

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF WATERLOO

DEKALB COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED
12/04/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Renata Ford	01-01-16 to 12-31-19
President of the Town Council	David Bolton	01-01-16 to 12-31-19
Superintendent of Water Utility	Chris Lalonde	01-01-16 to 12-31-19
Superintendent of Wastewater Utility	Chris Lalonde	01-01-16 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 WATERLOO, DEKALB COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Waterloo (Town), for the period from January 1, 2016 to December 31, 2016. 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 Statement 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

October 22, 2019

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CLERK-TREASURER
TOWN OF WATERLOO

CLERK-TREASURER
TOWN OF WATERLOO
AUDIT RESULTS AND COMMENTS

LATE SUBMISSION OF ANNUAL FINANCIAL REPORT

Condition and Context

A similar comment appeared in prior Report B47644, entitled *ANNUAL FINANCIAL REPORT*.

The Town's Annual Financial Report for 2016 was not filed electronically until March 28, 2017, which was 27 days past the due date.

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](#)."

CONDITION OF RECORDS

Condition and Context

A similar comment appeared in prior Report B47644, entitled *CONDITION OF RECORDS*.

Financial records presented for audit were not always reflective of the activity of the Town's ledger and contained the following deficiencies:

1. There were numerous corrections in the ledgers. Correcting entries were not summarized and the reasons supporting the entries were not properly documented.
2. There were numerous transfers of funds recorded in the ledger that did not have an adequate audit trail to identify transfers in with the corresponding transfer out. We noted several transfers made from one fund to the other for which there was no approval from the Town Council.
3. The 2016 Water Utility-Debt Reserve #2 fund was originally omitted, which resulted in receipts being understated by \$163,548 and disbursements understated by \$159,504.
4. The 2016 TIF Debt Reserve/MCM Project fund was originally omitted, which resulted in receipts being understated by \$42,000 and disbursement understated by \$42,000.
5. The 2016 Wastewater Utility- Operating fund transfer to Wastewater Util- Bond And Interest fund was never posted, which resulted in disbursements being understated by \$53,373.
6. Transfers between the Wastewater Utility- Operating fund and the Wastewater Utility- Bond And Interest fund for payments to Bank of New York were never posted, which resulted in receipts being understated by \$150,920 and disbursements understated by \$150,920.

Audit adjustments were proposed, approved by management of the Town, and made to the financial statement.

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

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)

OVERDRAWN CASH BALANCES

Condition and Context

A similar comment appeared in prior Report B47644, entitled *OVERDRAWN CASH BALANCE*.

The financial statement presented for audit included the following funds with overdrawn cash balances at December 31, 2016. There were other funds that had overdrawn cash balances due to grant funds operating on a reimbursement basis; however, those funds are not included below.

Fund	Amount Overdrawn
Payroll	\$ 24,825
Water Utility- Bond And Interest	1,533

Criteria

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)

LOANS BETWEEN FUNDS

Condition and Context

A similar comment appeared in prior Report B47644, entitled *LOANS BETWEEN FUNDS*.

The Town passed Resolution 10-05 concerning temporary loans the Water Utility received from the Cumulative Fire fund (\$24,700) and the Co Economic Development Income Tax fund (\$29,740), which were to be paid back by December 31, 2011. The Water Utility still owes \$4,000 to the Cumulative Fire fund and \$29,740 to the Co Economic Development Income Tax fund. These amounts are still unpaid as of December 31, 2016.

In 2010, a total of \$26,750 was disbursed from the Rainy Day fund for water utility painting, which included \$10,000 noted in Resolution 10-05. In 2011, \$20,000 was paid back to the Rainy Day fund leaving a balance of \$6,750. This amount is still unpaid as of December 31, 2016.

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

Criteria

Indiana Code 36-1-8-4 states in part:

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs; (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

Each 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)

CUSTOMER DEPOSIT REGISTER

Condition and Context

A similar comment appeared in prior Report B47644, entitled *CUSTOMER DEPOSIT REGISTER*.

The detailed customer deposit register (Meter Deposit Report) did not reconcile with the customer deposit cash amount recorded on the Fund Report. Also, the difference between the Meter Deposit Report and the Fund Report has not remained constant from year to year.

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)

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

SUPPORTING DOCUMENTATION

Condition and Context

The Town did not have sufficient supporting documentation attached to their Accounts Payable Vouchers for debt payments for the Waterworks Bond of 1998. There were no invoices, statements, or other forms of supporting documentation for disbursements for this bond. Per the Clerk-Treasurer, the debt payments were withdrawn directly from their account instead of a check being sent by the Town.

Criteria

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)

CREDIT CARD POLICY

Condition and Context

The Town was using credit cards to purchase items without an approved credit card policy.

Criteria

The SBOA will not take exception to the use of credit cards by a unit provided the following criteria are observed:

1. The governing body must authorize credit card use through an ordinance /resolution, which has been approved in a meeting and documented in the minutes.
2. Issuance and use must be handled by an official or employee designated by the governing body.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance/resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card must be returned to the custody of the responsible person.
5. The designated responsible official or employee must maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned.
6. Credit cards must not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing body and other officials with timely and accurate accounting information and monitoring of the accounting system.

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

7. Payment cannot be made on the basis of a statement or a credit card slip only. Procedures for payments must be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee may be the personal obligation of the responsible officer or employee.
8. If authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

BANK ACCOUNT RECONCILIATIONS

Condition and Context

The Town's bank reconciliations are to be prepared at least monthly. All 12 of the 2016 bank reconciliations were prepared multiple months later as indicated by the report dates.

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."

DEFICIENCY IN INTERNAL CONTROLS

Condition and Context

There were several deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not separated incompatible activities related to cash and investments, receipts, and financial close and reporting.

Cash and Investments: Bank reconciliations were performed by the Clerk-Treasurer without an oversight, approval, or review process in place to ensure the accuracy of cash and investments balances.

Receipts: The Deputy Clerk-Treasurer collected cash, wrote receipts, prepared the deposit and took the deposit to the bank without an oversight, approval, or review process in place to ensure the accuracy of the receipts.

Disbursements: Payroll was outsourced to a third-party vendor. The Town was not reviewing payroll reports received from the third-party to verify information. In addition, not all timesheets were reviewed/approved by appropriate management.

Financial Close and Reporting: The Clerk-Treasurer entered the Town's financial information into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Annual Financial Report without an oversight, approval, or review process in place to ensure the accuracy of the information submitted.

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

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. . . ."

UTILITY RECEIPTS TAX

Condition and Context

The calculation of Utility Receipts Tax was based on amounts billed rather than collections received.

Criteria

Generally, retail receipts from all utility services consumed within Indiana are subject to the utility receipts tax regardless of the point of generation or transmission across state lines. Receipts from the provision of mobile telecommunication service are subject to utility receipts tax to the extent that the receipts are sourced to Indiana pursuant to Indiana Code 6-8.1-15. However, gross receipts received by a political subdivision for sewage and sewage service are not subject to the tax. (Cities and Towns Bulletin and Uniform Compliance Guidelines Issued by State Board of Accounts, June 2007)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Clerk-Treasurer incorrectly certified in the Annual Financial Report that Town personnel had received training regarding internal control standards. However, upon further inquiry with the Clerk-Treasurer, no personnel had received the training on internal control standards.

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

Context

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CLERK-TREASURER
TOWN OF WATERLOO
EXIT CONFERENCE

The contents of this report were discussed on October 22, 2019, with Renata Ford, Clerk-Treasurer, and Jess Jessup, Town Council member.

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TOWN COUNCIL
TOWN OF WATERLOO

TOWN COUNCIL
TOWN OF WATERLOO
AUDIT RESULTS AND COMMENTS

CREDIT CARD POLICY

Condition and Context

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3. The purposes for which the credit card may be used must be specifically stated in the ordinance/resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card must be returned to the custody of the responsible person.
5. The designated responsible official or employee must maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned.
6. Credit cards must not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing body and other officials with timely and accurate accounting information and monitoring of the accounting system.

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

7. Payment cannot be made on the basis of a statement or a credit card slip only. Procedures for payments must be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee may be the personal obligation of the responsible officer or employee.
8. If authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

Training on internal control standards and procedures had not been provided to any Town personnel.

Criteria

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

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

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

TOWN COUNCIL
TOWN OF WATERLOO
EXIT CONFERENCE

The contents of this report were discussed on October 22, 2019, with Jess Jessup, Town Council member.