

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF LEAVENWORTH

CRAWFORD COUNTY, INDIANA

January 1, 2015 to December 31, 2018



FILED
11/15/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Internal Controls	6-7
Condition of Records.....	7-8
Annual Financial Report.....	8
Supporting Documentation	9-10
Compensation and Benefits.....	10
Capital Assets	10
Exit Conference	11

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Bonnie Young Cynthia C. Kemp	10-04-12 to 12-31-15 01-01-16 to 12-31-19
President of the Town Council	Whitney Timberlake	01-01-15 to 12-31-19
Utilities Superintendent	Jeff LaHue	01-01-15 to 12-31-19



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 LEAVENWORTH, CRAWFORD COUNTY, INDIANA

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

October 22, 2019

(This page intentionally left blank.)

CLERK-TREASURER
TOWN OF LEAVENWORTH

CLERK-TREASURER
TOWN OF LEAVENWORTH
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Context and Condition

There were several deficiencies in the internal control systems for the Town related to cash and investments, receipts, disbursements, and financial close and reporting. The Town had not separated incompatible activities related to all areas of the financial statements.

Cash and Investments

The Town established a procedure that the monthly bank reconciliements were to be performed by the Deputy Clerk-Treasurer and reviewed by the Clerk-Treasurer. However, there was no evidence that an oversight, review, or approval process over the bank reconciliements had occurred. In addition, the procedure was not effective, as errors on the reconciliements occurred and went undetected.

Receipts

The Town established a procedure that the Deputy Clerk-Treasurer received payments at the Town Hall (or EFT notification), made the bank deposits, and posted the receipts to the ledger. There was no oversight to ensure receipts were properly recorded or deposited timely. In addition, the procedure was not effective, as posting errors occurred and went undetected.

Disbursements

The Town established the procedure that the Deputy Clerk-Treasurer prepared the Accounts Payable Vouchers (APV) for both vendor and payroll disbursements, the Clerk-Treasurer reviewed and signed the APV, and the Town Council approved the APV by signing the Accounts Payable Voucher Register. However, the control was not effective, as posting errors on disbursements occurred and went undetected.

Financial Close and Reporting

The Town established the procedure that the Deputy Clerk-Treasurer prepared and the Clerk-Treasurer reviewed and submitted the Annual Financial Reports (AFRs) through the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statements. However, the control was not effective, as errors on the AFRs occurred and went undetected.

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 LEAVENWORTH
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. . . ."

CONDITION OF RECORDS

Condition and Context

Although monthly bank reconcilements were performed, the Town's bank balances did not reconcile to the fund balances with an unidentified difference of \$5,899 as of December 31, 2018. This difference has remained the same since 2016. During the audit, the following errors were noted in the Town ledgers and on the bank reconcilements:

1. Receipts and disbursements were not posted to the proper funds.
2. Receipts and disbursements were not posted to the ledger at all or not posted timely.
3. A Wastewater Utility investment was cashed and a portion used to pay off a loan for a police car and the remainder was receipted into the General fund.
4. The bank reconcilements contained several reconciling items, such as deposits in transit, outstanding checks, and adjustments that have been carried since 2016. Many of these were a result of uncorrected posting errors.

Criteria

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."

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)

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)

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

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ANNUAL FINANCIAL REPORT

Condition and Context

The same comment also appeared in prior Report B45941.

The AFR for 2015, 2016, 2017, and 2018 contained a number of errors and did not properly reflect the financial activity of the Town. These errors included:

1. For 2015, the Economic Development Operating fund was not included on the AFR.
2. For 2015 and 2016, the AFR did not reflect the receipts and disbursements of the Wastewater Escrow Account fund.
3. For 2015, 2016, 2017, and 2018, the AFR did not reflect the receipts and disbursements of the Community Building/Center fund. The Town combined receipts and disbursements of the Community Building/Center fund with the Breeden Memorial Library fund.
4. For 2017 and 2018, the Wastewater Utility Operating fund balance in the AFR was not accurate, as the balance did not properly reflect the cashing in of a certificate of deposit and purchase of another certificate of deposit.

The net amount of errors resulted in the understatement of cash and investment balance as of January 1, 2018, as well as receipts, disbursements, and the overstatement of cash and investment balance as of December 31, 2018, in the amounts of \$7,173, \$90,463, \$225,088, and \$127,452, respectively. Adjustments were proposed, accepted by the Town, and made to the financial statements.

Criteria

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](#)."

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

SUPPORTING DOCUMENTATION

Condition and Context

In the sample of 120 receipts tested, there were 3 receipts for utility collections totaling \$1,420 for which the daily collections reports were not provided to support the receipts.

The testing of 131 disbursements revealed the following issues:

1. Four disbursements had an APV, but there were no supporting invoices or receipts attached.
2. Nine disbursements had supporting documentation, such as invoices or receipts, but no APV was attached to show certification that goods or services were received.
3. Six disbursements did not have APVs or supporting invoices available and, therefore, the validity of the disbursement could not be verified.
4. Five disbursements were not included on the claim docket and, therefore, there was no evidence of Board approval.

Criteria

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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;

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

- (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. . . ."

COMPENSATION AND BENEFITS

Condition and Context

The same comment also appeared in prior Report B45941.

The Town paid the salary of the librarian for the library that the Town acquired from the county library system in 2011. The compensation and benefits paid to this employee during the period examined totaled \$62,625. The Town did not withhold payroll taxes for this employee, nor was an Internal Revenue Service Wage and Tax Statement Form W-2 filed.

Criteria

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CAPITAL ASSETS

Condition and Context

A detailed capital assets ledger was not maintained during the audit period for the Town or utilities.

Criteria

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 LEAVENWORTH
EXIT CONFERENCE

The contents of this report were discussed on October 22, 2019, with Cynthia C. Kemp, Clerk-Treasurer; Whitney Timberlake, President of the Town Council; and Samantha LaHue, Deputy Clerk-Treasurer.