

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

AUDIT REPORT

OF

CLERK-TREASURER

TOWN OF HIGHLAND, INDIANA

January 1, 2006 to December 31, 2006



FILED
10/23/2007

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Town Officials.....	2
Transmittal Letter	3
Audit Result and Comment: Capital Asset Records	4
Exit Conference.....	5
Official Response	6-9

TOWN OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Michael W. Griffin	01-01-04 to 12-31-07
President of the Town Council	Joseph Wszolek Daniel Dernulc	01-01-06 to 12-31-06 01-01-07 to 12-31-07



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 HIGHLAND

We have audited the records of the Clerk-Treasurer for the period from January 1, 2006 to December 31, 2006, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Result and Comment. The financial transactions of this office are reflected in the Comprehensive Financial Annual Report of Town of Highland for the year 2006.

STATE BOARD OF ACCOUNTS

August 15, 2007

CLERK-TREASURER
TOWN OF HIGHLAND
AUDIT RESULT AND COMMENT

CAPITAL ASSET RECORDS

The valuation of roads was improperly recorded in the unit's capital asset records which are maintained by an outside consulting firm. Officials presented a new valuation used for financial statement purposes. A prior period adjustment was recognized in order that the capital assets were recorded properly.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CLERK-TREASURER
TOWN OF HIGHLAND
EXIT CONFERENCE

The contents of this report were discussed on August 15, 2007, with Michael W. Griffin, Clerk-Treasurer; Daniel Dernulc, President of the Town Council; Carol L. Morrison, Deputy Clerk-Treasurer; and Richard Underkofler, Town Manager. The official response has been made a part of this report and may be found on pages 6 through 9.



TOWN OF HIGHLAND

Highland Municipal Building • 3333 Ridge Road

Highland, Indiana 46322

219-838-1080 • Fax 219-972-5097



Population 23,546

Incorporated in 1910

Thursday, October 4, 2007

Bruce Hartman, C.P.A.
State Examiner
Indiana State Board of Accounts
Indiana Government Center South E 418
302 W. Washington Street
Indianapolis, Indiana 46204-2738

Re: Corrective Action Plan in Response to the Audit Results and Comments Filed for the Town of Highland for its Audit Period ending December 31, 2006.

Dear Mr. Hartman:

The proper officers of the Town of Highland, Lake County, Indiana, met with the Field Examiners of the State Board of Accounts in August 15 2007, for what is commonly called an exit conference regarding the audit findings for the audit conducted for the fiscal year ended December 31, 2006, all pursuant to IC 5-11-1-8 and IC 5-11-1-25(a)(5). At that time, the field examiners presented to the proper officers written audit results and comments. In addition, a special second briefing regarding comments related to the Parks and Recreation Department occurred on August 28, 2007. In order to complete and more fully inform the final record of this review, the Town of Highland through its proper officers makes this response to the examiners' written comments.

Audit Result and Comment. Capital Asset Records. The examiner reported that the road valuation as recorded in the unit's capital asset records did not employ the same useful life as the basis for valuing roads and streets as established in the adopted capital asset policy, made effective from January 2003 and thereafter. Further the examiner commented that the useful life disparity was unknown. The examiner did further report that officials presented a new road valuation used for financial statement purposes. A prior period adjustment was completed in order that the capital assets were recorded properly consistent with the adopted policy of the municipality.

The comment further included a proper reference to the Accounting and Uniform Compliance Guidelines Manual for

TOWN COUNCIL

BERNIE ZEMEN
1st Ward

MARK A. HERAK
2nd Ward

ROBERT HELMER
3rd Ward

JOSEPH A. WSZOLEK
4th Ward

DANIEL E. DERNULC
5th Ward

JOHN M. BACH
Public Works Director

RHETT TAUBER
Attorney

CLERK - TREASURER

MICHAEL W. GRIFFIN

Cities and Towns, Chapter 7, regarding safeguards to provide reasonable assurance related to the capital asset record.

Corrective Action Plan and Response to Comment. This responder makes this response still in the continuing belief in the positive value of the external audit performed by the State Board of Accounts. The responder still believes this agency assists in the municipality's desire to continually improve its service and stewardship. It is hoped that this response will be read in this context.

This responder politely, respectfully, but sincerely expresses profound surprise at this written comment reported above. This responder believes it does not completely or acceptably represent the general stewardship exercised with asset records or the circumstances in the current instance regarding the recorded value of the road and street inventory. In short, fully mindful of the phased timetable for implementing the provisions of GASB 34, this responder was fully aware that the capital asset record would be modified by the end of 2006 to restate the valuation of the road and streets inventory as infrastructure. This restatement would be completed in part to meet the reporting model of GASB 34 related to road and street inventory. The valuation of the inventory would be made consistent with the adopted capital asset policy of the municipality. This responder asserts that the municipality regularly was engaged with its capital assets record in no small part to bring it into the phased compliance with GASB 34. This responder further asserts that its capital asset record for the period ending December 31, 2006 reflects this and reports the road and streets inventory valued consistent with its locally adopted policy and GASB 34. In fact, a careful reading of the examiner's written comments, in part affirms this as well. It should be noted that a principle of GAAP is that a cost of control should not exceed the value of it benefit. This is why this responder was surprised to read this comment as part of the audit report.

Background

As part of the municipality's *elective* decision to produce a Comprehensive Annual Financial Report (CAFR) according to the guidelines of the GFOA and GASB, since 2003, the Town of Highland has been implementing its compliance with the provisions set forth in GASB Bulletin 34. As previously stated, GASB 34 provided for a phased-in period of compliance depending upon the size of the municipality, from 2003 through

2006 with regard to the valuation and recording of the road and streets inventory. As a first step, and upon the recommendation of the Clerk-Treasurer, the Highland Town Council adopted Ordinance No. 1235, which established and in some cases comprehensively revised the **capital asset policy** for the Town of Highland and its executive departments. As recommended, that policy included for the first time a formal policy on the useful life and aging of roads for the Town of Highland. This policy was made first effective from January 1, 2003. The policy also has been refined and modified through April of 2005.

Further, the proper staff worked with the firm presently engaged to compile and produce the Town's capital asset record, focusing on bringing the existing document into compliance with the revised capital asset policy. The then existing document was informed by work product from a firm engaged to establish what was then called a "fixed asset ledger" in the late 1980's. Much of our earlier efforts with the capital asset record focused on the waterworks and storm/waste waters utilities' infrastructure.

During the course of the examiners' fieldwork, the clerk-treasurer indicated that he would complete the valuation of road inventory, according to the useful life of the adopted municipal capital asset policy and according to GASB 34. Further, he reported that it was his intention to go beyond the retroactive valuation to June 1980, the minimum required under GASB 34, and book the value of the entire road and street inventory, back to the Town's incorporation.

In the course of discussing this with the examiner, it was noted that the roads inventory valuation and aging of roadways reported in the capital record prior to the intended GASB 34 modification were not valued consistent with the municipal capital policy effective from January of 2003. In short, the road and street valuation were being depreciated at a different useful life than that adopted in the current capital asset policy.

This responder concedes that it was in the course of the recent audit's fieldwork, he was made aware that previous capital asset record employed a different aging and useful life to report road and streets valuation. However, this responder suggests this fact should be considered in light of the evinced plan for implementation to GASB 34, as discussed with the examiners during the fieldwork. This responder made clear that it was intended that the valuation of all roads and streets were to be restated, consistent with the local capital asset policy and the

provisions of GASB 34. In fact, the restatement of values and the modifications were all discussed and implemented before the exit conference.

Again, it is true that the disparity between the useful life used to value the road and street inventory in the asset record before the current modification and the useful-life set forth in the adopted policy was not apprehended before the current audit field work. However, in light of the fact that it was always the municipality's intention to correct the road and street valuations consistent with GASB 34 and the municipal capital asset policy, the disparity discovered only occurred in consequence of a "change of policy" made by the municipality in the course of the phased compliance with GASB 34, and that the cost of making a change for the brief period of phased implementation may have exceeded its value or benefit in disclosure -- particularly knowing that a substantial restatement would be made for the period ending December 31, 2006, finally making the capital asset policy complete and in compliance.

Conclusion

I am joined by the proper officers of the Town in the hope that this reply and comment will be included in the final audit report. Further, the proper officers join me in sincerely thanking the State Board of Accounts for performing a comprehensive audit of the financial records. This responder continues to believe that these audit reviews assist the Town to better serve the people of Highland by informing the municipality of the ways in which our stewardship may be more fully perfected.

Sincerely,



Michael W. Griffin, IAMC/CMC/CPFA
Clerk-Treasurer

Cc: Mary Jo Small, CPA, SBA District Supervisor
Carol L. Morrison, IAMC/CMC, Deputy Clerk-Treasurer