

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF REYNOLDS

WHITE COUNTY, INDIANA

January 1, 2015 to December 31, 2018



FILED
12/09/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Tracy A. Mayhill Megan Applegate	01-01-15 to 01-31-18 02-01-18 to 12-31-19
President of the Town Council	Scott E. Denton Rick Buschman	01-01-15 to 12-31-17 01-01-18 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF REYNOLDS, WHITE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Reynolds (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 30, 2019

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CLERK-TREASURER
TOWN OF REYNOLDS

CLERK-TREASURER
TOWN OF REYNOLDS
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not separated incompatible activities related to all areas of the financial statements. The failure to establish these controls enabled material misstatements to occur and remain undetected.

The Town did not have any policies or procedures to ensure accurate recording and reporting of receipts, disbursements, and cash and investment balances. There was no oversight or review process.

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. . . ."

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

The Clerk-Treasurer input the financial information for the Annual Financial Report into the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statements. The financial statements presented for audit contained the following errors:

1. The Town did not record or report amounts received from the Wastewater Utility - Bond & Interest, Wastewater Utility - Reserve Fund, Water Utility SRF Bond & Interest, Water Utility SRF Debt Reserve, Water Utility SRF Constr Ban Fund, and Water Utility Constr Fund. Due to these errors, receipts were understated by \$1,218,749, \$45,287, \$46,815, and \$45,893 in 2015, 2016, 2017, and 2018, respectively. In addition, disbursements were understated by \$914,783, \$239,748, \$98,472, and \$48,652 in 2015, 2016, 2017, and 2018, respectively.
2. The Water Bill Account 2015 was not reported for 2017 and 2018. This understated receipts by \$330,515 and \$335,399, while also understating disbursements by \$276,833 and \$347,911 in 2017 and 2018, respectively.

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

Criteria

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)

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

Financial records presented for audit contained the following deficiencies:

1. Numerous receipts were not issued or posted to the ledger in 2017 and 2018. The depository balances did not agree to the records due to receipts not being issued or posted.
2. Fund report totals did not agree with the detailed revenue reports generated from the utility receipts for 2017 and 2018. Collections received for Water and Wastewater billings, taxes, penalties and Stormwater billings were not recorded in the Town's records or reported on the financial statements.
3. Collections for the Water, Wastewater, and Stormwater payments were deposited into the Water Bill Account 2015 bank account; however, the transfers from the Water Bill Account 2015 to the individual Water, Wastewater, and Stormwater bank accounts were not made in a timely manner. Some of the transfers occurred three to five months after the initial deposit.

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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 REYNOLDS
AUDIT RESULTS AND COMMENTS
(Continued)

ORDINANCES AND RESOLUTIONS

Condition and Context

The current water rate ordinance dated May 13, 2015, states there should be a 5 percent penalty if the water bill is not paid within 15 days. However, there were several instances in which the delinquent water bill payments were assessed a flat \$2 penalty. In addition, the rate ordinance states that if no payment is received in full within 45 days of the bill being due, water service shall be disconnected without notice. Customers did not get shut off for being past due over for 5 out of 38 customers examined.

Criteria

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)

BANK ACCOUNT RECONCILIATIONS

Condition and Context

Bank account reconciliations were not completed from February 2018 through December 2018.

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."

CERTIFICATION OF INTERNAL CONTROLS

Condition and Context

The Town did not adopt the acceptable minimum level of internal control standards; however, the Clerk-Treasurer certified on the Annual Financial Report that appropriate personnel were trained on internal control standards. Since the Town did not adopt a policy, the certification was incorrect.

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 REYNOLDS
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2019, with Megan Applegate, Clerk-Treasurer, and Rick Buschman, President of the Town Council.

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TOWN COUNCIL
TOWN OF REYNOLDS

TOWN COUNCIL
TOWN OF REYNOLDS
AUDIT RESULT AND COMMENT

ADOPTION AND TRAINING OF INTERNAL CONTROLS

Condition and Context

The Town did not adopt the acceptable minimum level of internal control standards. In addition, it failed to provide training to applicable personnel on internal control standards.

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 REYNOLDS
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2019, with Megan Applegate, Clerk-Treasurer, and Rick Buschman, President of the Town Council.