

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, 2017 to December 31, 2018



FILED
03/09/2020

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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	01-01-17 to 12-31-19
Superintendent of Water Utility	Chris Lalonde	01-01-17 to 12-31-19
Superintendent of Wastewater Utility	Chris Lalonde	01-01-17 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 WATERLOO, DEKALB COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Waterloo (Town), for the period from January 1, 2017 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

November 18, 2019

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CLERK-TREASURER
TOWN OF WATERLOO

CLERK-TREASURER
TOWN OF WATERLOO
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS

Condition and Context

A similar comment appeared in the immediately prior report for 2016, 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 ledger, including large amounts of year end adjustments. Correcting entries and adjustments were not summarized and the reasons supporting the entries were not properly documented. The Clerk-Treasurer was unable to provide explanation for most entries.
2. The ledger contained unidentifiable amounts listed as "proofs," as a result of switching back and forth between financial software. These proofs made it difficult to determine if any transactions should have been added, removed, or adjusted to the ledger. In 2017, 15 funds contained proof amounts totaling \$214,721 for receipts and 7 funds contained proof amounts totaling \$407,423 for disbursements. These proof transactions did not occur in 2018.
3. There were numerous transfers in the ledger that did not have an adequate audit trail to identify correspondence between transfers in and transfers out. Additionally, we noted several transfers made from one fund to another without approval from the Town Council.
4. State and local distributions were improperly allocated to accounts within the Town's funds. In 2017, the January certified shares were omitted, which resulted in receipts being understated by \$7,098. In 2018, the state distribution for Main Street sweeping was omitted from the ledger and an extra receipt for CAGIT/CEDIT was posted; these two transactions netted to an overstatement of \$38,690 in receipts.
5. The 2017 and 2018 Water Debt Reserve #2 fund was originally omitted, which resulted in receipts being understated by \$320,655 and disbursements being understated by \$317,818.
6. The 2017 and 2018 TIF Debt Reserve/MCM Project fund was originally omitted, which resulted in receipts being understated by \$84,037 and disbursements being understated by \$84,000.
7. In 2017, a receipt for the Federal Railroad Train Station grant was originally omitted, which resulted in receipts being understated by \$67,491.
8. In 2017, adjustments were made in the Water Utility-Operating fund and the Wastewater Utility-Operating fund that were labeled as "computer error" adjustments. The Clerk-Treasurer was unable to provide an explanation for these adjustments. These adjustments resulted in receipts being understated by \$105,726.
9. In 2017, a transfer was made to close the Blight Elimination Grant fund; however, a disbursement was never posted from the General fund to complete the transfer. This resulted in expenditures being understated by \$99,204.

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

10. In 2017, a bank-to-bank transfer was posted to set up the US Hwy 6 Water Extension fund. This resulted in disbursement being overstated by \$250,000.
11. In 2017 and 2018, payments for the economic development TIF revenue bonds were never posted. This resulted in disbursements being understated by \$21,000 in both 2017 and 2018.
12. In 2017, an adjustment was made to record necessary transfers for debt payments; however, only one side of the transfer was recorded. This resulted in disbursements being understated by \$47,875.
13. In 2018, a bank-to-bank transfer was posted for the US Hwy 6 Water Extension fund. This resulted in receipts being overstated by \$205,911.

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)

BANK ACCOUNT RECONCILIATIONS

The same comment appeared in the immediately prior Report B53863, entitled *BANK ACCOUNT RECONCILIATIONS*.

Condition and Context

Depository reconciliations of the fund balances to the bank account balances were attempted, but not completed for any month during the audit period. At December 31, 2017, the Town's fund ledger exceeded the adjusted bank reconciliation by \$215,715. At December 31, 2018, the Town's adjusted bank reconciliation exceeded the fund ledger by \$9,943. The Town's bank reconciliations are to be prepared at least monthly. Every bank reconciliation during the audit period was prepared 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."

INTERNAL CONTROLS OVER FINANCIAL TRANSACTION AND REPORTING

The same comment appeared in the immediately prior Report B53863, entitled *DEFICIENCY IN INTERNAL CONTROLS*.

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

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, disbursements, 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 deposits, and took the deposits 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 vendor to verify information. In addition, not all timesheets were reviewed or approved by appropriate management.

Financial Close and Reporting

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

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. . . ."

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

ANNUAL FINANCIAL REPORT

Condition and Context

The AFR submitted during the audit period contained the following errors:

1. The Town did not report all of the federal grants received and expended during the audit period in their Schedule of Expenditures of Federal Awards (SEFA). The SEFAs submitted for 2017 and 2018 contained errors, which consisted of federal grants that were omitted.
2. The supplementary information for the Schedule of Payables and Receivables as of December 31, 2018, was omitted from the AFR. The Schedule of Payables and Receivables should include all of the payables and receivables of the Town.
3. The supplementary information submitted for the Schedule of Leases and Debt as of December 31, 2018, contained errors. The Schedule of Leases and Debt should include all of the various long-term debt issues of the Town.
4. The supplementary information submitted for the Schedule of Capital Assets as of December 31, 2018, contained errors. The Schedule of Capital Assets had not been properly maintained by the Town. The Town does not maintain a complete detailed listing of capital assets owned. The capital assets totals reported in the AFR were based upon additions and deletions added to the previous year.

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](#)."

LATE SUBMISSION OF ANNUAL FINANCIAL REPORT

The same comment appeared in the immediately prior Report B53863, entitled *LATE SUBMISSION OF ANNUAL FINANCIAL REPORT*.

Condition and Context

The Town's AFR for 2017 was not filed electronically until April 3, 2018, which was 33 days past the due date. The Town's AFR for 2018 was not filed electronically until March 12, 2019, which was 11 days past the due date.

Criteria

Indiana Code 5-11-1-4(a) states:

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

"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](#)."

LATE SUBMISSION OF CERTIFIED REPORT

Condition and Context

The Town's Certified Report of Names, Addresses, Duties and Compensation of Public Employees (Form 100R) for 2018 was not filed electronically until March 11, 2019, which was 39 days past the due date.

Criteria

Indiana Code 5-11-13-1(a) states:

"Every state, county, city, town, township, or school official, elective or appointive, who is the head of or in charge of any office, department, board, or commission of the state or of any county, city, town, or township, and every state, county, city, town, or township employee or agent who is the head of, or in charge of, or the executive officer of any department, bureau, board, or commission of the state, county, city, town, or township, and every executive officer by whatever title designated, who is in charge of any state educational institution or of any other state, county, or city institution, shall during the month of January of each year prepare, make, and sign a certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents in their respective offices, departments, boards, commissions, and institutions, and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts. The report must also indicate whether the political subdivision offers a health plan, a pension, and other benefits to full-time and part-time employees. However, no more than one (1) report covering the same officers, employees, and agents need be made from the state or any county, city, town, township, or school unit in any one year. The certification must be filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

SUPPORTING DOCUMENTATION

Condition and Context

The same comment appeared in the immediately prior Report B53863, entitled *SUPPORTING DOCUMENTATION*.

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.

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

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

The same comment appeared in the immediately prior Report B53863, entitled *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.
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.

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

8. If authorized, an annual fee may be paid.

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

CUSTOMER DEPOSIT REGISTER

The same comment appeared in the immediately prior Report B53863, entitled *CUSTOMER DEPOSIT REGISTER*.

Condition and Context

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)

COMPENSATION AND BENEFITS

Condition and Context

The Deputy Town Manager position was created in March 2018. The 2018 Salary Ordinance was approved in 2017, which was before the new position was in place; therefore, the Deputy Town Manager's salary was not included on that ordinance and there were no additional proposed ordinances or addendums determining the salary for the position. The salary that was being paid to the Deputy Town Manager was never approved by the Town Council.

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)

UTILITY RECEIPTS TAX

Condition and Context

The same comment appeared in the immediately prior Report B53863, entitled *UTILITIES RECEIPTS TAX*.

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

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

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 AFRs that Town personnel had received training regarding internal control standards for the years of 2017 and 2018. Upon further inquiry with the Clerk-Treasurer, no personnel had received the training on internal control standards during either of those years.

Context

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](#)."

LOANS BETWEEN FUNDS

The same comment appeared in the immediately prior Report B53863, entitled *LOANS BETWEEN FUNDS*.

Condition and Context

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, 2018.

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, 2018.

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

Criteria

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

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met: . . .

- (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)

CLERK-TREASURER
TOWN OF WATERLOO
EXIT CONFERENCE

The contents of this report were discussed on November 18, 2019, with Renata Ford, Clerk-Treasurer; Ken Surber, Town Council member; Jess Jessup, Town Council member; Pamela Howard, Deputy Town Manager; and Tena Woenker, Town Manager.

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TOWN COUNCIL
TOWN OF WATERLOO

TOWN COUNCIL
TOWN OF WATERLOO
AUDIT RESULTS AND COMMENTS

CREDIT CARD POLICY

Condition and Context

The same comment appeared in the immediately prior Report B53863, entitled *CREDIT CARD POLICY*.

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.

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

The same comment appeared in the immediately prior Report B53863, entitled *TRAINING ON INTERNAL CONTROL STANDARDS*.

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

Criteria

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

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

- (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 November 18, 2019, with Ken Surber, Town Council member, and Jess Jessup, Town Council member.