14-18 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE TOWN OF LYNNVILLE, WARRICK COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Lynnville (Town), for the period from January 1, 2015 to December 31, 2018. 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 statement. 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

May 9, 2019

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TOWN COUNCIL
TOWN OF LYNNVILLE

TOWN COUNCIL
TOWN OF LYNNVILLE
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

A similar comment also appeared in prior Report B46325.

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not established an effective internal control system that separated incompatible activities regarding cash and investments, receipts, vendor disbursements, and financial close and reporting.

The Town has not established monitoring processes over internal controls. Monitoring processes should be selected and developed at various levels to reduce risks of error and/or fraud of the financial statements. The failure to establish these controls could enable material misstatements to remain undetected.

Cash and Investments

The Town had not established a system of internal controls that would have ensured that cash and investment balances agreed to the ledgers and financial statements. The Clerk-Treasurer was solely responsible for performing monthly bank reconciliations without any documented oversight, review, or approval procedures in place to ensure their accuracy.

Receipts

The Town had not established a system of internal controls or separated incompatible activities related to receipts that would have ensured that receipts were recorded timely and accurately. There were multiple instances of state and local distributions being posted incorrectly to other funds during the audit period. There was no documentation available to indicate any oversight, review, or approval process over receipts.

Vendor Disbursements

No disbursements were entered on the claims docket used to document certification by the fiscal officer and approval by the Town Council. No other evidence was presented to show that these disbursements were being reviewed or approved.

Financial Close and Reporting

The Clerk-Treasurer prepared and submitted the financial information into the Annual Financial Report (AFR) through the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statements. There was no evidence of an oversight, review, or approval process that would have ensured that the information was accurate before submission.

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:

TOWN COUNCIL
TOWN OF LYNNVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

"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. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

TRAINING ON INTERNAL CONTROL STANDARDS

The Town Council had not ensured that personnel received the requisite training on internal control standards.

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

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

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

CLAIMS FOR BOND PAYMENTS

During calendar years 2015, 2016, and 2017, payments for revenue bonds were made without an accounts payable voucher that was prepared and approved by the Town Council.

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

TOWN COUNCIL
TOWN OF LYNNVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

TOWN COUNCIL
TOWN OF LYNNVILLE
EXIT CONFERENCE

The contents of this report were discussed on May 9, 2019, with Eric Erwin, President of the Town Council; Stacy Tevault, Town Council member; and Laurie Stockus, Clerk-Treasurer.

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CLERK-TREASURER
TOWN OF LYNNVILLE

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TOWN OF LYNNVILLE
AUDIT RESULTS AND COMMENTS

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

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A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

CERTIFICATION OF INTERNAL CONTROL STANDARDS

The Clerk-Treasurer improperly certified on the AFRs that training had been provided for employees on the internal control standards as required during calendar years 2016, 2017, and 2018.

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](#)."

OVERDRAWN CASH BALANCES

The financial statements presented for audit included the following funds with overdrawn cash balances:

Fund	Overdrawn Amount	
	2017	2018
Special Fire Protection Equipment	\$ -	\$ 18,177
Payroll	304	-
Sewer Construction	-	13

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

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)

CLAIMS FOR BOND PAYMENTS

During calendar years 2015, 2016, and 2017, payments for revenue bonds were made without an accounts payable voucher that was prepared and certified by the fiscal officer.

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

ANNUAL FINANCIAL REPORT

A similar comment also appeared in prior Report B46325.

The Clerk-Treasurer did not include the Payroll, SRF Lynnville Sinking Fund, and SRF Lynnville DSR Fund for 2015, 2016, 2017, 2018, and the Community Center and Sewer Construction fund for 2018, in the Indiana Gateway for Government Units financial reporting system, which is used to generate the AFR and financial statements. As a result, the receipts, disbursements, and overall cash and investment balance was understated in the amounts of \$1,302,334, \$1,314,474, and \$114,070, respectively, for the audit period.

The AFR contained numerous errors and reported amounts that did not agree with the ledger.

Adjustments were proposed, approved by the Town, and made to the financial statements.

The AFRs for 2015 and 2017 were not filed electronically within 60 days of year end. The AFRs were filed on April 1, 2016, and April 21, 2018, respectively.

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

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APPROPRIATIONS

The same comment also appeared in prior Report B46325.

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Years	Excess Amount Expended
Special Fire Protection Equipment	2017	\$ 63,000
Motor Vehicle Highway	2018	2,206
Park	2018	75,549
Special Fire Protection Equipment	2018	99,992

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."

CAPITAL ASSETS

The Town has not properly maintained a complete and detailed listing of capital assets owned. No evidence was presented that indicated a physical inventory had been taken during the audit period.

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)

CLERK-TREASURER
TOWN OF LYNNVILLE
EXIT CONFERENCE

The contents of this report were discussed on May 9, 2019, with Sheridan Jones, former Clerk-Treasurer; Lauri Stockus, Clerk-Treasurer; Eric Erwin, President of the Town Council; and Stacy Tevault, Town Council member.