

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF BROOKLYN

MORGAN COUNTY, INDIANA

January 1, 2018 to December 31, 2020



FILED
06/06/2022

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|--|--|
| Clerk-Treasurer | Karen Howard-Frentress | 01-01-18 to 12-31-22 |
| President of the Town Council | Barbara Lowhorn Kirby Dunigan Mitchell Moore | 01-01-18 to 12-31-18 01-01-19 to 12-31-20 01-01-21 to 12-31-22 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE TOWN OF BROOKLYN, MORGAN COUNTY, INDIANA

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

Beth Kelley, CPA, CFE
Deputy State Examiner

May 12, 2022

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CLERK-TREASURER
TOWN OF BROOKLYN

CLERK-TREASURER
TOWN OF BROOKLYN
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

A similar comment also appeared in prior Report B51178, entitled *FINANCIAL REPORTING ACCURACY AND COMPLETENESS*.

Condition and Context

The Annual Financial Report (AFR) and financial statements for 2018, 2019, and 2020 contained errors. The following errors were identified:

- The AFR for 2018, 2019, and 2020, as originally submitted, were incomplete. The original submission did not include cash and investments balances, receipts, or disbursements for the five funds related to the State Revolving Funds (SRF) loan. The Town's ledger did not include the SRF funds.

| Fund | Cash and Investments | | | Cash and Investments | | | Cash and Investments |
|--------------------------------|----------------------|----------|---------------|----------------------|----------|---------------|----------------------|
| | 01-01-18 | Receipts | Disbursements | 12-31-18 | Receipts | Disbursements | |
| SRF WATER DEBT SERVICE RESERVE | \$ 64,007 | \$ 4,606 | \$ - | \$ 68,613 | \$ 3,441 | \$ 5,996 | \$ 66,058 |
| SRF WATER BOND & INTEREST | 40,565 | 67,297 | 65,549 | 42,313 | 72,761 | 64,674 | 50,400 |
| SRF SEWER DEBT SERVICE | 48,183 | 24,418 | - | 72,601 | 25,652 | - | 98,253 |
| SRF SEWER BOND AND INTEREST | 17,986 | 32,915 | 32,825 | 18,076 | 33,912 | 32,762 | 19,226 |
| SRF SEWER CONSTRUCTION | 17,432 | 2,291 | 2,015 | 17,708 | 245 | 17,938 | 15 |

| Fund | Cash and Investments | | | Cash and Investments | | |
|--------------------------------|----------------------|----------|---------------|----------------------|----------|---------------|
| | 01-01-20 | Receipts | Disbursements | 12-31-20 | Receipts | Disbursements |
| SRF WATER DEBT SERVICE RESERVE | \$ 66,058 | \$ 325 | \$ - | \$ 66,383 | - | - |
| SRF WATER BOND & INTEREST | 50,401 | 65,007 | 64,799 | 50,609 | - | - |
| SRF SEWER DEBT SERVICE | 98,253 | 24,461 | - | 122,714 | - | - |
| SRF SEWER BOND AND INTEREST | 19,226 | 104,725 | 33,688 | 90,263 | - | - |
| SRF SEWER CONSTRUCTION | 15 | - | - | 15 | - | - |

Audit adjustments were proposed, accepted by the Town, and made to the financial statements.

Criteria

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

"The state examiner shall require from every audited entity 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](#)."

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

INTERNAL CONTROLS

The same comment also appeared in prior Report B51178.

Condition and Context

The Town did not have a proper system of internal control in place related to financial transactions and reporting. The Town had not separated incompatible activities related to cash and investments, vendor and payroll disbursements, and financial close and reporting. The failure to establish adequate internal controls enabled misstatements or irregularities to remain undetected.

Cash and Investments

One employee was responsible for completing the monthly bank reconciliations without evidence of an internal control, such as oversight, review, or approval process to ensure accuracy.

Disbursements

One employee was responsible for approving vendor and payroll claims, posting the claims to the records, and writing the checks. An internal control had been designed in which claims were approved by the Town Council at the next regularly scheduled council meeting, but the internal control was not consistently applied.

Financial Close and Reporting

The Town had not established effective internal controls over the accuracy and timeliness of the financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Annual Financial Report (AFR) and financial statements. One employee prepared and submitted the AFR without evidence of an internal control, such as oversight, review, or approval process, to ensure completeness and accuracy.

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 BROOKLYN
AUDIT RESULTS AND COMMENTS
(Continued)

BANK ACCOUNT RECONCILIATIONS

The same comment also appeared in prior Report B51178.

Condition and Context

Bank account reconciliations were not performed for the audit period on a monthly basis. The Town started to complete the 2018 reconciliations in 2020 and finished the reconciliations for the audit period in 2021.

Due to monthly reconciliations not being completed, there were posting errors in receipts and disbursements that were identified and reported as adjustments to the bank balance. The errors were not properly reported in the financial statements. Errors in receipts totaled \$76,447, occurring from 2017 and earlier, and \$1,257, \$2,839, and \$1,215, in 2018, 2019, and 2020, respectively. Errors in disbursements totaled \$2,480 in 2019.

Electronic disbursements related to employee benefits for the period of 2017 to 2020 were not recorded timely. The disbursements totaling \$78,866, \$50,024, \$71,265, and \$83,848, for 2017, 2018, 2019, and 2020, respectively, were subsequently recorded in December 2020.

Net employee payroll amounts were not recorded as receipts or disbursements in the Payroll Fund. The net payrolls totaled \$259,487, \$270,880, and \$265,412, in 2018, 2019, and 2020, respectively.

Audit adjustments were proposed, accepted by the Town, and made to the financial statements.

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."

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)

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

"The state examiner shall require from every audited entity 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](#)."

STALE-DATED OUTSTANDING CHECKS

Condition and Context

The bank reconciliation for December 2020 included several outstanding checks dating back as far as 2010. The total amount of stale-dated checks was \$56,081.

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

Criteria

Indiana Code 5-11-10.5-2 states in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void. . . ."

Indiana Code 5-11-10.5-3 states:

"Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the:

- (1) board of finance of the political subdivision; or
- (2) fiscal body of a city or town.

The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

Indiana Code 5-11-10.5-5 states in part:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision. . . ."

PENALTIES, INTEREST, AND OTHER CHARGES

Condition and Context

Two payments for the Fire Truck loan were not made timely, causing the Town to incur late fees. The amount paid in late fees was \$926 during the audit period.

Additionally, eight of sixty vendor disbursements tested were not paid timely. Of these, three included late fees and/or interest charges that were applied to the current or subsequent bill.

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

Criteria

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

APPROVAL OF EMPLOYEE PAYROLL

Condition and Context

The Town prepared claims for gross payroll applicable to each department which were presented to the Town Council for approval. The claims presented included only the total of the gross payroll and did not include the detail of the compensation paid to each individual.

Criteria

Indiana Code 5-11-10-2(a) states:

"Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer."

OVERDRAWN CASH BALANCES

The same comment also appeared in the prior Report B51178.

Condition and Context

The cash balances of the following funds were overdrawn, as summarized below:

| Fund | Amount Overdrawn as of: | | |
|-------------------------|-------------------------|----------------------|----------------------|
| | December 31, 2018 | December 31, 2019 | December 31, 2020 |
| DONATION AND GRANT FUND | \$ 15,417 | \$ - | \$ - |
| LOIT PUBLIC SAFETY | 5,448 | - | - |
| ANTHEM INSURANCE | 2,663 | 2,663 | - |
| CREDIT CARD RECEIPTS | 7,692 | 9,415 | 476 |
| SEWER BOND AND INTEREST | 498,172 | 644,991 | 70,226 |
| WATER BOND AND INTEREST | 53,156 | 53,156 | - |
| BPD FORFEITURE FUND | - | - | 3 |

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

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)

CAPITAL ASSETS

Condition and Context

The Town had not updated the detailed listing of capital assets since 2016. In addition, the Town did not complete a physical inventory at least every two years, as required.

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)

INTEREST ON INVESTMENTS

Condition and Context

The Town did not receive the interest earned on Certificates of Deposit at each maturity date during the audit period. Instead, the interest was added to the value of the investments upon renewal, resulting in the interest not being recorded in the financial records. The accumulated interest earned and unrecorded each year is scheduled as follows:

| Fund | Investment Description | Unrecorded Interest as of: | | |
|---------------------------|------------------------|----------------------------|-------------------|-------------------|
| | | December 31, 2018 | December 31, 2019 | December 31, 2020 |
| GENERAL FUND | General Fund CD | \$ 76 | \$ 182 | \$ 238 |
| MOTOR VEHICLE HIGHWAY | MVH CD | 76 | 182 | 238 |
| ELECTRIC CASH RESERVE | Electric CD | 245 | 591 | 775 |
| ELECTRIC SPECIAL ACCOUNT | Electric Spec CD | 301 | 727 | 954 |
| ELECTRIC IMPROVEMENT/DEPR | Electric IMP CD | 113 | 273 | 358 |
| ELECTRIC OPERATING | Electric Operating CD | 263 | 636 | 834 |
| ELECTRIC METER DEPOSIT | Electric Meter CD | 83 | 200 | 262 |
| SEWER DEPOSITS | Sewer Deposit CD | 79 | 191 | 250 |
| WATER METER DEPOSIT | Water Meter CD | 53 | 127 | 167 |

Criteria

Interest on investments should not be added automatically to the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

TIMELY RECORDING

Condition and Context

The Town did not record the monthly health insurance payments in a timely manner. The payments were made timely; however, the transactions were not recorded as disbursements on the Town's ledger until December 2020.

Additionally, the Town did not record net pay to the Payroll Fund during the audit period. The amount transferred from the General Fund and Utility funds for gross payroll was posted as disbursements to those funds and was deposited to the proper bank; however, the net pay amount was not recorded as receipts to the Payroll Fund and employee paychecks were not posted as disbursements to the Payroll Fund.

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 Cities and Towns, Chapter 1)

ORDINANCES AND RESOLUTIONS

A similar comment also appeared in prior Report B51178, entitled *UTILITY TRANSFERS PER ORDINANCE*.

Condition and Context

Town Ordinance 1997-05 required the Town to make debt service transfers from the Water Utility Operating fund to the Water Bond and Interest fund in a sufficient amount to service the debt. Transfers were made monthly from the Water Utility Operating fund to the Bank of New York for debt service payments as required by the ordinance, but were not recorded in the Town's ledger until December 2020.

Town Ordinance 2013-09 required the Town to make debt service transfers from the Sewer Operating Fund to the Sewer Bond and Interest fund in a sufficient amount to service the debt. Transfers were made monthly from the Sewer Bond and Interest fund to the Bank of New York for debt service payments as required by the ordinance, but were not recorded in the Town's ledger until December 2020.

Town Ordinance 2002-08 required the Town to make monthly transfers from the Electric Operating fund to the Electric Special Account fund based on the number of customer collections in a given month. No transfers were made to the Electric Special Account fund during the audit period.

Four of sixty electric bills tested were not calculated in accordance with the electric rate schedule approved by the Town Council.

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)

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

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 3)

RECORD OF HOURS WORKED

Condition and Context

An employee timesheet or record of hours worked was not presented for audit for three of sixty-one payroll claims tested.

Criteria

Indiana Code 5-11-9-4(b) states in part:

"The state board of accounts shall require that records be maintained showing which hours are worked each day by officers and employees: . . .

(2) employed by more than one (1) public agency or in more than one (1) position by the same public agency . . ."

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form 99A, Employee's Service Record
General Form 99B, Employee's Earnings Record
General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

The Town had not created the Motor Vehicle Highway (MVH) Restricted fund as required during the audit period. Activity of the MVH Restricted fund was not reported separately from the MVH fund in the Annual Financial Report filed in the Indiana Gateway for Government Units financial reporting system. Thus, all State Motor Vehicle Highway Account distributions were incorrectly posted to the MVH fund. The required amount of MVH distributions that should have been receipted to the MVH Restricted fund were \$34,390 and \$30,330 for 2019 and 2020, respectively.

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

Criteria

The purpose of this Directive is to authorize and require . . . cities, and towns that receive distributions from the State Motor Vehicle Highway Account to **create a new sub-fund within the MVH Fund** to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018. . . .

On the chart of accounts, the MVH Fund and MVH Restricted sub-fund shall be shown as follows:

. . .

Cities and Towns

| | |
|----------|----------------|
| Fund 201 | MVH |
| Fund 203 | MVH Restricted |

Together, MVH and MVH Restricted shall constitute the total MVH Fund. MVH and MVH Restricted will be shown separately on the Annual Financial Report . . .

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. (State Examiner Directive 2018-2)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Guidelines Manual for Cities and Town, Chapter 1)

CLERK-TREASURER
TOWN OF BROOKLYN
EXIT CONFERENCE

The contents of this report were discussed on May 12, 2022, with Karen Howard-Frentress, Clerk-Treasurer; Barbara Lowhorn, Town Council member; and Lori Vandiver, Deputy Clerk-Treasurer.

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TOWN COUNCIL
TOWN OF BROOKLYN

TOWN COUNCIL
TOWN OF BROOKLYN
AUDIT RESULTS AND COMMENTS

APPROVAL OF EMPLOYEE PAYROLL

Condition and Context

The Town prepared claims for gross payroll applicable to each department which were presented to the Town Council for approval. The claims presented included only the total of the gross payroll and did not include the detail of the compensation paid to each individual.

Criteria

Indiana Code 5-11-10-2(a) states:

"Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer."

CAPITAL ASSETS

Condition and Context

The Town had not adopted a capital asset policy that detailed the threshold at which an item is considered a capital asset.

Criteria

The governing body of a unit must have a written policy concerning capital assets that includes at a minimum, the threshold at which an item is considered a capital asset. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TOWN COUNCIL
TOWN OF BROOKLYN
EXIT CONFERENCE

The contents of this report were discussed on May 12, 2022, with Karen Howard-Frentress, Clerk-Treasurer; Barbara Lowhorn, Town Council member; and Lori Vandiver, Deputy Clerk-Treasurer.