

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF EDINBURGH

JOHNSON COUNTY, INDIANA

January 1, 2015 to December 31, 2018



FILED
09/23/2019

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|---|---|--|
| Clerk-Treasurer | Scott Finley | 01-01-13 to 12-31-19 |
| President of the Town Council | Ron Hoffman Kami Ervin Jerry Lollar | 01-01-15 to 12-31-15 01-01-16 to 12-31-18 01-01-19 to 12-31-19 |
| Superintendent of Water Utility | Mike Pendleton Glenn Giles (Vacant) Bill Jones | 01-01-15 to 12-31-16 01-01-17 to 07-10-19 07-11-19 to 07-22-19 07-23-19 to 12-31-19 |
| Superintendent of Wastewater Utility | Glenn Giles | 01-01-15 to 07-10-19 |
| Superintendent of Electric Utility | Kevin Rubush | 01-01-15 to 12-31-19 |
| Town Manager | John Drybread Wade Watson JT Doane | 01-01-15 to 12-13-15 12-14-15 to 03-03-19 03-04-19 to 12-31-19 |
| Parks and Recreation Superintendent | Daniel Teter | 01-01-15 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 EDINBURGH, JOHNSON COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Edinburgh (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 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

August 7, 2019

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CLERK-TREASURER
TOWN OF EDINBURGH

CLERK-TREASURER
TOWN OF EDINBURGH
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS - FINANCIAL TRANSACTIONS AND REPORTING

A similar comment appeared in the prior Report B46713.

We noted several deficiencies in the internal control system of the Town and Town Utilities related to financial transactions and reporting:

Cash and Investments

Segregation of duties over the Town and Town Utilities' bank reconciliation process was not evident. There was no evidence of an oversight, review, or approval of the bank reconciliations by someone other than the person who prepared them.

Receipts

Town

Segregation of duties over the Town receipts and the daily collections process was not evident. Daily reports only identify the employee who generated them. There was no evidence of an oversight, review, or approval of the transactions. Additionally, there was no documented evidence of an oversight, approval, or review of the various Town departments that collect charges for services and various fees.

Water, Wastewater, and Light Utility

Internal controls over the receipting of the financial activities of the Town's Utilities were insufficient. All of the utility office staff accepted payments, posted adjustments, performed balance close out procedures each day, posted transactions, and filled out deposit slips. There was no documented oversight, review, or approval of their work presented for audit.

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:

CLERK-TREASURER
TOWN OF EDINBURGH
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. . . ."

CUSTOMER DEPOSIT REGISTER

This same comment appeared in the prior Report B46713.

The detailed Utilities' Customer Deposit Registers (Detailed Registers) did not reconcile with the Utilities' customer deposit cash and investment balances. As of December 31, 2015, the Detailed Registers reported \$10,839 less than the Utilities' customer deposit cash and investment balances. As of December 31, 2016, 2017, and 2018, the Detailed Registers had more than the Utilities' customer deposit cash and investment balances by \$64,924, \$136,429, and \$214,614, respectively.

Criteria

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



Town of Edinburgh

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TOWN OF EDINBURGH EXAMINATION RESULTS AND COMMENTS OFFICIAL RESPONSE

To State Auditors:

I appreciate the opportunity to respond to the *Examination Results and Comments* from the 2015 – 2018 examination for the Town of Edinburgh. The town's response to these comments is as follows:

Clerk-Treasurer

Internal Controls – Financial Transactions and Reporting; Town, Water, Wastewater, and Electric Utilities

The town has implemented a signature page on all bank reconciliations that will be signed by the Accounts Payable Clerk, the Clerk-Treasurer, and the President of Town Council.

The town will be updating its internal controls policy as well as implementing internal controls policies for each individual department. The policy will better outline the processes of each employee and implement signatures for approval of financial transactions.

Customer Deposit Register

During the financial software system conversion a portion of the system was setup incorrectly causing the customer deposits register and customer deposit cash and investments to become unbalanced. The town has been working with its financial advisors to correct this issue. Once the full report is received from Baker Tilly, the staff will review the necessary adjustments and post them to the G/L. An audit of the system process in the utility software will be done to ensure meter deposit transactions are hitting the G/L correctly.

Parks and Recreation

Internal Controls – Parks and Recreation

The staff now requires a second signature on all deposit forms and daily logs. The town will be updating its internal controls policy to better outline employee responsibilities concerning Parks and Recreation financial transactions.

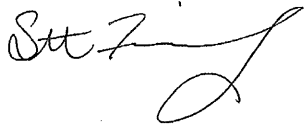
Town Council

Internal Controls – Timbergate Golf Course

The town will be updating its internal controls policy to better outline employee responsibilities concerning Timbergate financial transactions. A better system of checks and balances and segregation of duties is necessary to reduce risk.

Fund Sources and Uses

The town will no longer keep men's and women's league money on site. A treasurer will be appointed from the league to be responsible for the money. This will relieve the town of responsibility for these funds.

A handwritten signature in black ink, appearing to read "Scott Finley". The signature is fluid and cursive, with a large loop at the end.

Scott Finley
Edinburgh Clerk-Treasurer

CLERK-TREASURER
TOWN OF EDINBURGH
EXIT CONFERENCE

The contents of this report were discussed on August 7, 2019, with Scott Finley, Clerk-Treasurer; JT Doane, Town Manager; Jerry Lollar, President of the Town Council; Debbie Buck, Town Council member; and Mary Patterson, Director of Administration.

PARKS AND RECREATION
TOWN OF EDINBURGH

PARKS AND RECREATION
TOWN OF EDINBURGH
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS - PARKS AND RECREATION

A similar comment appeared in the prior Report B46713.

We noted deficiencies in the internal control system of the Parks and Recreation Department (Department) related to receipts.

No evidence was presented to indicate that the Department separated incompatible activities related to receipts. There was no clear indication who was responsible for the various aspects of the receipt process or any evidence of documented oversight or review of the receipt processes performed.

Segregation of duties between persons having custody of receipt money, recording receipts, and reconciling the receipts is one of the key concepts of internal control and is one of the most effective internal controls for combating potential employee fraud. If the Department is too small to effectively segregate duties, compensating controls, such as supervisor reviews and random drawer checks, can provide some measure of control.

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. . . ."



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The town will be updating its internal controls policy as well as implementing internal controls policies for each individual department. The policy will better outline the processes of each employee and implement signatures for approval of financial transactions.

Customer Deposit Register

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Parks and Recreation

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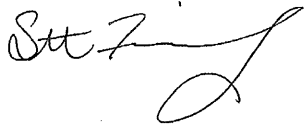
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Fund Sources and Uses

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Scott Finley
Edinburgh Clerk-Treasurer

PARKS AND RECREATION
TOWN OF EDINBURGH
EXIT CONFERENCE

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TOWN COUNCIL
TOWN OF EDINBURGH

TOWN COUNCIL
TOWN OF EDINBURGH
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS - TIMBERGATE GOLF COURSE

A similar comment appeared in the prior Report B46713.

We noted deficiencies in the internal control system of the Timbergate Golf Course related to receipts.

No evidence was presented to indicate that the Timbergate Golf Course had separated incompatible activities related to receipts. There was no clear indication who was responsible for the various aspects of the receipt process or any evidence of a documented oversight or review of the receipt processes performed.

Segregation of duties between persons having custody of receipt money, recording receipts, and reconciling the receipts is one of the key concepts of internal control and is one of the most effective internal controls for combating potential employee fraud. If the unit is too small to effectively segregate duties, compensating controls, such as supervisor reviews and random drawer checks, can provide some measure of control.

Criteria

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FUND SOURCES AND USES

On July 2, 2017, a break-in was reported at the Timbergate Golf Course in which \$2,970 was stolen. The money taken belonged to the men and women golf league members and was being held by the Timbergate Golf Course. There was not an insurance claim filed, nor has any money been recovered from the theft. On September 11, 2017, the Nro Era Timbergate fund reimbursed the leagues \$2,970 for the theft, even though it was not the Timbergate Golf Course monies that had been stolen. The reimbursement of monies to the league does not appear to be an allowable expenditure of the Timbergate Golf Course operating fund.

Criteria

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



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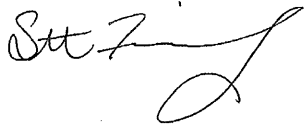
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Edinburgh Clerk-Treasurer

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