

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, 2019 to December 31, 2020



FILED

12/27/2021

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Internal Controls over Financial Transactions and Reporting.....	6
Bank Account Reconciliations.....	6
MVH Restricted Fund.....	7
Recording of Trust Account Activity	7-8
Water Operating Loan to General Fund.....	8-9
Official Response.....	10
Exit Conference	11

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Lance Turner	01-01-19 to 12-31-21
President of the Town Council	Daniel Flanagan	01-01-19 to 12-31-19
	Richard E. Lee	01-01-20 to 12-31-21



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2019 to December 31, 2020. 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

December 14, 2021

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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 Reports B51111 and B54499, 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 developed and implemented an internal control over activities related to cash and investments; however, the internal control was not effective, which could have allowed material errors to occur and remain undetected.

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. . . ."

BANK ACCOUNT RECONCILIATIONS

A similar comment also appeared in prior Reports B47143, B51111, and B54499, entitled *BANK ACCOUNT RECONCILIATIONS*.

Condition and Context

Bank account reconciliations prepared by the Town did not include all the bank accounts used by the Town and were not performed timely for 7 out of the 24 months during the audit period.

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."

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

MVH RESTRICTED FUND

Condition and Context

The City correctly posted 50 percent of its Motor Vehicle Highway (MVH) distributions to the MVH Restricted fund as required; however, the City subsequently transferred \$290,152 out of the fund. The transferred funds were used to cover the City's required match for the Community Crossings Grant and, as such, was used for the City's paving projects. Although these are construction expenses, the expenditures should have been paid directly from the MVH Restricted fund. The transfer is not a permissible use (construction, reconstruction, preservation) of the MVH Restricted fund.

Criteria

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted.

The political subdivision, by ordinance or resolution, may elect to allocate more than fifty percent (50%) of the distributions to MVH Restricted. During the same fiscal year, the political subdivision may transfer, by ordinance or resolution, the amount allocated in excess of the 50% requirement from MVH Restricted to MVH. ***In no event can any transfers from MVH Restricted to MVH reduce the fiscal year distributions from the State Motor Vehicle Highway Account below the 50% requirement for MVH Restricted.***

Any amounts allocated in excess of the required 50% of distributions which remain in MVH Restricted at the end of the fiscal year must remain in MVH Restricted until expended for construction, reconstruction, or preservation.

Qualified expenditures will then be entered accordingly to MVH and MVH Restricted:

MVH: Permissible uses of the State Motor Vehicle Highway (MVH) Account distributions are outlined in Indiana Code 8-14-1-4 for counties and in Indiana Code 8-14-1-5 for cities and towns.

MVH Restricted: Effective July 1, 2018, Indiana Code 8-14-1-4(b) and Indiana Code 8-14-1-5(c) requires at least 50% of the MVH distributions to be used for construction, reconstruction and preservation of the unit's highways. (Maintenance expenditures no longer count toward the 50% requirement.) . . .

(State Examiner Directive 2018-2)

RECORDING OF TRUST ACCOUNT ACTIVITY

Condition and Context

The Town recorded trust activity for the entire year as one receipt and one disbursement at the end of the year for the following funds:

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

- 2009 Redevelopment Bonds fund
- Redevelopment 2015 B Issue Bond fund
- Gen Oblig 2008 Bond fund
- Sewer Works 2008 Escrow fund
- Sewage Works 2017 Refunding Rev Bond fund
- SRF Bond & Interest fund
- SRF Debt Reserve fund
- SRF Construction fund

Activity for the above funds should be posted in a timely manner. Additionally, payments from other Town funds into these funds should be recorded as transfers in for these funds and transfers out for the other Town funds.

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)

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)

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)

WATER OPERATING LOAN TO GENERAL FUND

The same comment also appeared in prior Report B54499, entitled *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 14, 2021, the remaining \$454,444 of expenditures made from the fund had not been reimbursed.

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

Context

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 costs 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)



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OFFICIAL RESPONSE

Date: 12/22/2021

Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: Official Response to 2019-2020 Audit Results and Comments

To Whom It May Concern:

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING- Field Examiners stated that deficiencies existed in financial transactions and reporting and there were ineffective internal controls over cash and investments. A Corrective Action Plan that addressed financial transactions and reporting as well as internal controls over cash and investments was submitted on February 14, 2020. A State Compliance and Communications Officer reviewed the Corrective Action Plan and reported on June 23, 2021, that the plan had been implemented and the findings corrected. Additional controls will be created and implemented in a Corrective Action Plan effective January 1, 2022.

BANK ACCOUNT RECONCILIATIONS-In the Corrective Action Plan submitted on February 14, 2020, the Town reported that timely completion of bank reconciliations was prevented due to lack of access in 2018 and numerous posting errors for the period between 2016 and 2018. The condition and context of the Clerk Treasurer's office was inadequate and substandard as of January 1, 2019. Consequently, bank reconciliations could not be accurately accomplished until May and June of 2019. A State Compliance and Communications Officer reviewed the Corrective Action Plan and reported on June 23, 2021, that the plan had been implemented and the findings corrected. Bank reconciliations had been completed in a timely manner according to the Indiana Gateway User Guide for Monthly and Annual Engagement Uploads through September 2021. A Corrective Action Plan will contain further improvements to the timeliness of bank reconciliations effective December, 2021.

WATER OPERATING LOAN TO GENERAL FUND-A Corrective Action Plan will be submitted December 2021 that will describe incorporate the method of reimbursement to be implemented in January 2022.

Lance Turner
Clerk Treasurer/Town of Yorktown

CLERK-TREASURER
TOWN OF YORKTOWN
EXIT CONFERENCE

The contents of this report were discussed on December 14, 2021, with Lance Turner, Clerk-Treasurer; Richard E. Lee, President of the Town Council; Nanci Sears Perry, Town Council member; Daniel Q. Flanagan, Town Council member; Robert Ratchford, Town Council member; and Marta Guinn, Town Council member.