

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF NEW CHICAGO

LAKE COUNTY, INDIANA

January 1, 2021 to December 31, 2021



FILED
08/15/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Dorothy Zimmer	01-01-21 to 12-31-23
President of the Town Council	Sharon Szvedo	01-01-21 to 12-31-23



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE TOWN OF NEW CHICAGO, LAKE COUNTY, INDIANA

This report is supplemental to the audit report of the Town of New Chicago (Town), for the period from January 1, 2021 to December 31, 2021. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Town. It should be read in conjunction with the Financial Statement Audit Report of the Town, which provides our opinions on the Town's financial statement. This report may be found at www.in.gov/sboa/.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Beth Kelley, CPA, CFE
Deputy State Examiner

August 2, 2023

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CLERK-TREASURER
TOWN OF NEW CHICAGO

CLERK-TREASURER
TOWN OF NEW CHICAGO
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS - FINANCIAL TRANSACTIONS AND REPORTING

The same comment also appeared in prior Reports B54123 and B57244, and a similar comment appeared in Report B48175, entitled *STATE REVOLVING FUND ACCOUNTS*.

Condition and Context

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

The Town had not separated incompatible activities related to cash and investments, receipts, payroll disbursements, and financial reporting. A separation of duties for each of these areas had not been designed or implemented to prevent, or detect and correct, errors.

Cash and Investments (Bank Reconciliation)

The Town had not designed or implemented an oversight or review process over cash and investments, including bank reconciliations, to ensure the accuracy and completeness of the ledgers. The Clerk-Treasurer performed the bank reconciliations without a documented oversight or review process to ensure the bank reconciliations were prepared timely and accurately.

Due to the lack of internal controls, the monthly bank reconciliations performed had several adjustments. The adjustments, totaling \$11,974, were listed on the bank reconciliation, but lacked a detailed explanation and supporting documentation to allow for the validity of the reconciling items to be verified. The adjustments have been carried forward for years on the reconciliations without appropriate action being taken. The financial statement was not adjusted for these variances.

Receipts

The Town had not designed or implemented an oversight or review process over receipts to ensure the accuracy, completeness, timeliness, and classification of the receipts posted. The Clerk-Treasurer prepared the official receipts in the financial accounting software system, and a separate individual posted those receipts to the computerized accounting system; however, documentation was not provided to support the separation of duties.

Payroll Disbursements

Although individual payroll claims were reviewed and approved by someone other than the preparer, there was no evidence of an oversight or review process after the payroll disbursements had been posted to the financial accounting software to ensure the accuracy, completeness, and proper classification of payroll disbursements recorded to the computerized accounting system.

Financial Reporting

The financial information was prepared and electronically submitted through the Indiana Gateway for Government Units financial reporting system, which was the source of the Town's financial statement. The Clerk-Treasurer stated that a review process had been established to prevent, or detect and correct, errors; however, documentation of the review process was not provided. Furthermore, the review process was not effective in ensuring that the financial information recorded and reported was accurate, complete, and classified properly.

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

Due to the lack of effective internal controls, multiple grant funds and the State Revolving Fund trust accounts financial activity was omitted from the financial statement and other errors occurred. This resulted in the beginning cash and investments balance being overstated by \$6,837 and receipts, disbursements, and ending cash and investments balances being understated by \$3,322,306, \$316,974, and \$2,998,495, respectively.

Audit adjustments were proposed, approved by the Town, and made to the financial statement and Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Required Supplementary Information in the Financial Statement Audit Report.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

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

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 1)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 1)

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

ANNUAL FINANCIAL REPORT - OTHER INFORMATION

Condition and Context

Financial and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. An oversight or review process had not been implemented over the information submitted into the AFR. The lack of effective internal controls resulted in the following errors:

Receivables

The Town did not prepare and submit the accounts receivable information into Gateway as required, which resulted in the understatement of accounts receivable by \$133,603.

Leases and Debt

The Town omitted the New Public Works Building and Waterworks 2021 revenue bonds from the debt schedule. This resulted in the understatement of the Ending Principal Balance and Principal Due Within One Year by \$3,935,471 and \$28,062, respectively.

Capital Assets

The capital asset information entered into Gateway did not agree with the detailed capital asset listing, which resulted in the understatement of total capital assets by \$842,034.

Adjustments were proposed, approved by the Town, and made to the Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets reported as Other Information in the Financial Statement Audit Report for the Town.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

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

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MONTHLY AND ANNUAL UPLOADS

Condition and Context

The Town is required to upload monthly and annual information to the Indiana Gateway for Government Units (Gateway) financial reporting system.

The files and governmental unit information that are required to be uploaded monthly are the bank reconcilements, bank statements, outstanding check lists, approved Town Council minutes, and funds ledger.

The files and governmental unit information that are required to be uploaded annually include the year-end investment statement, detail of receipt activity, detail of disbursement activity, current year salary ordinance and amendments, an annual vendor history report, annual funds ledger, and an annual payroll history report.

The Town failed to upload eleven months of bank reconcilements, bank statements, and outstanding check lists, nine monthly fund ledgers, and all the required annual uploads for 2021.

Criteria

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients.

A user guide for the Engagement Uploads is available and located at: <https://gateway.ifionline.org/userguides/engagementguide> **It is pertinent that this user guide be used in conjunction with this Directive.** It provides critical information to you that will help guide you to uploading the correct documents. (Amended State Examiner Directive 2018-1)

CLERK-TREASURER
TOWN OF NEW CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on August 2, 2023, with Dorothy Zimmer, Clerk-Treasurer; Sharon Szvedo, President of the Town Council; Jim Gibson, Town Council member; Sue Pelfrey, Town Manager; and Tamora Bucko, Deputy Clerk-Treasurer.