

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF CROMWELL

NOBLE COUNTY, INDIANA

January 1, 2017 to December 31, 2018



FILED
04/17/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kayla J. Pauley	03-16-16 to 12-31-23
President of the Town Council	Robert K. Warren	01-01-17 to 12-31-18
	Jerry L. Pauley	01-01-19 to 12-31-20
Superintendent of Utilities	Thomas C. Reed	01-01-17 to 02-12-18
	(Vacant)	02-13-18 to 05-03-18
	Josiah S. Elswick	05-04-18 to 03-08-19
	(Vacant)	03-09-19 to 03-31-19
	(Outsourced)	04-01-19 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF CROMWELL, NOBLE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Cromwell (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 opinions 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

April 8, 2020

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CLERK-TREASURER
TOWN OF CROMWELL

CLERK-TREASURER
TOWN OF CROMWELL
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 established a system of internal controls or separated incompatible activities related to receipts and disbursements. The failure to establish these controls could have enabled material misstatements to occur and remain undetected.

Receipts

For nonutility Town collections, there was no documented segregation of duties over receipt deposits and posting receipts.

Disbursements

Employee timesheets were not signed by the employee or reviewed prior to processing payroll. In addition, there was no review or approval process over the quarterly payroll reports, year-end payroll reports, and Internal Revenue Service Wage and Tax Statement Form W-2s for the Town employees.

Credit card payments were made in advance of the statement and were based on collected receipts. There was no formal reconciliation of the payments made to the adjusted ending statement balance for adequate review.

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 CROMWELL
AUDIT RESULTS AND COMMENTS
(Continued)

CAPTIAL ASSETS

Condition and Context

The Town did not have a capital assets policy to determine a threshold for capitalizing assets. In addition, the Town did not maintain a Capital Asset Ledger (Form 369) to document all capital assets owned. As a result, a physical inventory could not be taken.

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)

FINANCIAL TRANSACTIONS - SRF

Condition and Context

The Town posted all State Revolving Fund (SRF) activity from March 2017 through October 2018 in November 2018. As a result, no bank account reconciliements for the SRF funds were performed until November 2018. Audit adjustments were proposed and accepted by management to present the correct financial activity of the SRF funds by year.

Criteria

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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."

FUND SOURCES AND USES

Condition and Context

In 2016, the Town was awarded a \$650,000 Community Development Block grant to help fund a sewer rehabilitation project. A separate fund was not established in the ledger and funding was posted entirely to the Sewer Utility Operating fund. Furthermore, in 2017, funding from the Community Crossing grant of \$17,222 was posted in the ledger in the LOIT Special Distribution fund instead of the Local Road Grant Fund. Audit adjustments were proposed and accepted by management to present the correct amounts in the Local Road Grant Fund on the financial statement.

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

Criteria

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)

SUPPORTING DOCUMENTATION

Condition and Context

The Town had Water and Wastewater Utility bills, such as NIPSCO and CenturyLink, automatically deducted from the Town's bank accounts as applicable. Supporting documentation for the bills was not maintained during the audit period. The Clerk-Treasurer was able to provide most of the supporting documentation from the vendors; however, supporting documentation for \$6,535 of the automatically deducted bills was not provided for audit.

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)

TIMELY RECORDING

Condition and Context

Electronic deposits from the Auditor of State were not receipted into the Town's ledger at the time of the transaction or in a timely manner, but at the end of the month.

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 City and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF CROMWELL
EXIT CONFERENCE

The contents of this report were discussed on April 8, 2020, with Kayla J. Pauley, Clerk-Treasurer, and Jerry L. Pauley, President of the Town Council.