

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF CEDAR LAKE

LAKE COUNTY, INDIANA

January 1, 2012 to December 31, 2013



FILED
06/05/2015

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Federal Findings:	
Finding 2013-001 - Internal Controls and Compliance Over Financial Transactions and Reporting.....	6-8
Finding 2013-002 - Preparation of the Schedule of Expenditures of Federal Awards.....	8
Finding 2013-003 - Internal Controls Over Capitalization Grants for Drinking Water State Revolving Funds.....	9-10
Corrective Action Plan	11-14
Audit Result and Comment:	
Annual Financial Report.....	15
Official Response.....	16-19
Exit Conference	20
Water Utility:	
Audit Result and Comment:	
Sales Tax Calculation	22
Official Response.....	23-26
Exit Conference	27
Fire Department:	
Audit Result and Comment:	
Emergency Medical Service Penalties.....	30
Official Response.....	31-34
Exit Conference	35
Police Department:	
Audit Results and Comments:	
Moving Traffic Citations Issued by the Town	38
Incorrect Deferral Fees Charged and Distributed	38-39
Deferral Program Fees Not Remitted Timely.....	39
Official Response.....	40-43
Exit Conference	44
Police Pension Board:	
Audit Result and Comment:	
Police Pension Board Meetings	46
Official Response.....	47-50
Exit Conference	51

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Amy J. Gross	01-01-12 to 12-31-15
President of the Town Council	Randall Niemeyer	01-01-12 to 12-31-15



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 CEDAR LAKE, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Cedar Lake (Town), for the period from January 1, 2012 to December 31, 2013. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Town, which provides our opinions on the Town's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

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 Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

April 16, 2015

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CLERK-TREASURER
TOWN OF CEDAR LAKE

CLERK-TREASURER
TOWN OF CEDAR LAKE
FEDERAL FINDINGS

***FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting.

Controls

The Town implemented new financial accounting software in 2012 which records transactions on a modified accrual basis. However, the Town's financial statement was presented on the regulatory basis which reports on cash transactions. The change in software also presented the Town the opportunity to perform certain tasks electronically. We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting.

Receipts

Segregation of duties over receipts and the daily collections process was not evident. Daily reports generated identify only the employee who generated them. There was no evidence of oversight, review, or approval of the transactions.

Journal Entry Disbursements

Certain transactions can be recorded with journal entries rather than actual receipts or vendor checks/electronic fund transfers (EFTs). The vendor checks and the EFTs are approved and paid through the normal claims process; however, payments made via journal entries are not subject to approval by the Town Council.

Payroll Disbursements

In the new software, employees are able to keep track of their hours worked and the Town is able to approve the records of hours worked electronically. Some employees have the ability to approve timesheets in the software, but reports that identify who approved each timesheet cannot be produced. It could not be determined if the hours worked were approved by an appropriate individual.

Financial Reporting

The Town did not have a proper system of internal controls in place to prevent, or detect and correct, errors in the preparation of the financial statement. The Town should have proper controls in place over the preparation of the financial statement to ensure accurate and reliable reporting of the Town's financial activity. Adequate internal control requires sufficient oversight, review, and approval to ensure complete and accurate financial reporting. Due to the lack of internal controls, material misstatements in the financial statement were undetected. We believe these deficiencies in the internal control system constitute material weaknesses.

Compliance

The Clerk-Treasurer is required to report all financial information in the Annual Financial Report (AFR). This information is used to compile the financial statement. The financial statement presented for audit included the following errors:

CLERK-TREASURER
TOWN OF CEDAR LAKE
FEDERAL FINDINGS
(Continued)

1. The beginning cash and investment balances were not accurately reported for eight funds. These errors resulted in the beginning balances to be overstated by a total of \$9,459,441. The prior-year audited financial statement ending cash and investment balances were not compared to the current-year beginning balances before the AFR was submitted.
2. The RDA 2011 Sinking fund activity is detailed in a Bank of New York Mellon Trust Account. This trust account is not reported in the Town's ledger and was not reported in the AFR. This resulted in receipts of \$660,000 and \$336,365 and disbursements of \$330,000 and \$666,365, for the years 2012 and 2013, respectively, not being accounted for in the Town's records or reported on the financial statement.
3. The RDA 2011 Operating and Reserve fund activity is detailed in a Bank of New York Mellon Trust Account. This trust account is not reported in the Town's ledger and was not reported in the AFR. This resulted in receipts of \$14,327 and \$3,212, for 2012 and 2013, respectively, and disbursements of \$9,365 for 2013, not being accounted for in the Town's records or reported on the financial statement.
4. The RDA 2013 Bond and Interest fund activity is detailed in a Bank of New York Mellon Trust Account. This trust account is not reported in the Town's ledger and was not reported in the AFR. This resulted in receipts of \$30,001 for 2013, not being accounted for in the Town's records or reported on the financial statement.
5. The Town acquired a new software system in 2012 which is a modified accrual accounting system. Numerous journal entries were recorded in the Town's general ledger for 2012 and 2013. These entries were recorded on the modified accrual basis as cash receipts and disbursements; however, the entries did not actually affect the cash account. Because the journal entries were included in the cash receipts and disbursements on the Town's financial statement which was prepared on the regulatory basis, the receipts and disbursements were overstated by the amount of the journal entries. For 2012, both receipts and disbursements were overstated by \$7,335,991; for 2013, both receipts and disbursements were overstated by \$69,359.
6. Receipts and disbursements were reported in error for two trust accounts. This resulted in the receipts being overstated by \$572,712 and \$10,499 for 2012 and 2013, respectively. This also resulted in the disbursements being overstated by \$130,555 and \$301,596 for 2012 and 2013, respectively.
7. The SVT LLC Project Fund receipts were reported twice and the receipt amount was also recorded as a disbursement. This resulted in both receipts and disbursements being overstated by \$737,889 for 2012.
8. The SVT LLC Capitalized Interest fund receipts and disbursements were overstated by \$64,222 for 2012. It could not be determined how the receipts and disbursements were reported.
9. A voided check was receipted back in and also added back to the disbursements of the Cash Bond Escrow fund. This resulted in both receipts and disbursements being overstated by \$180,472 for 2012.
10. The Centier Investment fund disbursements for 2012 were overstated by \$5,950,000 as a result of investment activity being reported twice.

CLERK-TREASURER
TOWN OF CEDAR LAKE
FEDERAL FINDINGS
(Continued)

Audit adjustments were proposed, accepted by the Clerk-Treasurer, and made to the financial statement presented in this report.

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.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality 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."

FINDING 2013-002 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Town did not have a proper system of internal controls in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The Clerk-Treasurer prepares the SEFA without oversight, review, or approval.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material misstatements of the SEFA will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the SEFA. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

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.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CLERK-TREASURER
TOWN OF CEDAR LAKE
FEDERAL FINDINGS
(Continued)

**FINDING 2013-003 - INTERNAL CONTROL OVER CAPITALIZATION
GRANTS FOR DRINKING WATER STATE REVOLVING FUNDS**

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Drinking Water State Revolving Funds
CFDA Number: 66.468
Federal Award Number and Year (or Other Identifying Number): DW 10134503
Pass-Through Entity: Indiana Finance Authority

Management of the Town has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Allowable Costs and Reporting compliance requirements that have a direct and material effect on the program.

The Town retained a Financial Advisor (Advisor) to help administer the Capitalization Grants for Drinking Water State Revolving Funds program (SRF). Once the Indiana Finance Authority approved the costs eligible for reimbursement, the Advisor had to procure the accounts payable vouchers, the invoices, and the proof of payment (cancelled checks) from the Town to complete the SRF Disbursement Request forms. The Town Council approved the original disbursements paid in 2009, 2010, and 2011, through their normal approval procedures; however, there was no process to review the disbursements for compliance with the Allowable Costs requirements of the SRF program.

The disbursements were then submitted for reimbursement on the SRF Disbursement Request form prepared by the Advisor. According to the SRF Disbursement Request forms, the Contact Person was the Deputy Clerk-Treasurer and the Authorized Representative was the Clerk-Treasurer. The Advisor did not sign the forms; the Deputy Clerk-Treasurer signed as the Authorized Representative. There was no evidence of an oversight, review, or approval process over these reports.

The failure to establish an effective internal control system places the Town at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

CLERK-TREASURER
TOWN OF CEDAR LAKE
FEDERAL FINDINGS
(Continued)

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the Town.

We recommended that the Town establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

Town of Cedar Lake

7408 Constitution Ave – PO Box 707 – Cedar Lake, IN 46303
Tel (219) 374-7000 – Fax (219) 374-8588



April 16, 2015

Contact Person Responsible for Corrective Action:
Amy J. Gross, Clerk-Treasurer

Contact Phone Number:
(219) 374-7000

CORRECTIVE ACTION PLAN

FINDING 2013-001 – Internal Controls and Compliance over Financial Transactions and Reporting

CONTROLS

We respectfully disagree with the findings as presented. The Town of Cedar Lake upholds accuracy and transparency to the fullest extent possible. Given the currently noted emphasis on procedures pertaining to State of Indiana financial reporting (mid 2014 into 2015) regarding Controls and the budgetary constrictions experienced by the majority of municipalities in the State of Indiana that limit a municipal's ability to staff its operations at levels that enable workable adherence to controls and compliance; the Town is constantly investigating and learning about alternative methods to fulfill this emphasis. The Town was proactive regarding the controls and compliance issue as in early 2012 the Town converted to a State of Indiana approved accounting software program. This program uses electronic processes to facilitate the compliance with the controls issue. The software program uses the modified accrual basis of accounting. At the time of approval for use of this software, the Town received notification that all financial transactions that occur within the Town must be recorded through the software. The Town believes that it has adhered to that stipulation as well.

Receipts

The Town respectfully disagrees with the findings as presented. The electronic process of accounting allows for the security measure of denying completion of tasks without proper security clearance. Likewise the process allows for the electronic approval of tasks given one's security clearance. At the time of software implementation these security clearances were set and are only changeable by the Town Official(s) with the proper preset security clearances to effect security changes. Given the accounting professions migration to a paperless environment, it is becoming standard industry practice that physical paper reports are no longer the norm. Auditing through the computer/software has become the new normal and to require paper reports/verifications are the exceptions and require special programming to deliver that requirement. The Town has already remedied the purported weakness of the lack of evidence which could only be determined to refer to the lack of a physical paper reports. The software provider is programming the ability for the Town to physically print security clearances and access activity. Anticipated completion of this process should occur on or before June 30, 2015.

The Town has also implemented the requirement that limits the number of duties in this area that any one employee shall perform. If the requirements for timely deposits will be violated by the limits on duties, the timely deposit requirement takes precedence however notification of this noncompliance

shall be made to an employee's direct supervisor. Additional verification by the supervisor is required specific to this noncompliance event.

Journal Entry Disbursements

The Town respectfully disagrees with the findings as presented. Journal Entries made by the Town are not made for the entry of an original receipt of funds or for the final payment to a vendor. Journal Entries are typically made for purposes of transferring funds that are required to be held in restricted funds for a future final disbursement. Journal Entries are used to avoid duplication of entries due to the edict of all transactions that occur within the Town's accounting system must be recorded. Journal Entries are also used to correct original entries that upon internal review are deemed to have been incorrectly coded and/or entered.

Although all original transactions have previously received Town Council approval, the Town is placing all entries, whether original or journal entry in specific appropriation reports to the Town Council for their ultimate sign-off. These reports have become a part of the consent agenda that is approved by the Town Council. This action plan was effective February 3, 2015.

Payroll Disbursements

The Town respectfully disagrees with the findings as presented. While the Town does concur that physical reports indicating the authorized Town employee and/or Official who rendered approval of time entries were not capable of being produced in paper form, the information was readily available through the computer software. As noted previously the Town has directed its software provider to create the report that will be responsive to the State's requirement for physical paper reports. Anticipated completion of this process is on or before September 30, 2015.

Financial Reporting

The Town respectfully disagrees with the findings as presented. The Town does have a proper system in place. The Town received accounting directives which when implemented within the confines of the approved software system, created obviously unintended and here to fore unknown consequences to the electronically filed financial information by all parties to the financial reporting process. Town Officials internally questioned the original directives given their understanding of and training with their software. The electronically submitted financial information is a true reflection of the directive received requiring the recording of all transactions that occur in the system. During the 2015 review of the 2012 and 2013 electronically submitted financial information the unintended and here to fore unknown consequences were identified and removed. There were no deficiencies in the internal control system being used by the Town. The purported deficiencies arose due to the introduction of a directive that does not conform to the approved software.

Due to information received at required 2014-2015 regulatory meetings, it has and is becoming more evident that ongoing review and updating/implementation of internal controls is an area of current and future review focus. The Town is working with its Financial Advisor, Legal Advisor and fellow Clerks and Treasurers on updating its current controls and implementing additional controls as circumstances dictate. These updates will be on a forward looking basis as the requirements are being changed currently. 2014 Financial Information will be updated within the Gateway System if 2015 changes would necessitate that. It is expected that on or before December 31, 2015, the current policy will be amended for any know additions/changes that need to be incorporated.

COMPLIANCE

The Town respectfully disagrees with the findings as presented. In keeping with historical consistency and requirements, the Town used the cash summary report and supporting documentation in the new software to enter data into the Gateway program for the annual report. We believed this was in compliance with what occurred for many years prior to the Gateway system going live, and transitioning into the new electronic method of annual reporting. The cash summary report is the equivalent to the fund report in the old Keystone program that the Town consistently used for annual reporting and bank reconciliation. After transitioning to the new software, and completing the reporting requirements for 2012 and 2013, it was reported to us in 2015 that any corrective entries in the receipt (debit) and disbursement (credit) columns should have been omitted. The adjustments were made upon receipt of this news and re-submitted in Gateway.

Concerning the bank trustee statements, the Town reflects all transactions as follows. The original receipt comes into Operating and Maintenance (O&M). Subsequent transfers are then made to place the available funds into restricted funds. These restricted funds are debt service and under some circumstances a debt reserve account. Funds are then transferred to the trustee according to the transfer schedules. The funds are held until a final disbursement is made by the bank trustee to the bondholder. These transfers and payments are made according to bond covenants which have been properly approved by the Town Council.

The RDA 2011 Sinking Fund detail that the Town controls is detailed on the financial records as are any other similar funds. We believed that our requirements were fulfilled. Some bank trustee accounts are being invested and are not under the direct control of the Town. Regulatory directives currently received have required the inclusion of restricted fund balances in the books and records of the Town even though the Town has no control over those funds as required by the funding agency. Retroactive application of current directives was not indicated to be necessary, and does not follow industry methodologies for changes in procedures. In order to avoid redundancy, and an unnecessary excess of fund reclassification transactions, the Town will be further reviewing the trustee bank accounts to implement an efficient method of mirror imaging them as a part of our financial recordkeeping. Many of these transactions are reclassifications (from available funds to restricted funds) causing duplication of financial transactions. These transactions would then appear as a receipt (debit) or disbursement (credit) numerous times exaggerating the activity. We will be working to redefine this process.

During the conversion of our new software in 2012, the programmers worked with us to revise some of the funds in the program related to investments. This was to simplify the manner by which each invested fund reflects on our financial records and we were able to make a journal entry allocating the interest to each fund. In order to be transparent, we had to close the old account by showing there was a disbursement so the balance would be zero. A new fund was then established reflecting the revised method of accounting for principal and interest allocation. This was in keeping with tradition and instruction provided to us in the past. As this does complicate the listing of funds even more, it does provide for segregation of those funds as directed. Other matters noted were errors made in posting as we transitioned to our software. These errors were acknowledged and corrected in Gateway. The only way to correct an error is to reverse the transaction, which would place the funds back into a receipt (debit) or disbursement (credit) thereby exaggerating the activity in those columns. This is in keeping with the requirements that all transactions must be recorded in the financial records. As the audit period was for 2012 and 2013, it was not reported to us until 2015 that these transactions were to be pulled in the Gateway program.

FINDING 2013-002 – Preparation of the Schedule of Expenditures of Federal Awards

The Town respectfully disagrees with the findings as presented. The Clerk-Treasurer prepares the schedule as required listing the grant name, description, CFDA number if known, amount received and disbursed, and the pass-through agency if any. The Clerk-Treasurer would have the in-depth knowledge to prepare and revise the schedule as needed being that this position is required to retain all documentation, process requests and claims for reimbursement, complete reports, and the like. The receipt and disbursement transactions are all recorded in the financial records of the Town and therefore transparent. The vacated town manager’s position was filled as of January 2015. This person will work with the Clerk-Treasurer to review the schedule after its preparation so there will be two sources for verification. This news of requiring a second review and signature was only given to us in 2015; however the audit period was for 2012 and 2013.

FINDING 2013-003 – Internal Control over Capitalization Grants for Drinking Water State Revolving Funds

The Town respectfully disagrees with the findings as presented. The Town and its Officials, Representatives and Financial Advisor complied with all SRF and EPA requirements as known and represented to them by the SRF. The SRF has final approval of compliance with their requirements for original payments from debt funds or reimbursement of previously paid amounts to the Town. The SRF process contains numerous controls both on the Town side and the SRF’s side of the process.

The amount of Federal Funds equaled \$1,314,000 which was used to reimburse all but \$3,112.66 of the actual project costs paid from temporary financing pending permanent financing. All other costs were either paid from cash on hand in the Town’s water utility or from a loan from the Town’s sewer utility to the water utility which had been transferred to the control of the SRF as part of the financing process.

The Town does agree that the SRF’s legal counsel’s invoice which was paid from funds from the water utility not long term debt, did not adhere to the Town’s internal controls for accounts payable procedures. It was not initially processed through the Town’s accounts payable process and then returned to the SRF for their approval and payment. It was submitted to the SRF for payment at closing on their disbursement request forms with the proper Town representative’s sign off. The amount of the SRF’s legal counsel costs equaled \$7,500 of the total projects costs of \$1,844,000.

The appointment of an alternate signer for the SRF’s request for disbursements was appropriately approved by the Town Council and according to SRF parameters. The controls over the SRF Disbursement Requests were followed as set forth by the SRF program and the program Finance Agreement along with the assignment of responsibility for submission of Disbursement Requests by the Town’s Council.

TOWN OF CEDAR LAKE, LAKE COUNTY, INDIANA



Amy J. Gross, IAMC, MMC, CPM
Clerk-Treasurer

CLERK-TREASURER
TOWN OF CEDAR LAKE
AUDIT RESULT AND COMMENT

ANNUAL FINANCIAL REPORT

The 2013 Annual Financial Report did not fairly state the capital assets or the payables and receivables of the Town.

Capital Assets

The amounts reported were the additions to the capital assets in the year 2013; not the balance of the capital assets of the Town. The omission of the balances of these assets resulted in the schedule being understated by \$61,483,353.

Payables and Receivables

The amounts reported as payables and receivables were reported in error. The Wastewater Utility Accounts Payable was overstated and the Accounts Receivable was understated by \$268,471. The Water Utility Accounts Payable was overstated and the Accounts Receivable was understated by \$62,708. The Storm Water Utility Accounts Payable was overstated and the Accounts Receivable was understated by \$83,264. The governmental activities' Accounts Payable was understated by \$206 and the Accounts Receivable was overstated by \$9,676.

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

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality 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."

Town of Cedar Lake

7408 Constitution Ave – PO Box 707 – Cedar Lake, IN 46303
Tel (219) 374-7000 – Fax (219) 374-8588



May 6, 2015

Indiana State Board of Accounts
302 West Washington Street, Room E-418
Indianapolis, IN 46204-2765

EXAMINATION RESULTS AND COMMENTS

Annual Report

Capital Assets

For several years, the Town of Cedar Lake did not have an accurate depiction of its capital assets. An analysis was performed, and a report issued by MuniLytics on March 5, 2007. This report was for assets ending December 31, 2007. The Town has since used this information and built upon it thereafter as assets are acquired to the best of our knowledge and ability. The Clerk-Treasurer's Office maintains annual data in the form of Excel spreadsheets to keep track of the assets dating back to the year 2005. The data that was entered for Gateway was based on the calendar year to be reported and not on cumulative balances. During the exam, it was directed to re-enter the Gateway program, and re-submit the balances as recommended by the examiner.

Upon review and comparison of the Town's asset records and the SBOA examination reports, the following is noted:

SBOA Exam Ending December 31, 2009	\$52,746,775
Town Asset List Ending December 31, 2010	\$1,777,296
Town Asset List Ending December 31, 2011	\$4,367,554
Town Calculation of Assets Ending December 31, 2011	\$58,891,625
SBOA Exam Ending December 31, 2011	\$58,891,625
Town Asset List Ending December 31, 2012	\$2,591,728
Town Asset List Ending December 31, 2013	\$1,589,796
Cumulative Balance of Assets Ending December 31, 2013.....	\$63,073,149

Payables and Receivables

During the examination, it was explained that entries were reversed in the Gateway system. This would then cause the overstated and understated amounts as commented. There was question during the exam as to the requirement to even report payables and receivables since there is such strong emphasis placed on cash basis rather than modified accrual. In the future, the Town will continue to enter payables and receivables in their respective fields.

Sales Tax Calculation

The Cedar Lake Water Utility pays all monthly sales tax collected to the State prior to the 20th of the subsequent month. The Utility's software applies customer receipts in the following order:

- 1) Past Due Sales Tax
- 2) Past Due Billings
- 3) Past Due Penalties
- 4) Current/Non-Past Due Sales Tax
- 5) Current/Non-Past Due Penalties
- 6) Current/Non-Past Due Billings
- 7) Current/Non-Past Due Interest
- 8) Past Due Interest

Therefore the Utility tracks all sales tax collections from customers whether it is from past due or current billings. When a partial payment is made for a current invoice, the sales tax billed is considered to be paid first and thus is remitted to the IDOR prior to the 20th of the subsequent month. By default a simple calculation of billings collected times the sales tax rate would not equal the sales paid. In the subsequent month assuming payment in full of any remaining past due billing and penalty amounts there would be no sales tax receipts on the past due billing receipts even though they may have originally been taxable. Thus no sales tax would be payable to the IDOR for those sales. Thus to simply take the sales (billings) amount receipted less sales tax exempt sales and multiply by the sales tax rate as shown on the ST-103 is not appropriate. The Exemptions/Deductions line is to adjust the actual sales receipts to indicate a taxable amount for that particular month's sales tax collections as required by the ST-103.

The Utility does remit all sales tax receipts collected to the IDOR by the appropriate date and therefore does comply with IC 6-2.5-6.

Emergency Medical Service Penalties

The Town of Cedar Lake acknowledges that there have been some short comings in assessing and collecting interest on accounts that are more than One Hundred Eighty (180) days delinquent. Since the time of the last audit, the Town has been in a time of transition as it was acquiring the Cedar Lake Volunteer Fire Department and establishing it as a Department of its Town Municipal Government. Prior to this acquisition, which became effective January 1, 2014, the Town had contracted with the Cedar Lake Volunteer Fire Department entity to provide firefighting and emergency medical services. Since the acquisition, the Town has endeavored to create a more efficient system of billing collection of bills and invoices for EMS services rendered. To facilitate this process, the Town now employs full time staff, under supervision, to process, issue, monitor and receive payment on outstanding bills. The Town's process for collection of such accounts which are past due and charging the interest allowed under Town Ordinance continue to evolve and the Town will refine this practice in each of Staff

procedures, as well as by all processes available, including software upgrades and procedures as it continues to address these matters.

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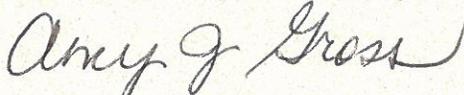
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TOWN OF CEDAR LAKE, LAKE COUNTY, INDIANA



Amy J. Gross, IAMC, MMC, CPM, Clerk-Treasurer

CLERK-TREASURER
TOWN OF CEDAR LAKE
EXIT CONFERENCE

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WATER UTILITY
TOWN OF CEDAR LAKE

WATER UTILITY
TOWN OF CEDAR LAKE
AUDIT RESULT AND COMMENT

SALES TAX CALCULATION

The Water Utility failed to properly calculate the sales tax owed to the Indiana Department of Revenue for the sale of water. When calculating the sales tax liability for the Water Utility, the Town used the amount of sales tax collected per their financial system and backed into the amount of sales for the time period. Per the financial system, water sales were underreported on the monthly sales tax forms by \$34,012. This resulted in the Town underpaying their 2013 sales tax by \$2,535.

Collections by a city or town from the retail sale of tangible personal property, utility services or commodities in the performance of private or proprietary activities are subject to sales tax. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All questions concerning the law or procedure for paying and collecting sales tax should be directed to the Indiana Department of Revenue, Sales Tax Division, Indiana Government Center North, Indianapolis, Indiana, 46204, telephone number (317) 233-4015. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Town of Cedar Lake

7408 Constitution Ave – PO Box 707 – Cedar Lake, IN 46303
Tel (219) 374-7000 – Fax (219) 374-8588



May 6, 2015

Indiana State Board of Accounts
302 West Washington Street, Room E-418
Indianapolis, IN 46204-2765

EXAMINATION RESULTS AND COMMENTS

Annual Report

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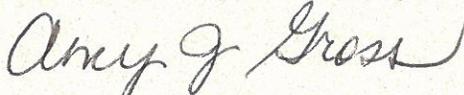
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WATER UTILITY
TOWN OF CEDAR LAKE
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FIRE DEPARTMENT
TOWN OF CEDAR LAKE

FIRE DEPARTMENT
TOWN OF CEDAR LAKE
AUDIT RESULT AND COMMENT

EMERGENCY MEDICAL SERVICE PENALTIES

The Town Code of Ordinances establishes policies and procedures for collection of ambulance and emergency medical service charges.

Code section 32.27 states:

"In the event that accounts receivable under this subchapter, as amended from time to time, are not paid within the time fixed by the town or a town agency or department, the same shall be deemed delinquent. A penalty of 10 percent of the amount of the account receivable shall attach as delinquent fees."

On April 16, 2013, the Town adopted Ordinance 1170 which amended the policy on assessing penalties to read, "All billings not paid within One Hundred Eighty (180) days of the billing shall accrue interest at a rate of one percent (1%) per month on the unpaid balance, which shall be known as a Late Fee."

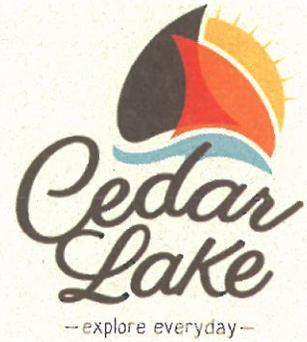
Penalties were not always assessed in accordance with either of these policies. Numerous accounts were assessed "Accrued Interest per Town Attorney" penalties after they had been sent to collections, but had not been assessed a penalty prior to sending the accounts to collections.

A similar comment appeared in prior Report B40615.

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)

Town of Cedar Lake

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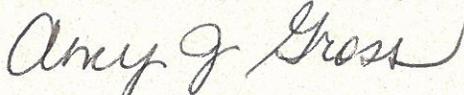
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POLICE DEPARTMENT
TOWN OF CEDAR LAKE

POLICE DEPARTMENT
TOWN OF CEDAR LAKE
AUDIT RESULTS AND COMMENTS

MOVING TRAFFIC CITATIONS ISSUED BY THE TOWN

The Town issues citations for moving traffic violations as ordinance violations rather than infractions under state law. For those citations that are paid within 30 days, the fines are collected in the Clerk-Treasurer's Office; all of which is retained by the Town and deposited into the General Fund. The fines established by the Town for moving traffic violations range from \$222 to \$301. These fines do not agree to the fines established in the Indiana Code which specifically governs the disposition of fines and fees for moving traffic violations. The Town collected approximately \$25,480 and \$22,788 in 2012 and 2013, respectively, for moving traffic violations enforced by the Town.

Indiana Code 36-1-6-3(c) states that an ordinance defining a moving traffic violation may not be enforced in an ordinance violations bureau. Moving traffic violations must be enforced in accordance with IC 34-28-5 which requires such cases to be heard in any circuit, superior, county, city, or town court or traffic violations bureau designated by these courts. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September, 2012)

Indiana Code 34-28-5-1-(b) states in part: "An action to enforce a statute defining an infraction shall be brought in the name of the State of Indiana by the prosecuting attorney for the judicial circuit in which the infraction allegedly took place."

INCORRECT DEFERRAL FEES CHARGED AND DISTRIBUTED

As stated in prior Report B40615, the Town charged \$182 from January 2012 to July 2013 and \$184 from July 2013 to December 2013 for participation in the Town Deferral Program per Ordinance No. 997. This program allows the participant to have the original moving traffic violation dismissed if they drive for six months without receiving another traffic citation. Per statute, deferral program fees should be \$112 plus court costs of \$77.50, for a total of \$189.50. Currently, the County remits \$112 to the Town and \$70 to various court cost funds. Per statute, \$2 of the deferral fee collected shall be accounted for as a Jury fee (County fund). Accordingly, the Town should only receive \$110 of the Deferral Program fee.

POLICE DEPARTMENT
TOWN OF CEDAR LAKE
AUDIT RESULTS AND COMMENTS
(Continued)

Instead of the infraction or ordinance violation costs prescribed by IC 33-37-4-2, the clerk shall collect a deferral program fee if an agreement between a prosecuting attorney or an attorney for a municipal corporation and the person charged with a violation entered into under IC 34-28-5-1 (or IC 34-4-32-1) before its repeal) requires payment of those fees by the person charged with the violation. The deferral program fee is an initial user's fee of not to exceed fifty-two dollars (\$52.00) and a monthly user's fee of not to exceed ten dollars (\$10.00) for each month the person remains in the deferral program. [IC 33-34-4-2(e)]

In addition, IC 34-28-5-1 requires the defendant in the action to agree to pay a fee of seventy dollars (\$70.00) to the clerk of the court if the action involves a moving traffic offense (as defined in IC 9-13-2-110). Furthermore, IC 33-37-8-5 requires two dollars (\$2) of every deferral program fee collected to be accounted for as a jury fee. The defendant shall also pay a highway worksite zone fee of fifty cents (\$.50) for driving offense, a document storage fee of two dollars (\$2) and an automated recordkeeping-deferral/diversion fee of five dollars (\$5). (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 2)

DEFERRAL PROGRAM FEES NOT REMITTED TIMELY

As stated in prior Report B40615, applicants electing to participate in the Town's Deferral Program are asked to remit a check or money order payable to the Clerk, Lake County Superior Court. The Town issues a receipt for the deferral fees and remits the checks or money orders to the Town attorney, intact. The Town does not deposit the fees. Instead, the Town Attorney remits the fees to the Lake County Clerk of the Circuit Court's Office to be deposited and recorded. This process delayed the deposit of the money collected from between 53 to 124 days.

Indiana Code 5-13-6-1(d) requires cities and towns to deposit all funds not later than the next business day following the receipt of funds in depositories selected by the city or town as provided in an ordinance adopted by the city or town and approved as depositories of state funds. (Accounting and Uniform Compliance Guidelines Manual for Cities and Town, Chapter 7)

Town of Cedar Lake

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May 6, 2015

Indiana State Board of Accounts
302 West Washington Street, Room E-418
Indianapolis, IN 46204-2765

EXAMINATION RESULTS AND COMMENTS

Annual Report

Capital Assets

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Upon review and comparison of the Town’s asset records and the SBOA examination reports, the following is noted:

SBOA Exam Ending December 31, 2009	\$52,746,775
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Cumulative Balance of Assets Ending December 31, 2013.....	\$63,073,149

Payables and Receivables

During the examination, it was explained that entries were reversed in the Gateway system. This would then cause the overstated and understated amounts as commented. There was question during the exam as to the requirement to even report payables and receivables since there is such strong emphasis placed on cash basis rather than modified accrual. In the future, the Town will continue to enter payables and receivables in their respective fields.

Sales Tax Calculation

The Cedar Lake Water Utility pays all monthly sales tax collected to the State prior to the 20th of the subsequent month. The Utility's software applies customer receipts in the following order:

- 1) Past Due Sales Tax
- 2) Past Due Billings
- 3) Past Due Penalties
- 4) Current/Non-Past Due Sales Tax
- 5) Current/Non-Past Due Penalties
- 6) Current/Non-Past Due Billings
- 7) Current/Non-Past Due Interest
- 8) Past Due Interest

Therefore the Utility tracks all sales tax collections from customers whether it is from past due or current billings. When a partial payment is made for a current invoice, the sales tax billed is considered to be paid first and thus is remitted to the IDOR prior to the 20th of the subsequent month. By default a simple calculation of billings collected times the sales tax rate would not equal the sales paid. In the subsequent month assuming payment in full of any remaining past due billing and penalty amounts there would be no sales tax receipts on the past due billing receipts even though they may have originally been taxable. Thus no sales tax would be payable to the IDOR for those sales. Thus to simply take the sales (billings) amount receipted less sales tax exempt sales and multiply by the sales tax rate as shown on the ST-103 is not appropriate. The Exemptions/Deductions line is to adjust the actual sales receipts to indicate a taxable amount for that particular month's sales tax collections as required by the ST-103.

The Utility does remit all sales tax receipts collected to the IDOR by the appropriate date and therefore does comply with IC 6-2.5-6.

Emergency Medical Service Penalties

The Town of Cedar Lake acknowledges that there have been some short comings in assessing and collecting interest on accounts that are more than One Hundred Eighty (180) days delinquent. Since the time of the last audit, the Town has been in a time of transition as it was acquiring the Cedar Lake Volunteer Fire Department and establishing it as a Department of its Town Municipal Government. Prior to this acquisition, which became effective January 1, 2014, the Town had contracted with the Cedar Lake Volunteer Fire Department entity to provide firefighting and emergency medical services. Since the acquisition, the Town has endeavored to create a more efficient system of billing collection of bills and invoices for EMS services rendered. To facilitate this process, the Town now employs full time staff, under supervision, to process, issue, monitor and receive payment on outstanding bills. The Town's process for collection of such accounts which are past due and charging the interest allowed under Town Ordinance continue to evolve and the Town will refine this practice in each of Staff

procedures, as well as by all processes available, including software upgrades and procedures as it continues to address these matters.

Additionally, the Town often sends its unpaid and overdue accounts to collection prior to the accounts becoming One Hundred Eighty (180) days past due. This proactive approach allows the Town to collect the proper balance from customers who are delinquent, without having to charge them the additional penalties as allowed under the Town Code. The accounts marked "Accrued Interest per Town Attorney" were marked that way because many of them not only contained interest in accordance with Town Ordinance, but also included statutory post-judgment interest. The Town acknowledges that these amounts should be broken down and marked accordingly for audit purposes and it will continue to refine its practices and recordkeeping to ensure that they are consistent with applicable law and SBOA regulations.

Moving Traffic Citations Issued by the Town

The Town respectfully disagrees with the SBOA's suggestion that the Town must prosecute all moving violations as infractions under State Law, as opposed to prosecuting them as ordinance violations under Town Code. The Town further disagrees with the SBOA's claim that it is violating State Law by charging fines that are not consistent with those established by the Indiana Code for traffic infractions. The Town is permitted, under Indiana Code 34-28-5-4(e), to charge fines, or allow community service in lieu of paying a monetary judgment, in an amount which does not exceed the amount requested in the complaint and does not exceed the limitations of Indiana Code 36-1-3-8 ("Home Rule"). The Town, as a unit of local government, has the power and authority to establish laws which govern the citizens of Cedar Lake, inclusive of setting local speed limits on Town local public streets and prosecuting violators of the established speed limits. Furthermore, the Town, under Home Rule, is permitted to charge amounts for ordinance violations which are higher than the State mandated amounts for traffic infractions.

There is no provision of the Indiana Code that requires the Town to prosecute all moving violations as infractions as suggested by the SBOA. SBOA State Examiner Directive 2015-1 ("Directive 2015-1") requires all moving violations to be referred to "the local prosecuting attorney or a city, town or county court for infraction and ordinance violation enforcement proceedings as required by law." (emphasis added). Directive 2015-1 requires an ordinance defining a moving traffic violation to be enforced under Indiana Code 34-28-5 *et seq.*, and not under Indiana Code 33-36, which permits a Town to establish an Ordinance Violations Bureau. *See also* Indiana Code 36-1-6-3. Although the Town has established and utilizes an Ordinance Violations Bureau for ordinance violations not classified as a moving traffic violation, it has not utilized the Ordinance Violations Bureau for moving traffic violations as that would be in contravention of Indiana Law. The Town will continue to prosecute moving offenses on Town public streets under the provisions of Indiana Code 34-28-5 *et seq.*, as required by Directive 2015-1 and applicable State Law. The citation to Indiana Code 34-28-5-1(b), as provided by the SBOA in its comments, is inapplicable, as the Town, when issuing ordinance violations to traffic offenders, is not bringing an action to enforce a statute defining an infraction; it is bringing an action to enforce its own Ordinance. In accordance with applicable law, the Town brings these ordinance violation actions in the name of the Town and they are prosecuted before the Superior Court of Lake County, Indiana, County Division, to whom such are assigned, as required under Indiana Code 34-28-5 *et seq.*

Incorrect Deferral Fees Charged and Distributed

Consistent with applicable law, the Town implemented a traffic deferral program for eligible participants who follow the statutorily mandated procedures. Within the last two (2) years, the Indiana Legislature has updated and changed the required fee amounts for participants in traffic deferral programs. Accordingly, the current traffic deferral fee of One Hundred Eighty-Four Dollars (\$184.00) is now outdated and has resulted in the Town undercharging its traffic deferral program participants by Five and 50/100 Dollars (\$5.50). The Town traffic deferral program continues to benefit the participants and the Town, however the Town acknowledges that its traffic deferral program, and specifically the fees charged, needs to be updated to ensure it is charging the amounts required under applicable Indiana Law. The Town has remedied the undercharging, in accordance with its enabling Ordinance which allows for the collection of "current Court Costs, pursuant to the provisions [of] Indiana Code, as amended from time to time", by notifying all individuals who oversee the traffic deferral program that consistent with changes in State Law, the program will now charge participants the current applicable amount of One Hundred Eight-Nine and 50/10 Dollars (\$189.50). (emphasis added).

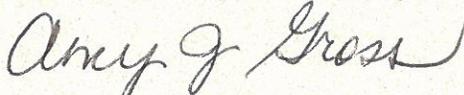
Deferral Program Fees Not Remitted Timely

The Town agrees that the delay in depositing the funds with the Lake County Clerk's office is unacceptable and must be remedied immediately. Upon receipt of this comment from the SBOA, the Town immediately addressed its internal procedures to ensure that all money received for the traffic deferral program is timely remitted to the Lake County Clerk's office. The Town notes, however, that while the delay noted by the SBOA is unacceptable, a potentially large portion of that delay is beyond the control of the Town. The Town submits its traffic deferral program applications and payments to the Court for processing and approval. Upon Court processing and approval, the fees are then sent to the Lake County Clerk's Office for deposit. The Town has no control over the amount of time it takes the Court and the Clerk to process the fees, however the Town acknowledges that the portion of the delays attributable to the Town need to be, and have been, addressed. The Town is committed to complying with all SBOA rules and regulations and is working diligently to ensure that any funds received are expediently remitted to the Court for processing.

Police Pension Board Meetings

The Town acknowledges that its Police Pension Board did not meet several times on an annual basis as required. It is noted that one of the Trustees of the Town Police Pension Board recently left his position with the Town Police Department and began employment with another police department. Immediately upon receipt of this comment by the SBOA, elections were held in a proper meeting of the Police Pension Board of Trustees to replace the outgoing member. As such, the Town Police Pension Board has held its statutorily required meeting for the 2015 calendar year. Required meetings will be scheduled and held annually hereafter according to law.

TOWN OF CEDAR LAKE, LAKE COUNTY, INDIANA



Amy J. Gross, IAMC, MMC, CPM, Clerk-Treasurer

POLICE DEPARTMENT
TOWN OF CEDAR LAKE
EXIT CONFERENCE

The contents of this report were discussed on April 16, 2015, with Gerald Smith, Police Chief, and Randall Niemeyer, President of the Town Council.

POLICE PENSION BOARD
TOWN OF CEDAR LAKE

POLICE PENSION BOARD
TOWN OF CEDAR LAKE
AUDIT RESULT AND COMMENT

POLICE PENSION BOARD MEETINGS

The Police Pension Board did not meet as required by state statute. The Pension Board did not meet during calendar years 2012 or 2013.

Indiana Code 36-8-6-2(c) states:

"The trustees under subsections (b)(2) and (b)(3) shall be elected at a meeting of the members of the police department at the central police station on the second Monday in February of each year. The trustees are elected for terms of three (3) years, succeeding those trustees whose terms of office expire on that date. The trustees hold their offices until their successors are elected and qualified."

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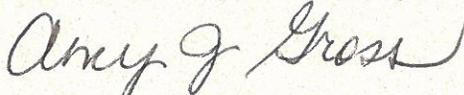
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POLICE PENSION BOARD
TOWN OF CEDAR LAKE
EXIT CONFERENCE

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