

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF YORKTOWN

DELAWARE COUNTY, INDIANA

January 1, 2018 to December 31, 2018



FILED
02/25/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Beth A. Neff Lance Turner	01-01-15 to 12-31-18 01-01-19 to 12-31-22
President of the Town Council	Richard Lee Daniel Flanagan Richard Lee	01-01-18 to 12-31-18 01-01-19 to 12-31-19 01-01-20 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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TO: THE OFFICIALS OF THE TOWN OF YORKTOWN, DELAWARE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Yorktown (Town), for the period from January 1, 2018 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 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

February 6, 2020

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CLERK-TREASURER
TOWN OF YORKTOWN

CLERK-TREASURER
TOWN OF YORKTOWN
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Report B51111, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

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 cash and investments, receipts, payroll disbursements, debt disbursements, and financial reporting.

- Cash and Investments - There were no controls in place, such as an oversight, review, or approval of the bank reconciliation process. This resulted in bank reconciliations not being completed timely and accurately.
- Receipts - The receiving, recording, and depositing functions were not properly segregated between employees.
- Payroll Disbursements - The timesheets for the Town Manager were prepared and approved by the Town Manager. There was no documentation of controls in place, such as an oversight, review, or approval process.
- Debt Disbursements - Sufficient controls were not in place to ensure that disbursements related to debt were properly paid. Instances were noted where amounts paid were in excess of, or did not agree with, the amounts due per the debt agreement.
- Financial Reporting - The Clerk-Treasurer completed and filed the Annual Financial Report (AFR), which was the source for the financial statement. There were no controls in place, such as an oversight, review, or approval process. This resulted in immaterial errors on the financial statement remaining undetected. The AFR and financial statement contained the following errors:
 - The ending cash and investment balances were understated by \$101,093 due to posting errors that were not included.
 - Receipts and disbursements were overstated by \$294,388 due to double payment of two debt payments, which were subsequently refunded by the vendor.

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 YORKTOWN
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. . . ."

BANK ACCOUNT RECONCILIATIONS

A similar comment also appeared in prior Reports B47143 and B51111, entitled *BANK ACCOUNT RECONCILIATIONS*.

Condition and Context

Bank account reconciliations were not prepared monthly during the audit period. A consultant was hired to perform the 2018 monthly reconciliations, but due to lack of access, was not able to perform them until 2019.

The bank account reconciliation as of December 31, 2018, included interest income totaling \$86,955 that had not been recorded in the records, and numerous posting errors for the period of 2016 through 2018 netting to \$14,988 that had not been corrected. This resulted in the total cash being understated by \$101,943.

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."

DISBURSEMENTS IMPROPERLY PAID OR INADEQUATELY SUPPORTED

Condition and Context

During the audit period, the following disbursements were determined to be improperly paid or inadequately supported by documentation:

- On January 1, 2018, a payment of \$244,388 was made on a debt issue that was refunded in 2017 so there was no payment obligation. This was subsequently refunded by the vendor, but not until August 8, 2018.
- On June 18, 2018, a payment of \$47,299 was made to the bond holder on a capital lease and on July 3, 2018, the corresponding lease payment of \$50,000 was also made to the lessor. The lessor refunded the \$50,000 on the same day.

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

- The Town Council approved a 4-year lease agreement for using the old Town Hall that specified a base monthly rental rate of \$2,600, plus an additional rent/payment of 45 percent of the operating costs for the building. The Town paid rent of \$3,600 each month during 2018. There was no documentation provided supporting the additional monthly rent/payment of \$1,000, resulting in \$12,000 of undocumented payments.
- The Town Council approved a 20-year lease agreement for a volleyball and recreational facility that specifies a monthly rental rate of \$5,947. The Town paid rent of \$7,233 each month during 2018. There was no documentation provided supporting the additional rent payment of \$1,286 per month, resulting in \$15,432 of undocumented payments.
- The Town had a partially self-funded health insurance plan administered by SIHO Insurance Services. A portion of the monthly payment to SIHO was an amount to maintain an account to pay health claims. The monthly amount was a calculation based on each employee's tier amount, which represented the employee's contribution based on the type of plan - family, single, etc. The tier amounts were determined for the period of May to April based on an actuary's suggested amount, the balance in the SIHO account, and known current or health circumstances for Town employees. The Town attached a spreadsheet showing the calculation of the monthly amount using the tier cost; however, the supporting documentation setting the tier amounts was not provided.
- The Town Council approved paying the Town Attorney an hourly rate for work performed on the Town's behalf. The invoices submitted for payment did not disclose the hours worked; therefore, invoice amounts could not be verified as being correctly billed.

Criteria

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. . . ."

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

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)

OVERDRAWN CASH BALANCE

Condition and Context

The River Rd Trail Project (ARRA) fund was overdrawn \$130,747 as of December 31, 2018. No receipts were recorded in the fund in 2019.

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)

WATER OPERATING LOAN TO GENERAL FUND

Condition and Context

On November 19, 2018, the Town Council approved a loan, not to exceed \$750,000, from the Water Operating fund to the Town General fund for the Canal St. Redevelopment Project. The loan was to be repaid from the Yorktown (Indiana) Redevelopment Authority Ad Valorem Property Tax Lease Rental Bonds of 2018, which were received on December 27, 2018.

Instead of transferring the funds to the General fund as an interfund loan, the Canal St. Redevelopment Project expenditures totaling \$582,640 were recorded directly in the Water Operating fund to an appropriation line item labeled "Water Loan to RDA not to exceed \$750,000."

On August 30, 2019, the Water Operating fund was reimbursed \$128,197. As of December 31, 2019, the remaining \$454,444 of expenditures made from the fund had not been reimbursed.

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)

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)

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner. (The Cities and Towns Bulletin and Uniform Compliance Guidelines, June 2016 - Part One)

CLERK-TREASURER
TOWN OF YORKTOWN
EXIT CONFERENCE

The contents of this report were discussed on February 6, 2020, with Lance Turner, Clerk-Treasurer; Richard Lee, President of the Town Council; Pete Olson, Town Manager; Daniel Flanagan, Town Council member; and Michael Burke, Town Council member.

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AUDIT RESULTS AND COMMENTS
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