

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, 2007 to December 31, 2007



FILED
08/26/2008

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TOWN OFFICIALS

Office

Official

Term

Clerk-Treasurer

Michael W. Griffin

01-01-04 to 12-31-11

President of the
Town Council

Daniel Dernulc
Bernie Zemen

01-01-07 to 12-31-07
01-01-08 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF HIGHLAND

We have audited the records of the Clerk-Treasurer for the period from January 1, 2007 to December 31, 2007, 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 Results and Comments. The financial transactions of this office are reflected in the Comprehensive Financial Annual Report of Town of Highland for the year 2007.

STATE BOARD OF ACCOUNTS

June 12, 2008

CLERK-TREASURER
TOWN OF HIGHLAND
AUDIT RESULTS AND COMMENTS

TEMPORARY LOAN BETWEEN FUNDS

A temporary loan of \$80,000 was made on December 28, 2006, from the Health Self-Insurance Fund to the Park and Recreation Fund and was not repaid or declared an emergency to extend the repayment date by December 31, 2007. The loan was extended by Resolution 2008-10 on April 14, 2008, to be repaid no later than June 30, 2008.

Indiana Code 36-1-8-4 concerning temporary transfer states in part:

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs. (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following: (1) Passes an ordinance or a resolution that contains the following: (A) A statement that the fiscal body has determined that an emergency exists. (B) A brief description of the grounds for the emergency. (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs. (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

PAYROLL

The following payroll discrepancies were noted:

1. The Public Works Department disposed of documentation to support compensatory time earned for 2007.
2. The employee service records for the Public Works Department did not track compensatory balances earned or used.
3. The public works time cards did not include compensatory time earned. The time cards did not reflect actual hours worked when compensatory time was earned.
4. The Park Department did not maintain records of the starting and ending time worked for salaried employees who were not on a fixed schedule.
5. According to the Town policy, employees may carry over no more than 20 personal days to the subsequent year. Individuals were carrying up to 28 days to the subsequent year.

CLERK-TREASURER
TOWN OF HIGHLAND
AUDIT RESULTS
(Continued)

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part:

"Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (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 July 10, 2008, with Bernie Zemen, President of the Town Council; Michael W. Griffin, Clerk-Treasurer; Carol L. Morrison, Deputy Clerk-Treasurer; and John Bach, Public Works Director. The official response has been made a part of this report and may be found on pages 7 through 11.



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, August 7, 2008

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, 2007.**

Dear Mr. Hartman:

The proper officers of the Town of Highland, Lake County, Indiana, met with the Lead Field Examiner of the State Board of Accounts in July 10, 2008, for what is commonly called an exit conference regarding the audit findings for the audit conducted for the fiscal year ended December 31, 2007, all pursuant to IC 5-11-1-8 and IC 5-11-1-25(a)(5). At that time, the examiner presented to the proper officers written audit results and comments. 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.

I.

Audit Result and Comment. Temporary Loan between Funds. The examiner reported that a "temporary loan of \$80,000 was made on December 28, 2006 from the Health Self-Insurance Fund to the Park and Recreation Fund and was not repaid or declared an emergency to extend the date by 12/31/07, the due date. The loan has been extended by Resolution No. 2008-10 on April 14, 2008 to be repaid no later than June 30, 2008.

The comment further included a proper reference to the IC 36-1-8-4, regarding the authority and requirements related to the temporary interfund loans.

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

TOWN COUNCIL

BERNIE ZEMEN
1st Ward

MARK A. HERAK
2nd Ward

DAN VASSAR
3rd Ward

BRIAN NOVAK
4th Ward

KONNIE KUIPER
5th Ward

JOHN M. BACH
Public Works Director

RHETT TAUBER
Attorney

CLERK - TREASURER

MICHAEL W. GRIFFIN

municipality's desire to continually improve its service and stewardship. It is hoped that this response will be read in this context.

This responder concurs with the examiner that indeed for the described temporary loan, while properly made under the authority of the statute (IC 36-1-8-4), on December 28, 2006, no repayment had been made by the deadline date of December 31, 2007. In developing the cash flow plan, it was noted that owing to protracted and continuing delays in tax distributions, it would be likely that this loan and several additional temporary loans made in FY 2007 to be repaid on December 31, 2007 as well would likely need to be extended for the additional six months, from December 31, 2007 to June 30, 2008, all of which is authorized by IC 36-1-8-4.

Somehow, in preparing the resolution for the Town Council to extend the temporary loans as indicated, the particular temporary loan, which is the subject of this comment, was omitted. However, it was accounted for in the proper lines of the municipality's budget documents and forms, where loans, which are likely to be extended beyond the end of a given fiscal year, are reported. During settlement and review, if not otherwise encountered, the omission would have been discovered and corrected.

In the current instance, well before the field work was completed, when informally noted during discussions with the Field Examiners, the temporary loan was acknowledged, and an extension was fully authorized pursuant to IC 36-1-8-4, on April 14, 2008, as reported by your report.

However, it should be noted that in acting on April 14, 2008, the Town Council was acting according to both IC 36-1-8-4 and another specific general power of the municipality. This responder calls to your attention the following statute as well:

IC 36-1-4-16

Ratification of actions of officers or employees; procedure
"A unit may ratify any action of the unit or its officers or employees if that action could have been approved in advance. Ratification of an action under this section must be made by the same procedure that would have been required for approval of the action in advance."

Based upon the forgoing, the action taken by the Town Council on April 14, 2008, using the same procedures as called for in IC 36-1-

8-4, except for taking place after the December 31, 2007 date, *complied with state law* and is treated by operation of IC 36-1-4-16 as if the action was taken place before December 31. This means that this comment has been fully addressed, carried out according to law and meets the statutory requirements. Further, the subject loan was fully repaid on June 20, 2008, before the deadline date of the extension and well before the date of the exit conference.

The corrective action plan will include greater due diligence in reviewing the legislative instruments that facilitate the interfund loan process. Greater care will be taken to review the roster of temporary loans made to ensure compliance as well.

II.

Audit Result and Comment. Payroll Matters. The examiner reported issues with payroll matters for the Public Works Department and the Parks and Recreation Department. These issues involved Public Works Department not adhering to the Town's policy limiting the amount of unused personal days that may be carried over from year to year; Public Works Department working-time records did not seem to align with compensatory time records; no documentation of hours worked for salaried employees in the Parks and Recreation Department; and incomplete record keeping for the employee service records for the Public Works Department.

The comment further included a proper reference to the IC 5-15-6-3, regarding requirements for maintenance of original records in compliance with records retention law, and related written guidance documents of the State Board of Accounts.

Corrective Action Plan and Response to Comment. Again, 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 concurs in the examiner's findings. These findings are particularly disappointing since many of these issues, raised in this written comment, have been discussed with department leaders from time to time. Further, employee service record

keeping and related matters were particularly addressed during an in-house meeting with the department heads and some key staff, convened on October 8, 2007. The Associate Clerk of Payroll and personnel, the Deputy Clerk-Treasurer and the Town manager made a presentation on the record keeping requirements for the employee service record, requirements of each department to file these records with the Office of the Clerk-Treasurer, and related guidance on provisions of the wage and salary ordinance as well as the compensation and benefits ordinance, commonly called the municipal employees handbook. It had been hoped that this workshop would have had a more salutary effect. These auditor's comments seem to suggest otherwise.

In fact, the auditor's comments serve to illustrate some of the statutory or organizational constraints that sometime complicate or frustrate the ability of the Office of the Clerk-Treasurer to meaningfully effect compliance with these issues raised here.

Consistent with the provisions of IC 36-5-6-6, the Office of the Clerk-Treasurer processes payroll for the elected officers, appointed officers and employees of the municipality. Departments with full time department heads are responsible for the preparation and filing of the payroll documents that inform the processing of payroll. Further, the maintenance of the personnel records including records of compensatory time and personal days rests with the several departments.

The 25th Town Council of Highland (serving from Noon, January 1, 2004 to before noon Jan 1, 2008), enacted council-manager form of government from March 2006 through the December 31, 2007. It is this responder's belief that part of the Town Council's rationale for adopting the council-manager plan was the hope that it would address some of the weaknesses of organizational decentralization. As an instrument of management, Town managers have supervisory authority over department heads. The Office of the Clerk-Treasurer does not. This responder reports all this to offer context to better appreciate the challenges to executing a corrective action plan.

Corrective steps. This responder has spoken with the heads of the departments mentioned in the auditor's comments. Further, a written plan – perhaps in the form of a policy statement -- will be drafted that will provide for more timely review of departmental employee service records and more frequent filing with the Office of the Clerk-treasurer. This responder perceives there is some

statutory authority, which provides for this approach. IC 36-5-6-6
(a), subdivisions 1 through 5 read in pertinent part as follows:

The clerk-treasurer shall(1) Receive and care for all town money.... (2) Keep accounts showing when and from what sources the clerk-treasurer has received town money and when and to whom the clerk-treasurer has paid out town money. (3) Prescribe payroll and account forms for all town offices. (4) Prescribe the manner in which creditors, officers, and employees shall be paid. (and) (5) Manage the finances and accounts of the town.....

This responder will review with the Town Attorney the ways and means that these powers may be used to advance the objects of the corrective action plan.

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/MMC/CPFA
Clerk-Treasurer

Cc: Mary Jo Small, CPA, SBA District (Field) Supervisor
Kathleen A. Chnupa, Deputy Clerk-Treasurer