

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF GOODLAND

NEWTON COUNTY, INDIANA

January 1, 2016 to December 31, 2018



FILED
07/23/2020

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Financial Transactions and Reporting	6-7
Overdrawn Cash Balances	7
Certification and Approval of Disbursements.....	8-9
Exit Conference	10
Town Council:	
Audit Results and Comments:	
Financial Transactions and Reporting	12-13
Overdrawn Cash Balances	13
Certification and Approval of Disbursements.....	14-15
Exit Conference	16

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Tina Ward	01-01-16 to 12-31-20
President of the Town Council	James Butler	01-01-16 to 12-31-20



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 GOODLAND, NEWTON COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Goodland (Town), for the period from January 1, 2016 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 opinions 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

April 28, 2020

(This page intentionally left blank.)

CLERK-TREASURER
TOWN OF GOODLAND

CLERK-TREASURER
TOWN OF GOODLAND
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

The Town had not designed or implemented proper segregation of duties related to cash and investments, receipts, disbursements, and financial reporting. The Town did not have enough employees to provide adequate segregation of duties. The Town Council did not provide enough documented oversight to provide proper segregation of duties.

Cash and Investments

The reconciliation of the bank and ledger activity was prepared by the Clerk-Treasurer without an oversight or review process documented.

Receipts

The Clerk-Treasurer issued the official receipts, recorded the receipts to the computerized accounting system, prepared the bank deposits, and performed the bank reconciliations. The Town had not designed or implemented adequate segregation of duties such as an oversight, review, or approval process.

Disbursements

Accounts Payable Vouchers were generated and recorded to the computerized accounting system by the Clerk-Treasurer. The Clerk-Treasurer classified the disbursements as either "regular" or "manual" checks. The Town Council approved the "regular" computerized accounts payable vouchers at the Town Council meetings. However, a majority of the Town's disbursements were classified as "manual" checks and did not have an oversight, review, or approval process prior to the release of the check. The Town had not designed or implemented adequate segregation of duties such as an oversight, review, or approval process.

Financial Reporting

The financial information was prepared and electronically submitted through the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the basis for the Town's financial statements. A review process had not been established to prevent, or detect and correct, errors, ensuring that the financial information recorded and reported was accurate and complete.

The failure to establish a system of internal controls enabled misstatements to remain undetected for cash and investments balances related to the Utilities Cash Reserve fund. The Utilities Cash Reserve fund was not included in the financial information submitted to Gateway for the 2016 and 2017 fiscal years.

An audit adjustment was proposed, approved by the Town, and made to the financial statements.

CLERK-TREASURER
TOWN OF GOODLAND
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. . . ."

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](#)."

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Report B47721.

Condition and Context

The financial statements presented for audit included the Trash Removal fund with an overdrawn cash balance of \$6,955 at December 31, 2016.

The financial statements presented for audit included the Wastewater Utility-Operating funds with overdrawn cash balance of \$17,864 at December 31, 2017.

The financial statements presented for audit included the Payroll fund with overdrawn cash balances of \$1,090 and \$5,406 at December 31, 2017 and 2018, respectively.

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)

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

CERTIFICATION AND APPROVAL OF DISBURSEMENTS

Condition and Context

Disbursements were not properly supported by a completed Accounts Payable Voucher (APV) as required by law. For 12 of the 29 APVs tested, the invoice or bill was not approved by the officer or person receiving the goods and services, the fiscal officer did not certify prior to payment that the invoice or bill was true and correct, and payment was not allowed by the governing board.

In July 2015, the Town Council adopted Ordinance 2015-3, which created Article 5-1-2 for the Advanced Payment of Claims by Clerk-Treasurer Authorized, in accordance with Indiana Code 36-5-4-12. Article 5-1-2 authorized the Clerk-Treasurer to make accounts payable vouchers payments in advance of a Town Council allowance for a limited type of expenses.

However, in accordance with Indiana Code 36-5-4-12 and the Town's Article 5-1-2(D), the pre-approved accounts payable vouchers are to be reviewed and allowed at the governing board's next regular or special meeting.

The accounts payable vouchers that were paid in advance were not provided to the governing board for review and allowance as required by Indiana Code and Article 5-1-2 of the Town Code.

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. . . .

(e) The certification provided for in subsection (c)(4) must be on a form prescribed by the state board of accounts."

Indiana Code 36-5-4-12(d) states: "The town legislative body or the board having jurisdiction over the allowance of the claim shall review and allow the claim at the body's or board's next regular or special meeting following the preapproved payment of the expense."

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

Article 5-1-2(D) of the Town Code states: "The Town Council or the board having jurisdiction over the allowance of the claim shall review and allow the claim at the Town Council's or board's next regular or special meeting following the pre-approved payment of the expense."

CLERK-TREASURER
TOWN OF GOODLAND
EXIT CONFERENCE

The contents of this report were discussed on April 28, 2020, with Tina Ward, Clerk-Treasurer; James Butler, President of the Town Council; Trisha Dowden, Town Council member; Gary Rheude, Town Council member; and Jud Barce, Town Attorney.

TOWN COUNCIL
TOWN OF GOODLAND

TOWN COUNCIL
TOWN OF GOODLAND
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

The Town had not designed or implemented proper segregation of duties related to cash and investments, receipts, disbursements, and financial reporting. The Town did not have enough employees to provide adequate segregation of duties. The Town Council did not provide enough documented oversight to provide proper segregation of duties.

Cash and Investments

The reconciliation of the bank and ledger activity was prepared by the Clerk-Treasurer without an oversight or review process documented.

Receipts

The Clerk-Treasurer issued the official receipts, recorded the receipts to the computerized accounting system, prepared the bank deposits, and performed the bank reconciliations. The Town had not designed or implemented adequate segregation of duties such as an oversight, review, or approval process.

Disbursements

Accounts Payable Vouchers were generated and recorded to the computerized accounting system by the Clerk-Treasurer. The Clerk-Treasurer classified the disbursements as either "regular" or "manual" checks. The Town Council approved the "regular" computerized accounts payable vouchers at the Town Council meetings. However, a majority of the Town's disbursements were classified as "manual" checks and did not have an oversight, review, or approval process prior to the release of the check. The Town had not designed or implemented adequate segregation of duties such as an oversight, review, or approval process.

Financial Reporting

The financial information was prepared and electronically submitted through the Indiana Gateway for Government Units financial reporting system, which was the basis for the Town's financial statements. A review process had not been established to prevent, or detect and correct, errors, ensuring that the financial information recorded and reported was accurate and complete.

The failure to establish a system of internal controls enabled misstatements to remain undetected for cash and investments balances related to the Utilities Cash Reserve fund. The Utilities Cash Reserve fund was not included in the financial information submitted to Gateway for the 2016 and 2017 fiscal years.

An audit adjustment was proposed, approved by the Town, and made to the financial statements.

TOWN COUNCIL
TOWN OF GOODLAND
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. . . ."

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](#)."

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Report B47721.

Condition and Context

The financial statements presented for audit included the Trash Removal fund with an overdrawn cash balance of \$6,9155 at December 31, 2016.

The financial statements presented for audit included the Wastewater Utility-Operating funds with overdrawn cash balance of \$17,864 at December 31, 2017.

The financial statements presented for audit included the Payroll fund with overdrawn cash balances of \$1,090 and \$5,406 at December 31, 2017 and 2018, respectively.

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)

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

CERTIFICATION AND APPROVAL OF DISBURSEMENTS

Condition and Context

Disbursements were not properly supported by a completed Accounts Payable Voucher (APV) as required by law. For 12 of the 29 APVs tested, the invoice or bill was not approved by the officer or person receiving the goods and services, the fiscal officer did not certify prior to payment that the invoice or bill was true and correct, and payment was not allowed by the governing board.

In July 2015, the Town Council adopted Ordinance 2015-3, which created Article 5-1-2 for the Advanced Payment of Claims by Clerk-Treasurer Authorized, in accordance with Indiana Code 36-5-4-12. Article 5-1-2 authorized the Clerk-Treasurer to make accounts payable vouchers payments in advance of a Town Council allowance for a limited type of expenses.

However, in accordance with Indiana Code 36-5-4-12 and the Town's Article 5-1-2(D), the pre-approved accounts payable vouchers are to be reviewed and allowed at the governing board's next regular or special meeting.

The accounts payable vouchers that were paid in advance were not provided to the governing board for review and allowance as required by Indiana Code and Article 5-1-2 of the Town Code.

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. . . ."

(e) The certification provided for in subsection (c)(4) must be on a form prescribed by the state board of accounts."

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

Indiana Code 36-5-4-12(d) states: "The town legislative body or the board having jurisdiction over the allowance of the claim shall review and allow the claim at the body's or board's next regular or special meeting following the preapproved payment of the expense."

Article 5-1-2(D) of the Town Code states: "The Town Council or the board having jurisdiction over the allowance of the claim shall review and allow the claim at the Town Council's or board's next regular or special meeting following the pre-approved payment of the expense."

TOWN COUNCIL
TOWN OF GOODLAND
EXIT CONFERENCE

The contents of this report were discussed on April 28, 2020, with Tina Ward, Clerk-Treasurer; James Butler, President of the Town Council; Trisha Dowden, Town Council member; Gary Rheude, Town Council member; and Jud Barce, Town Attorney.