

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

NORTH TOWNSHIP

LAKE COUNTY, INDIANA

January 1, 2011 to December 31, 2013



FILED
03/29/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Trustee	Frank J. Mrvan	01-01-11 to 12-31-18
Chairperson of the Township Board	Richard Novak	01-01-11 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF NORTH TOWNSHIP, LAKE COUNTY, INDIANA

This report is supplemental to our examination report of North Township (Township), for the period from January 1, 2011 to December 31, 2013. It has been provided as a separate report so that the reader may easily identify any Examination Results and Comments that pertain to the Township. It should be read in conjunction with our Financial Statements Examination Report of the Township, which provides our opinion on the Township's financial statements. 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 Examination 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 Examination Results and Comments, incorporated within this report, was not verified for accuracy.

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

December 16, 2015

NORTH TOWNSHIP, LAKE COUNTY
EXAMINATION RESULTS AND COMMENTS

PAYROLL ISSUES

Longevity paid to Township employees in 2011 and 2012 was not included in the salary resolution.

In 2013, longevity pay was included in the salary resolution, but as an overall total. Longevity pay by employee or position was not addressed; thus, it could not be determined if employees were paid in accordance with the salary resolution. Furthermore, the salary resolution for the Park Department did not provide adequate detail to enable us to verify if employees were paid according to the salary resolution. For example, the salary resolution addressed an hourly employee rate multiple times at different hourly rates without differentiating when or how which hourly rates would apply to which employees.

Lastly, administrative employees who oversee various departmental activities were paid solely from Township Assistance funds.

Indiana Code 36-6-6-10(b) states:

"The township legislative body shall fix the:

- (1) salaries;
- (2) wages;
- (3) rates of hourly pay; and
- (4) remuneration other than statutory allowances; of all officers and employees of the township."

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 17)

TOWNSHIP ASSISTANCE

Eligibility Standards

The Township Assistance Eligibility Standards provided for examination were not adopted by the Township Board as required by Indiana Code 12-20-5.5-1. The eligibility determinations made in 2011, 2012, and 2013 were based upon standards adopted in 2010.

Assistance Provided

Files for 28 clients were reviewed for the period of January 1, 2013 through October 30, 2015. The review indicated that 21 of the 28 clients received assistance whose income exceeded the Township's eligibility standards. The Township paid \$181,789.37 in assistance to the clients who exceeded the Township's eligibility standards. The Township assistance provided included assistance for food, shelter, utilities, dental, medical, clothing, household supplies, and appliances. As stated in the policy, "appliances will be allowed according to need and eligibility." One of the clients received one air conditioner, two stoves, and three refrigerators within three years. Another client received two air conditioners within three years.

NORTH TOWNSHIP, LAKE COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

Furthermore, we noted individual clients receiving in excess of \$20,000 in assistance in a single year as follows:

<u>Years</u>	<u>Clients</u>	<u>Client 1 Amount</u>	<u>Client 2 Amount</u>
2013	2	\$20,446.69	\$20,514.72
2014	2	20,236.67	24,743.49
2015	1	29,093.68	

Indiana Code 12-20-5.5-1 states:

"(a) The township trustee shall process all applications for township assistance according to uniform written standards and without consideration of the race, creed, nationality, or gender of the applicant or any member of the applicant's household.

"(b) The township's standards for the issuance of township assistance and the processing of applications must be:

- (1) governed by the requirements of this article;
- (2) proposed by the township trustee, adopted by the township board, and filed with the board of county commissioners;
- (3) reviewed and updated annually to reflect changes in the cost of basic necessities in the township and changes in the law;
- (4) published in a single written document, including addenda attached to the document; and
- (5) posted in a place prominently visible to the public in all offices of the township trustee where township assistance applications are taken or processed."

RECEIPTS

Internal Controls Over Receipts - Wicker Park

One individual was primarily responsible for preparing a summary of the receipts issued, preparing the shelter rental contracts, preparing the bank deposit and taking the collections to the bank. This individual would provide the Township Administration Office the duplicate deposit ticket, the summary of the receipts issued, and the bank receipt. The Township Administration did not have policies or procedures in place to ensure or verify park shelter collections submitted to the Township Administration for recording in the financial accounting system agreed to the receipts issued or to the contracts.

Cemetery Receipts

The Township Cemetery did not use the Official Township Receipt Form No. 16 or an approved receipt when issuing receipts. The Township purchased commercial receipt and plot software for the cemetery. The commercial receipts were not prenumbered, so we were unable to account for all receipts issued.

NORTH TOWNSHIP, LAKE COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

Receipt Issuance

Receipts were not issued when collections were received, instead they were issued after collections were deposited.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

The Township Trustee's Receipt (Form 16-1997) is to be used for receipt of each item of money received. Indicate in the space "On Account Of" the fund or funds to which the receipt is to be posted and identify the receipt, such as Dog Tax, Tax Distribution, Fire Protection Agreement, Temporary Loan, Bank Loan for Equipment, etc. Give the original to the payor, and retain all duplicates in the bound record. Payment amount for cash, check, money order, credit card/bank card, EFT, and other shall be designated on each receipt. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

CONTRACTED SERVICES

The Township employs security officers for their Hammond and East Chicago offices. The Township did not contract for the services, but had the security officers complete an employment application. The security officers submitted timesheets on a biweekly basis, but they were paid as contractors. Federal and state taxes were not withheld or remitted for these individuals. Under the guidelines of the Internal Revenue Service, these individuals would be considered employees of the Township. The total payments made to the security officers for each year were as follows:

<u>Years</u>	<u>Total Payments Made To Vendors for Security</u>	
2011	\$	105,650.00
2012		99,870.00
2013		118,764.28

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 17)

NORTH TOWNSHIP, LAKE COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

IRS Publication 15, Part 2, states in part:

"Employee status under common law. Generally, a worker who performs services for you is your employee if you have the right to control what will be done and how it will be done. This is so even when you give the employee freedom of action. What matters is that you have the right to control the details of how the services are performed . . . If an employer employee relationship exists, it does not matter what it is called. The employee may be called an agent or independent contractor. It also does not matter how payments are measured or paid, what they are called, or if the employee works full or part time."

"Treating employees as nonemployees. You will generally be liable for social security and Medicare taxes and withheld income tax if you do not deduct and withhold these taxes because you treated an employee as a nonemployee. You may be able to calculate your liability using special section 3509 rates for the employee share of social security and Medicare taxes and the federal income tax withholding. The applicable rates depend on whether you filed required Forms 1099. You cannot recover the employee share of social security, or Medicare tax, or income tax withholding from the employee if the tax is paid under section 3509. You are liable for the income tax withholding regardless of whether the employee paid income tax on the wages. You continue to owe the full employer share of social security and Medicare taxes. The employee remains liable for the employee share of social security and Medicare taxes. See Internal Revenue Code section 3509 for details. Also see the Instructions for Form 941-X."

CREDIT CARDS

The Township used credit cards to purchase items without an approved credit card policy. During the review period, the Township disbursed the following amounts for credit cards payments:

<u>Years</u>	<u>Amount</u>
2011	\$43,717.95
2012	41,744.92
2013	49,989.39

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.

NORTH TOWNSHIP, LAKE COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

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 Townships, Chapter 13)

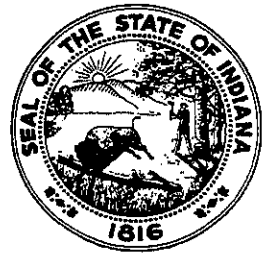
PENALTIES, INTEREST, AND OTHER CHARGES

The Township paid penalties, interest, and other charges to a credit card company in the amounts of \$89.06 in 2011 and \$30.98 in 2012, respectively, because the Township did not remit payments on a timely basis. Subsequent to the examination, a repayment of late charges was made to the Township on December 16, 2015.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit. Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

FRANK J. MRVAN

NORTH TOWNSHIP TRUSTEE



LAKE COUNTY
INDIANA

(MAIN OFFICE)
5947 Hohman Ave.
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46320

(219) 932-2530
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East Chicago, IN
46312

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January 6, 2016

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

Re: OFFICIAL RESPONSE

Dear State Board of Accounts:

The purpose of this letter is to respond to the Examination and Audit observations and comments found in the Examination and Audit Reports covering periods January 1, 2011- December 31, 2013 and January 1, 2014 –December 31, 2014.

Payroll Issues

Additional detail has been added to the reporting of longevity pay in accordance with the Salary Resolution. Also, the proper apportioning of administrative employee pay among the various funds according to the employees' duties is being currently addressed. Administrative employees will be paid appropriately pursuant to I.C. 36-6-6-10(b) and I.C. 12-20-4-3 for all future reporting periods. Compensation is being made in a manner that facilitates compliance with both the state and federal reporting requirements as set forth in the Accounting and Uniform Compliance Guidelines Manual for Townships, chapter 17.

Township Assistance

Township assistance eligibility standards have been updated and their approval is anticipated pursuant to I.C. 12-20-5.5-1. Furthermore, immediate remedial action, including termination of the employee responsible for the issuance of unauthorized aid outside the standards established by I.C. 12-20-5-1, et seq., has been taken. Internal controls have been modified to address and prohibit assistance from being given outside the constraints of the standards when it is not warranted. A large portion of the reported \$181,789.37 in assistance given to clients who exceeded the Township eligibility standards was authorized as a result of emergent client situations that were investigated by the Township with the decision being made to give the assistance on a temporary/emergency basis in accordance with I.C. 12-20-17-1, et seq.

Receipts

A new computer system has been implemented in Wicker Park for recording shelter rental contracts, deposits and collections. Duties have been segregated and internal controls have been put in place with appropriate policies and procedures to allow for appropriate monitoring to verify that park shelter collections submitted to the

Township are recorded in an appropriate manner and reconciled with receipts issued or contracts executed. The Township Cemetery is using official township receipt form number 16 when issuing receipts.

Contracted Services

Contracts are being drafted for security officers who are hired on an independent contractor basis to provide appropriate security for township employees.

Credit Cards

A credit card policy was approved by the Township Board and is in place providing for appropriate internal controls of credit card use.

Penalties and Interest

Frank Mrvan Jr. personally indemnified the Township for penalties, interest and other charges incurred due to untimely payments. The amounts were de minimis.

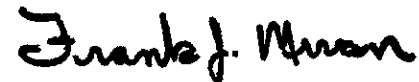
Public Purchases

An appropriate purchasing policy is being prepared and will be implemented in compliance with I.C. 5-22-8-3.

Information Technology

Deficiencies in the information technology control system identified are being addressed with the software provider so that appropriate error correction audit trails are maintained. If the software provider cannot correct the audit trail problem, new software with appropriate error correction audit trails will be acquired and implemented.

Sincerely Yours,



Frank J. Mrvan.

NORTH TOWNSHIP, LAKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on December 16, 2015, with Frank J. Mrvan, Trustee; Richard Novak, Chairman of the Township Board; Lisa Salinas-Matonovich, Board member; Lori Polgar, Director of Operations; Douglas Walker, Legal Counsel; Barbara Caldwell, Consultant; and Jim Bennett, Financial Consultant.