

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF CHESTERTON

PORTER COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
01/29/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Stephanie Kuziela	01-01-14 to 12-31-15
Town Manager	C. Bernard Doyle	01-01-14 to 12-31-15
Police Chief	David Cincoski	01-01-14 to 12-31-15
President of the Town Council	Sharon Darnell	01-01-14 to 12-31-15
President of the Utility Service Board	Lawrence Brandt	01-01-14 to 12-31-15
President of the Storm Water Management District Board	Thomas Kopko	01-01-14 to 12-31-15
President of the Redevelopment Commission	Edward Schoenfelt Jeff Trout	01-01-14 to 12-31-14 01-01-15 to 12-31-15
Superintendent of Wastewater Utility	Terry Atherton David Ryan	01-01-14 to 06-25-15 06-26-15 to 12-31-15
Superintendent of Storm Water Utility	Mark O'Dell	01-01-14 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF CHESTERTON, PORTER COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Chesterton (Town), for the period from January 1, 2014 to December 31, 2014. 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

October 1, 2015

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CLERK-TREASURER
TOWN OF CHESTERTON

CLERK-TREASURER
TOWN OF CHESTERTON
FEDERAL FINDINGS

FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING

The Town has not established controls to ensure that financial transactions have been properly recorded in the financial records, and reported in the financial statement as follows:

Cash and Investments

Controls have not been established to ensure that all of the cash and investment accounts have been reconciled to the cash and investments recorded in the ledgers and in the financial statement.

Receipts

Collections and reports of collections remitted by Town departments to the Clerk-Treasurer's Office were verified for agreement; however, there was no evidence to support the verification. Furthermore, the departments remitting the collections were not provided with a receipt. The original receipt was retained with the reports of collections. Within the computer software, all receipts are entered through journal entries. Receipt numbers were entered under description headings, and often, sequential receipt numbers were grouped together under the description heading.

Duties were not properly segregated over utility collections. Each Clerk performed billings, adjustments, receipts of cash collections, and recording of the transactions to the customer accounts and financial records. Each Clerk was also responsible for reconciling the cash drawers and preparing the deposit tickets. In addition, adjustments to customer accounts were not required to be reviewed or approved by management.

Disbursements

Controls have not been established to ensure that disbursement duties are properly segregated and that payments are authorized. The Accounts Payable Clerk is responsible for recording disbursements and issuing checks. Departments prepare and approve payable registers, which include vendor invoices, which they submit to the Accounts Payable Clerk for processing. Each department head is responsible for electronically signing the accounts payable register to indicate that they have authorized the payment. They will also sign a printed copy of the accounts payable register. If the Accounts Payable Clerk finds that an invoice was not listed, she can add it to the payable register without getting the approval of the department head.

Payroll disbursements are fully automated. Rates of pay are entered into the system by the same Clerk who processes the payroll without any review or oversight. Each department prepares a payroll voucher which documents the hours and rates of pay which is approved by the department head. However, if the rates of pay entered on the payroll voucher do not agree to the rate of pay per the system, the Payroll Clerk corrects the rate of pay recorded on the payroll voucher to agree to the system. Such corrections are not reviewed or monitored.

Financial Reporting and the Schedule of Expenditures of Federal Awards (SEFA)

The Town did not have a system of internal controls in place to prevent, or detect and correct, errors in the preparation of the financial statement and Schedule of Expenditures of Federal Awards (SEFA).

CLERK-TREASURER
TOWN OF CHESTERTON
FEDERAL FINDINGS
(Continued)

The Town should have proper controls in place over the preparation of the financial statement and SEFA to ensure accurate and reliable reporting of the Town's financial activity as it relates to the financial statement and SEFA. Adequate internal controls require 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 and SEFA were undetected. We believe these deficiencies in the internal control system constitute material weaknesses.

Compliance

The Clerk-Treasurer is responsible for reporting all financial information in the Gateway Annual Financial Report (AFR), which includes a Schedule of Expenditures of Federal Financial Assistance (grant schedule). The AFR and grant schedule is used to compile the financial statement and SEFA. The information in the AFR should be based upon the financial activity recorded in the ledgers. The financial statement and SEFA presented for audit included the following errors:

1. The financial statement excluded the financial activity of the State Revolving Loan Funds (SRF Wastewater Equity Grant and SRF Construction Grant), as well as the Debt Reserve SRF fund. The financial activities of the State Revolving Loan Funds were accounted for in trust bank accounts. The excluded receipts, disbursements, and cash and investment balances were \$2,710,698, \$9,107,512, and \$4,434,623, respectively.
2. Seven funds without receipt and disbursement activity were excluded from the financial statement. The cash and investment balances of these funds totaled \$645,932.
3. The bank accounts for the activity of the Health Insurance, Dickinson Road Escrow, and Kat Escrow funds were not reconciled as of December 31, 2014. The reported cash and investment balance of these funds as of December 31, 2014, were \$151,674, \$9,448, and \$1,468, respectively.
4. The Cash and Investment balance of the Fire Pension fund excluded an \$110,000 investment.
5. The receipts and disbursements of the Wastewater Utility funds were reported based upon a compilation of utility receipt reports and accounts payable vouchers compiled by a Utility Clerk. The financial records of the Town and Wastewater Utility are maintained on an accrual basis, and were not converted to cash for the financial statement. The Utility funds receipts, and cash and investment balances were overstated by \$116,034 and \$2,053,737, respectively. The Utility funds disbursements were understated by \$1,614,890.
6. Loan repayments from the GO 2010 Debt (15th Street) and Storm Water Debt 2012 funds to the General Fund were recorded as journal entries. The journal entries reduced the tax collections receipted to the GO 2010 Debt (15th Street) and Storm Water Debt 2012 funds, and recorded a miscellaneous receipt in the General Fund. Thus, the receipts and disbursements of the GO 2010 Debt (15th Street) and the Storm Water Debt 2012 funds were understated by \$55,378, and \$124,019, respectively.
7. The SEFA presented for audit overstated the federal expenditures for the Capitalization Grants for Clean Water State Revolving Funds by \$11,657,041. It also excluded the federal expenditures for the Bulletproof Vest Partnership Program and the State and Community Highway Safety and Operation Pullover (OPO) Enforcement Program of \$3,038 and \$10,718, respectively.

CLERK-TREASURER
TOWN OF CHESTERTON
FEDERAL FINDINGS
(Continued)

Audit adjustments were proposed, accepted by the Clerk-Treasurer, and made to the financial statement and SEFA 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 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

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."

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

CLERK-TREASURER
TOWN OF CHESTERTON
FEDERAL FINDINGS
(Continued)

- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

FINDING 2014-002 - ELECTRONIC AUDIT TRAILS

We noted deficiencies in the Town's computerized accounting system related to electronic audit trails.

Controls - Disbursements by Electronic Transfer of Funds

The computer software allows users to enter disbursements by electronic transfer of funds (DFT). The computer software automatically assigns sequential numbers to each DFT. However, according to the vendor, if the DFT software is opened by the user but a disbursement is not recorded, the system assigns that non-disbursement a DFT number. When a DFT number is assigned without a corresponding disbursement, users cannot produce any type of documentation to account for or support that the DFT number did not have an amount associated with it.

Controls - Reissued or Replaced Checks Audit Trails

When an issued check is lost and requires replacement, the user will issue a new check to replace the lost check. In the computer software, the user can do this without receipting back the old check. The user simply issues a new check in replacement of the lost check. The lost or original check number will no longer exist within the computer software and ledgers, as the new check number replaces the old one.

Compliance

The Town pays vendors and employees by DFT. Most of the payroll deductions are remitted by DFT. Numerous DFT numbers were generated by the system, but officials could not locate any documents to support that some DFT numbers were not used.

At least one check was issued and replaced in which the original check number was replaced in the system by the replacement check number.

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 managements' 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 CHESTERTON
FEDERAL FINDINGS
(Continued)

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from original source of entry into the system, through all system processing, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing, and to the original source of entry into the system. Audit trails must also identify the user that processed the transaction or updated the information. These audit trails must be protected from modification and deletion. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The computerized accounting system must incorporate features that assure all accounting information is reported accurately and completely. Procedures must also exist to assure that only authorized individuals have access to computer generated output. All receipts or payments generated by the accounting system must include unique document identification numbers either preprinted on the form or printed on the form by the application system. If the numbers are printed on the form by the application system, adequate security must be implemented to prevent unauthorized modification of the number sequence. Preprinted receipt and check stock must not include preprinted signatures, must be securely stored, and usage must be logged and reconciled. If the report content can be modified via user selection of various criteria such as account codes, department codes, transaction codes, status codes, etc., the report heading should contain sufficient information regarding the selection criteria to allow another user to understand what information is being reported and recreate the report. All output reports must clearly indicate the effective dates of the information in addition to the report generation date. Output reports must have appropriate subtotals to allow reconciliation to other reports and to external documentation. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FINDING 2014-003 - DAVIS-BACON ACT AND REPORTING

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Clean Water State Revolving Loan Funds
CFDA Number: 66.458
Federal Award Number: WW13106402
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 Davis-Bacon Act and Reporting compliance requirements.

Davis-Bacon Act

The Town hired a consultant to ensure compliance with the Davis-Bacon Act requirements of the grant. The Consultant was solely responsible for ensuring that contracts contained clauses related to Davis-Bacon Act compliance. The Town did not have controls to review the contracts to ensure that the clauses were in the contracts. Furthermore, the Consultant provided copies of the verified certified payrolls to the Town, but the Town had not established controls to ensure that the consultant reviewed all of the certified payrolls, noted any deficiencies and followed up on deficiencies when noted.

CLERK-TREASURER
TOWN OF CHESTERTON
FEDERAL FINDINGS
(Continued)

Reporting

The Town Engineer was responsible for preparing and submitting the Disadvantaged Business Entity reports. The Town Engineer prepared and submitted the reports without prior or subsequent review. The Town had not established controls to ensure that the reports were prepared and submitted based upon accurate and complete information or that the reports were submitted timely.

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 grant.

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 type of 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(b) 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."

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's management establish controls, including segregation of duties, related to the grant agreement and the Davis-Bacon Act and Reporting compliance requirements.

Town of
Chesterton
INDIANA

Office of the Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2014-001

Contact Person Responsible for Corrective Action: Stephanie Kuziela
Contact Phone Number: 219-926-1641

Description of Corrective Action Plan:

Receipts: The Clerk-Treasurer's staff will be double-checking each other's work before submission in the software. This double-checking will include review and sign offs. Collections between departments will include receipts back to the originating department as a double check showing that the Clerk's Office received the money from the respective department. Now that we have a utility billing supervisor, collection duties are now double-checked.

Disbursements: We will be working with the software vendor to see what restrictions there can be for editing payable packets after approval. We will also be addressing the payroll changes with the software vendor.

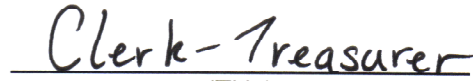
Financial Reporting & SEFA: More staff will be trained to understand the aspects of SEFA & Financial Reporting. Currently the Clerk-Treasurer is the only one who is trained. More cross training will be done.

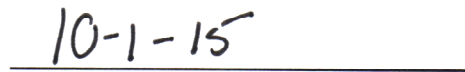
Compliance: We will be fixing the errors as noted.

We will require more cross training to ensure everyone understands how and why processes work in order to effectively double check work.

Anticipated Completion Date: Dec 15, 2015


(Signature)


(Title)


(Date)

Town of
Chesterton
INDIANA

Office of the Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2014-002

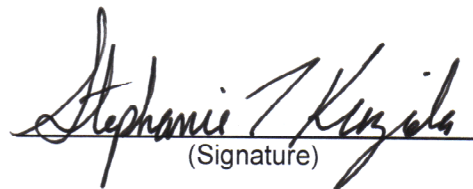
Contact Person Responsible for Corrective Action: Stephanie Kuziela
Contact Phone Number: 219-926-1641


Description of Corrective Action Plan:

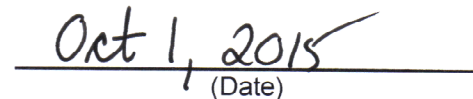
I will work with the software vendor to see if over writing of check numbers, absent DFT numbers can all be avoided.

Anticipated Completion Date:

Will contact the software vendor (Tyler Technologies) and work with staff by November 30, 2015.


(Signature)


(Title)


(Date)

Office of the Clerk-Treasurer

CORRECTIVE ACTION PLAN

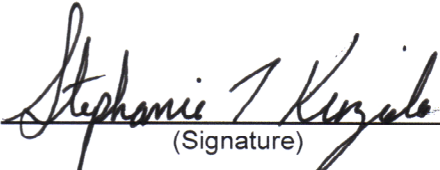
FINDING 2014-003

Contact Person Responsible for Corrective Action: Stephanie Kuziela
Contact Phone Number: 219-926-1641

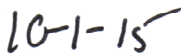
Description of Corrective Action Plan:

The Clerk-Treasurer or Deputy Clerk-Treasurer will review Davis-Bacon reports from contractor and all other reporting related to the SRF loan.

Anticipated Completion Date: Oct 5, 2015


(Signature)


(Title)


(Date)

CLERK-TREASURER
TOWN OF CHESTERTON
AUDIT RESULTS AND COMMENTS

REDEVELOPMENT TAX INCREMENT FINANCING (TIF)

The Redevelopment Commission (Commission) declared a portion of the Town an economic development area to be developed under Indiana Code 36-7-14 and 36-7-25. The Commission prepared an economic development plan for the two districts within the selected economic development area known as the Consolidated Allocation Area I & II and Allocation Area III.

Additional taxes collected due to redevelopment in an economic development area are remitted to the Commission from the County as Tax Increment Financing (TIF) allocation.

The County did not provide the Clerk-Treasurer with a breakdown of the taxes by economic development area. Furthermore, the Clerk-Treasurer did not establish separate TIF funds for each allocation area as required by statute. Instead, the distributions were divided and receipted to the Redevelopment, Redevelopment Debt Service, and 151 2012 R/D Bond funds.

Indiana Code 36-7-14-39(b)(2) states in part:

"The excess of the proceeds of the property taxes imposed for the assessment date with respect to which the allocation and distribution is made . . . shall be allocated to and, when collected, paid into the funds of the taxing unit for which the referendum or local public question was conducted."

Indiana Code 36-7-14-39(b)(3) states in part:

"Except as otherwise provided in this section, property tax proceeds in excess of those described in subdivisions (1) and (2) shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following: . . ."

APPROPRIATIONS

The following funds recorded expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Excess Amount Expended</u>
General Fund	\$ 133,250
Motor Vehicle Highway	53,506
Park Debt	99,632
Cumulative Street and Sewer	4,311

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

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

COMPENSATION AND BENEFITS

The Indiana Public Retirement System informed the Town that the cost of living adjustment effective July 1, 2014, for the 1977 Police Officers' and Firefighters' Pension and Disability Fund, had been determined pursuant to Indiana Code 36-8-8-15 to be 1.4 percent . That adjustment was properly made by the Clerk-Treasurer in July for the police officers, but not for the firefighters. The adjustment for the firefighter retirees was made in September with an effective date of September 1, 2014.

Indiana Code 36-8-8-15 states in part:

"Each year the system board shall determine if there has been an increase or decrease in the consumer price index (United States city average) prepared by the United States Department of Labor . . . If there has been an increase, or a decrease, it shall be stated as a percentage of the arithmetic mean for the preceding three (3) month period. . . . If there is a percentage increase of the arithmetic mean for the preceding three (3) month period, a fund member's or survivor's monthly benefit, beginning with the July payment, shall be increased by an amount equal to the June payment times the percentage increase. . . ."

VEHICLES AND FRINGE BENEFITS

Upon hiring the Town Manager, minutes of a Town Council meeting indicated that the Town Manager would receive "\$250 per month for the use of his personal vehicle." The Town Manager was issued a credit card to use to purchase fuel for his personal vehicle. Neither the car allowance nor the fuel purchases were included on his Wage and Tax Statement (Internal Revenue Service Form W-2).

Some of the Town Department heads were provided with a Town owned take-home vehicle. On a quarterly basis, they provided the Clerk-Treasurer with an accounting and value of the mileage on the vehicle considered personal usage, but that value was not included on the Internal Revenue Service Form W-2.

The following sets forth the audit position of the State Board of Accounts with regard to reimbursements made by local governmental units to their officers and employees for travel and meal expenses.

A local unit may reimburse such persons for actual miles traveled in their own motor vehicles on official business of the local unit at a reasonable rate per mile as fixed by an ordinance or resolution of the unit's legislative body. The mileage rate should be fixed by the board or commission having authority to approve claims for travel expenses. No particular mileage rate has been set by the State of Indiana for local units of government and, consequently, the mileage rate lies within the discretion of legislative body, board or commission, unless otherwise provided by statute. The body setting the mileage rate should also determine whether parking fees and toll charges are included in the rate or, on the other hand, whether such expenses are to be reimbursed separately based on the submission of receipts.

Reimbursed mileage should not include travel to and from the officer's or employee's home and regular place of employment. If more than one person rides in the same vehicle, only one mileage reimbursement is allowable. General Form 101 (or an approved substitute) should be used for claiming mileage. The odometer reading columns on this form are to be used only when the distance between points cannot be determined by fixed mileage or official highway maps. (Cities and Towns Bulletin and Uniform Compliance Guidelines, March 2009)

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

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CREDIT CARDS

The Town used credit cards for various purchases, including fuel and internet purchases. 28 percent of the accounts payable vouchers for the fuel and internet purchases did not have itemized invoices attached to support the purchases made, or to validate that the items purchased were related to Town business. Credit cards were also used to purchase meals at local restaurants for which the business purpose of the meal was not indicated.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

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)

CAPITAL ASSETS

The Town has not properly maintained a complete inventory of capital assets owned. A complete inventory was completed years ago, but it has not been updated for additions and disposals.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the applicable Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Town of
Chesterton
INDIANA

Office of the Clerk-Treasurer

October 12, 2015

RE: OFFICIAL RESPONSE to Clerk-Treasurer section of the audit for 01/01/2014-12/31/2014

Dear Mr. Paul Joyce:

2014 was my first year as Clerk-Treasurer for the Town of Chesterton. There were many things for the new staff and I to learn, as the previous staff retired with few notes. I have elected to address many of the points made in the 2014 audit:

-The items noted for internal controls will be remedied via more training for the staff and cross training. The staff have also been instructed to do double checks for all processes.

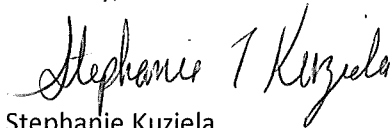
-A quick note regarding Finding 2014-003 is that the consultant that was hired was contracted by SRF not the Town of Chesterton. However, with the next SRF Loan that contractor has been hired by the Town (in 2015) and we will be reviewing their work closely.

-The note regarding the firefighter pensioners not being paid the correct amount has been investigated. Our spreadsheets say otherwise.

-Our department heads have been reminded of the credit policy outlined in the Accounting Manual and in the Town Code.

-Capital Assets have not been updated in a decade. Our goal is to have them updated in 2016.

Sincerely,



Stephanie Kuziela
Chesterton Clerk-Treasurer

CLERK-TREASURER
TOWN OF CHESTERTON
EXIT CONFERENCE

The contents of this report were discussed on October 1, 2015, with Stephanie Kuziela, Clerk-Treasurer, and on October 6, 2015, with Sharon Darnell, President of the Town Council.

REDEVELOPMENT COMMISSION
TOWN OF CHESTERTON

REDEVELOPMENT COMMISSION
TOWN OF CHESTERTON
AUDIT RESULT AND COMMENT

REDEVELOPMENT TAX INCREMENT FINANCING (TIF)

The Redevelopment Commission (Commission) declared a portion of the Town an economic development area to be developed under Indiana Code 36-7-14 and 36-7-25. The Commission prepared an economic development plan for the two districts within the selected economic development area known as the Consolidated Allocation Area I & II and Allocation Area III.

Additional taxes collected due to redevelopment in an economic development area are remitted to the Commission from the County as Tax Increment Financing (TIF) allocation.

The County did not provide a breakdown of the taxes by economic development area. Furthermore, the Town did not establish separate TIF funds for each allocation area as required by statute. Instead, the distributions were divided and receipted to the Redevelopment, Redevelopment Debt Service, and 151 2012 R/D Bond funds.

Indiana Code 36-7-14-39(b)(2) states in part:

"The excess of the proceeds of the property taxes imposed for the assessment date with respect to which the allocation and distribution is made . . . shall be allocated to and, when collected, paid into the funds of the taxing unit for which the referendum or local public question was conducted."

Indiana Code 36-7-14-39(b)(3) states in part:

"Except as otherwise provided in this section, property tax proceeds in excess of those described in subdivisions (1) and (2) shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following: . . ."

REDEVELOPMENT COMMISSION
TOWN OF CHESTERTON
EXIT CONFERENCE

The contents of this report were discussed on October 6, 2015, with Jeff Trout, President of the Redevelopment Commission, and Sharon Darnell, President of the Town Council.

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POLICE DEPARTMENT
TOWN OF CHESTERTON

POLICE DEPARTMENT
TOWN OF CHESTERTON
AUDIT RESULT AND COMMENT

CREDIT CARDS

The Police Department used credit cards for fuel purchases. 17 percent of the accounts payable vouchers did not have itemized invoices attached. The Police Chief produced some, but not all of the invoices.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

CHESTERTON POLICE DEPARTMENT

790 Broadway
Chesterton, IN. 46304

David Cincoski
Chief of Police

Phone
(219) 926-1136

October 6, 2015

To Whom It May Concern,

In a recent audit conducted by the Indiana State Board of Accounts, as the Chief Executive for the Chesterton Police Department, I acknowledge the issues and concerns raised in the examination and audit regarding the use of credit cards for fuel purchases. Invoices and receipts were not submitted for every transaction.

Since this concern was brought to my attention, a new standard operating procedure has been issued to staff regarding the timely and complete submission of receipts for credit card purchases and outlined repercussions for the failing to do so.

Respectfully submitted,



David Cincoski
Chief of Police

POLICE DEPARTMENT
TOWN OF CHESTERTON
EXIT CONFERENCE

The contents of this report were discussed on October 1, 2015, with David Cincoski, Police Chief, and on October 6, 2015, with Sharon Darnell, President of the Town Council.

TOWN MANAGER
TOWN OF CHESTERTON

TOWN MANAGER
TOWN OF CHESTERTON
AUDIT RESULTS AND COMMENTS

VEHICLES AND FRINGE BENEFITS

Upon hiring the Town Manager, minutes of a Town Council meeting indicated the Town Manager would receive "\$250 per month for the use of his personal vehicle." The Town Manager was issued a credit card to use to purchase fuel for his personal vehicle. Neither the car allowance nor the fuel purchases were included on his Wage and Tax Statement (Internal Revenue Service Form W-2).

The following sets forth the audit position of the State Board of Accounts with regard to reimbursements made by local governmental units to their officers and employees for travel and meal expenses.

A local unit may reimburse such persons for actual miles traveled in their own motor vehicles on official business of the local unit at a reasonable rate per mile as fixed by an ordinance or resolution of the unit's legislative body. The mileage rate should be fixed by the board or commission having authority to approve claims for travel expenses. No particular mileage rate has been set by the State of Indiana for local units of government and, consequently, the mileage rate lies within the discretion of legislative body, board or commission, unless otherwise provided by statute. The body setting the mileage rate should also determine whether parking fees and toll charges are included in the rate or, on the other hand, whether such expenses are to be reimbursed separately based on the submission of receipts.

Reimbursed mileage should not include travel to and from the officer's or employee's home and regular place of employment. If more than one person rides in the same vehicle, only one mileage reimbursement is allowable. General Form 101 (or an approved substitute) should be used for claiming mileage. The odometer reading columns on this form are to be used only when the distance between points cannot be determined by fixed mileage or official highway maps. (Cities and Towns Bulletin and Uniform Compliance Guidelines, March 2009)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CREDIT CARDS

The Town used credit cards for various purchases. All instances tested in which purchases were made via the internet for registrations or from local news agencies lacked proper supporting documentation. Itemized vendor invoices were not available to support the purchases made or to validate that the items purchased were related to Town business.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.

TOWN MANAGER
TOWN OF CHESTERTON
AUDIT RESULTS AND COMMENTS
(Continued)

3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

TOWN MANAGER
TOWN OF CHESTERTON
EXIT CONFERENCE

The contents of this report were discussed on October 1, 2015, with Stephanie Kuziela, Clerk-Treasurer, as authorized by C. Bernard Doyle, Town Manager, and on October 6, 2015, with Sharon Darnell, President of the Town Council.

TOWN COUNCIL
TOWN OF CHESTERTON

TOWN COUNCIL
TOWN OF CHESTERTON
AUDIT RESULT AND COMMENT

APPROPRIATIONS

The following funds recorded expenditures in excess of budgeted appropriations:

Fund	Excess Amount Expended
General Fund	\$ 133,250
Motor Vehicle Highway	53,506
Park Debt	99,632
Cumulative Street and Sewer	4,311

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

Town of
Chesterton
INDIANA

Office of the Clerk-Treasurer

OFFICIAL RESPONSE

October 11, 2015

Dear Paul Joyce:

In response to the 2013 and 2014 audit findings of the Town of Chesterton, I am not in agreement with the citing that the claims were not signed.

I was present as a council member in these years and can absolutely state that signatures were required at all meetings before the claims left the town hall on that evening. I am not aware of the location of these supporting documents but any subsequent follow up with council members that served during that time as well will be in agreement with me.

Sincerely,



Sharon Darnell
Town of Chesterton
President

TOWN COUNCIL
TOWN OF CHESTERTON
EXIT CONFERENCE

The contents of this report were discussed on October 6, 2015, with Stephanie Kuziela, Clerk-Treasurer, and Sharon Darnell, President of the Town Council.