

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF LYNN

RANDOLPH COUNTY, INDIANA

January 1, 2020 to December 31, 2021



FILED
11/10/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kaylene Straley	01-01-20 to 12-31-22
President of the Town Council	Art Kirtley	01-01-20 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF LYNN, RANDOLPH COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Lynn (Town), for the period from January 1, 2020 to December 31, 2021. 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.

Beth Kelley, CPA, CFE
Deputy State Examiner

October 24, 2022

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CLERK-TREASURER
TOWN OF LYNN

CLERK-TREASURER
TOWN OF LYNN
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

A similar comment also appeared in prior Report B49690, entitled *INTERNAL CONTROLS*, and prior Report B55173, entitled *INTERNAL CONTROLS OVER CASH AND INVESTMENTS, RECEIPTS, AND FINANCIAL CLOSE AND REPORTING*.

Condition and Context

Documentation of an internal control over the submission of the Town's 2021 Annual Financial Report (AFR) was not provided for audit. The Clerk-Treasurer completed the annual close-out procedures and prepared and submitted the financial information into the Indiana Gateway for Government Units financial reporting system, which is the source of the AFR and financial statement, but there was no evidence to indicate the information was reviewed by the Town Council or other designated person to ensure the accuracy of the information entered as a part of the internal control process.

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. . . ."

ANNUAL FINANCIAL REPORT

A similar comment appeared in prior Report B55173, entitled *FINANCIAL TRANSACTIONS AND REPORTING - TRUST ACCOUNTS*.

Condition and Context

The Annual Financial Reports (AFR) for 2020 and 2021, which was the source of the financial statement, contained a number of errors and did not properly reflect the financial activity of the Town.

The net amount of errors resulted in the understatement of the ending cash and investments balance by \$88,370, and an overstatement of receipts by \$304,975, and disbursements by \$363,415. Adjustments were proposed, accepted by the Town, and made to the financial statement.

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

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](#)."

OVERDRAWN CASH BALANCES

Condition and Context

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2021. The Reimbursement Police Car/Equipment and the CARES Act funds had overdrawn cash balances in the amount of \$14,371 and \$113,446, respectively, which were not due to the timing of grant reimbursements.

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)

ACCOUNTING FOR THE IFA ADMINISTERED CRF FUNDS

Condition and Context

The Town did not properly account for the Coronavirus Relief Fund (CRF) in accordance with the State Examiner Directive 2020-3 (Directive).

The Town did not properly establish a separate CARES grant fund for the CRF grant that followed the uniform chart of accounts. The Town utilized fund 911 entitled, Reimbursement Police Car/Equipment, for reimbursements received from the Indiana Finance Authority (IFA). The Town transferred \$33,676 of the CARES Act reimbursement into fund 2400 CARES ACT in 2021; however, the amount of disbursements recorded in this fund exceeded the balance of the reimbursements received, resulting in an overdrawn fund balance of \$113,446 on December 31, 2021.

Criteria

Each local unit of government that receives an allocation from the Coronavirus Relief Fund administered by IFA shall establish a separate CARES grant fund with a fund number consistent with memorandum *Accounting and Appropriation of COVID-19 Grants, April 29, 2020* (updated September 29, 2020).

All Reimbursements received from IFA shall be receipted into a separate CARES grant fund that is specific to IFA reimbursements. . . .

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

Transactions for public health and safety payroll costs must be accounted for through one of these two prescribed options.

Option One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. The reimbursed amount for public health and safety payroll costs originally incurred in the general fund (or other fund) will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the general fund (or other fund) cash balance and re-appropriate the general fund (or other fund) in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the general fund (or other fund), it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once option one is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

Option Two. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. A claim will be created against the separate CARES grant fund for the reimbursed amount in favor of the general fund. This claim must be supported by documentation of the public health and safety payroll costs that have been expensed from the general fund or other funds.

The amount of the claim will be receipted into the general fund cash balance. Normal appropriation procedures will apply to these funds.

Once option two is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. This option requires a resolution or ordinance as detailed in the memorandum CARES Reimbursement of Public Health and Safety Payroll Costs, September 30, 2020. . . .**

Transactions for other permitted costs reimbursed by IFA must be accounted for through one of the following prescribed frameworks.

Framework One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. Reimbursed disbursements originally incurred in another fund will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the fund cash balance and re-appropriate the fund in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the original fund, it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

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

Framework Two. If IFA has provided reimbursement based on unpaid invoices or purchase orders, then reimbursements received from IFA shall be receipted into the separate CARES grant fund. The expenditures to vendors will be made through the CARES grant fund and these expenditures must match the application made to IFA. If the actual invoice or invoices relating to a purchase order is less than the purchase order, then the difference in the money expended to the vendor and the amount received for the purchase order from IFA must be returned to IFA. The items on the invoice must match the items on the purchase order. All documentation must be maintained.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

Framework Three. If you have created a negative balance in your CARES fund based on expenditures made in anticipation of receipt of reimbursement for allowable expenditures where invoices have already been submitted to IFA then leave as is and receipt reimbursement when received, bringing the balance in the separate CARES grant fund to zero. Going forward, expend any anticipated allowable expenditures from a fund with an appropriation and follow framework one. If a negative balance in the CARES grant fund is not fully reimbursed, then the unreimbursed amount will require a reverse entry and posting of the expenditure to the general or other appropriate fund within an appropriated line item.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

(State Examiner Directive 2020-3)

CLERK-TREASURER
TOWN OF LYNN
EXIT CONFERENCE

The contents of this report were discussed on October 24, 2022, with Kaylene Straley, Clerk-Treasurer, and Art Kirtley, President of the Town Council.

TOWN COUNCIL
TOWN OF LYNN

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TOWN OF LYNN
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS

A similar comment also appeared in prior Report B49690, entitled *INTERNAL CONTROLS*, and in prior Report B55173, entitled *INTERNAL CONTROLS OVER CASH AND INVESTMENTS, RECEIPTS AND FINANCIAL CLOSE AND REPORTING*.

Condition and Context

No documentation of a review process for the submission of the Town's 2021 Annual Financial Report was provided for the audit period. The Clerk-Treasurer completed the annual close-out procedures and entered the required information into the Annual Financial Report, but there was no evidence to indicate the information was reviewed by the Town Council or other designated person to ensure the accuracy of the information entered as a part of the internal control process.

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:

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TOWN COUNCIL
TOWN OF LYNN
EXIT CONFERENCE

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