

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF CROWN POINT

LAKE COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED
12/11/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kristie L. Dressel	01-01-16 to 12-31-17
Mayor	David D. F. Uran	01-01-16 to 12-31-17
President of the Board of Public Works	David D. F. Uran	01-01-16 to 12-31-17
President Pro Tempore of the Common Council	Laura Sauerman	01-01-16 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF CROWN POINT, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Crown Point (City), for the period from January 1, 2016 to December 31, 2016. 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 City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Finding, identified in the above referenced audit report, is included in this report and should be viewed in conjunction with the Audit Result and Comment 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 Result and Comment contained herein describes the identified reportable instance 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 Finding and Official Response to the Audit Result and Comment, incorporated within this report, were not verified for accuracy.

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

October 31, 2017

CLERK-TREASURER
CITY OF CROWN POINT
FEDERAL FINDING

FINDING 2016-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a partial repeat of Finding 2015-001 from the immediate prior year.

Condition

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

Receipts

1. The City did not have controls in place to ensure that all collections were properly receipted or tracked, or that adjustments were properly approved. No one reviewed detail cash register tapes and/or handwritten receipts and utility billing stubs to ensure that all transaction numbers were accounted for on the register tapes, receipts, and utility billing stubs. Multiple employees used the same cash register to enter transactions. Voids or errors in entering collections into the cash register were corrected by the same employee who entered the transaction without oversight or review. Voided receipts were not retained or provided for audit. The registers used by the City did not have the capability to separately identify which employee entered a transaction.
2. Park receipts were written and deposited by a single individual without documentation of control.

Customer Account Adjustments

The City had not established controls for adjustments posted to utility customer accounts.

Reporting

The Utilities' records were maintained on the accrual basis. An employee prepared an excel spreadsheet to compile the Utility disbursement information on the cash basis to prepare the Annual Report and the financial statement. The City had not established controls to detect errors.

Context

The lack of internal controls was a systemic problem throughout the audit period.

CLERK-TREASURER
CITY OF CROWN POINT
FEDERAL FINDING
(Continued)

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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities. . . .

- Accurate and timely recording of transactions. . . ."

Cause

Management of the City had not established a proper system of internal controls.

Effect

The failure to establish and properly implement controls could have enabled material misstatements or irregularities to remain undetected.

Recommendation

We recommended that the City establish a system of internal controls to ensure that financial transactions are properly recorded and reviewed for accuracy, and that reporting is accurate.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Kristie L. Dressel

Contact Phone Number: 219-662-3235

Views of Responsible Official:

Description of Corrective Action Plan:

Internal Controls

1. Receipts and Adjustments. The city did have controls in place to ensure that all collections were properly receipted or tracked, or that adjustments were properly approved. I did have internal controls in place and assigned each department a Department Head. Each Department Head was to review detailed cash register tapes, receipts and utility billing stubs. Each Department Head for Accounts Receivable, Billing and Bookkeeping were to get approval from the Clerk-Treasurer before any voids or errors in entering collections into the cash register. Voided receipts were to be retained or provided for audit. I had put the internal controls in place in August, 2016. We noticed with the 2017 testing of internal controls that the supervisors were not following the internal controls and this was cause for some concern. The reports indicates the absence of compliance procedures for receipt and deposits of collections in the Clerk-Treasurer's Office. In fact, there were written compliance procedures in place at all relevant times which had been enacted by ordinance and discussed with affected employees, and who had been instructed regarding compliance therewith. These compliance procedures were put in place in early 2016 and later in 2016.

In the beginning of 2017 I tested our internal controls and we failed due to the fact that the Department Heads of Accounts Receivable and Billing were not following direction or internal control procedures that were set up.

We noticed receipts and collections were not being receipted in or tracked and adjustments were being authorized that were not approved by the Clerk-Treasurer. The Department Head was not reviewing register tapes or the number sequence out of place. Voids and errors were not being monitored and the Department Heads were not following the written directives. No voided receipts were being copied or kept for record. As I tested internal controls, we noticed a breach in our Accounts Receivable Department. The Department Head retired within a week of the breach of internal controls. In May 2017 I call SBOA to do a special audit because I believed there was a serious situation and money was not being accounted for. Going forward, by end of 2017 - early 2018, new software will be in place and new cash registers will be installed. New procedures will be in place to detect the skipping of numbers. We have also put in place a procedure to ensure none of the receipts will be out of sequence. Each employee is assigned their own cash drawer. Also, any cash register errors or changes are to be approved by two employees or the Department Head.

2. Park Receipts. The Park receipts were brought over by the Park Administrator who verified the amount. Our clerk would receipt it in and re-verify the amount. Going forward from October 31, 2017, a form will be signed and dated by the Park Administrator and two Deputy Clerks verifying the Parks deposit. This record will be held at the Clerk-Treasurer's Office for SBOA audit review.

Adjustments to Utility Accounts.

There was a process and internal controls put in place at the end of 2016. The process was the Department Head of Billing was to have my initials on every adjustment posted to utility customer accounts. As we tested the internal controls set in place, I found these procedures were not being followed by the Department Head and I called for a special audit in May of 2017. We also found that the Department Head for Accounts Receivable had access to adjusting accounts and receipt in money which was not approved by me. The Department Head for Billing resigned within a few weeks of the breach of our

internal controls. We have and had in place a written procedure that all adjustments are to come from the Clerk-Treasurer per ordinance, all adjustments are to be initialed and records are to be kept for each adjustment. Each resident has to provide a written letter stating why they want an adjustment.

Reporting.

Monthly financial statements and year end data are reviewed by the bookkeeping clerk and sent to our financial advisors for review. Going forward, starting September 1, 2017, we will have two clerks from Bookkeeping review the financial statements along with our financial advisor to be in compliance with SBOA.

Anticipated Completion Date: December, 2017

Kirsten S. Dussel

Signature

Clerk-Treasurer

10 - 30 - 17

Date

CLERK-TREASURER
CITY OF CROWN POINT
EXIT CONFERENCE

The contents of this report were discussed on October 31, 2017, with Kristie L. Dressel, Clerk-Treasurer; David D. F. Uran, Mayor; Laura Sauerman, President Pro Tempore of the Common Council; Jennie Burgess, Park Administrator; and Greg Falkowski, Chief of Staff.

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REDEVELOPMENT COMMISSION
CITY OF CROWN POINT

REDEVELOPMENT COMMISSION
CITY OF CROWN POINT
AUDIT RESULT AND COMMENT

REDEVELOPMENT COMMISSION GENERAL FUND AND TIF ALLOCATION AREAS

The establishment of a Redevelopment General Fund is authorized by Indiana Code 36-7-14-28(c).

A Redevelopment Commission has the duties set forth in Indiana Code 36-7-14-11, which provides for the investigation, selection, acquisition, development, and disposal of property in "areas needing redevelopment." The powers granted to a Redevelopment Commission in Indiana Code 36-7-14-12.2 allow the commission to develop property in the areas needing redevelopment and to carry out other activities "for redevelopment purposes." "Redevelopment" includes activities contained in Indiana Code 36-7-1-18.

Tax Increment Financing (TIF) distributions received for each TIF allocation area are to be receipted into an allocation fund for that specific allocation area per Indiana Code 36-7-14-39(b)(3). The City, however, receipted all TIF distributions into the C.P. Redevelopment Fund in 2016.

The main sources of revenue for the C. P. Redevelopment Fund in 2016 were from TIF distributions for the I-65 Allocation Area of \$2,086,710, the TIF distributions for the Sportsplex Allocation Area of \$8,639, Indiana Department of Transportation grant reimbursements accounted for \$649,052 and the remaining receipts were from donations, and adjustments and refunds accounting for \$488,520.

Because the City had not created and posted TIF distributions received into separate allocation area funds as required by the Indiana Code, compliance with the restricted uses authorized in Indiana Code 36-7-14-39(b)(3) could not be verified.

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:

(A) Pay the principal of and interest on any obligations payable solely from allocated tax proceeds which are incurred by the redevelopment district for the purpose of financing or refinancing the redevelopment of that allocation area.

(B) Establish, augment, or restore the debt service reserve for bonds payable solely or in part from allocated tax proceeds in that allocation area.

(C) Pay the principal of and interest on bonds payable from allocated tax proceeds in that allocation area and from the special tax levied under section 27 of this chapter.

(D) Pay the principal of and interest on bonds issued by the unit to pay for local public improvements that are physically located in or physically connected to that allocation area.

(E) Pay premiums on the redemption before maturity of bonds payable solely or in part from allocated tax proceeds in that allocation area.

(F) Make payments on leases payable from allocated tax proceeds in that allocation area under section 25.2 of this chapter.

REDEVELOPMENT COMMISSION
CITY OF CROWN POINT
AUDIT RESULT AND COMMENT
(Continued)

(G) Reimburse the unit for expenditures made by it for local public improvements (which include buildings, parking facilities, and other items described in section 25.1(a) of this chapter) that are physically located in or physically connected to that allocation area.

(H) Reimburse the unit for rentals paid by it for a building or parking facility that is physically located in or physically connected to that allocation area under any lease entered into under IC 36-1-10.

(I) For property taxes first due and payable before January 1, 2009, pay all or a part of a property tax replacement credit to taxpayers in an allocation area as determined by the redevelopment commission. This credit equals the amount determined under the following STEPS for each taxpayer in a taxing district (as defined in IC 6-1.1-1-20) that contains all or part of the allocation area: . . .

(J) Pay expenses incurred by the redevelopment commission for local public improvements that are in the allocation area or serving the allocation area. Public improvements include buildings, parking facilities, and other items described in section 25.1(a) of this chapter.

(K) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located:

- (i) in the allocation area; and
- (ii) on a parcel of real property that has been classified as industrial property under the rules of the department of local government finance. . . .

(L) Pay the costs of carrying out an eligible efficiency project (as defined in IC 36-9-41-1.5) within the unit that established the redevelopment commission. However, property tax proceeds may be used under this clause to pay the costs of carrying out an eligible efficiency project only if those property tax proceeds exceed the amount necessary to do the following: . . .

The allocation fund may not be used for operating expenses of the commission."

The uses of TIF funds are restricted to those set forth in the Indiana Code. The power of a redevelopment commission to expend such funds is limited to the express statutory powers as set forth in Indiana Code 36-7-14. The use of TIF funds for ongoing maintenance of redeveloped property is not an expressly or impliedly permitted use, except as provided in Indiana Code 36-7-1-18(7) for repairing and maintaining buildings acquired before redevelopment is complete. (Redevelopment Commission of the Town of Munster, Indiana, v. Indiana State Board of Accounts and Paul D. Joyce, State Examiner of State Board of Accounts, 28 N.E.3d 272 (Ind. App., 2015) trans. denied, 34 N.E.3d 251)

A similar comment also appeared in prior Reports B46900 and B46902, entitled *REDEVELOPMENT COMMISSION GENERAL FUND AND TIF ALLOCATION AREA*.



CITY OF CROWN POINT

LEGAL DEPARTMENT

David D.F. Uran
Mayor

David H. Nicholls
City Attorney

OFFICIAL RESPONSE

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

Attn: Paul Joyce,

During the State Board of Accounts cordial Exit Conference conducted on October 31, 2017 with the Mayor, the Clerk/Treasurer and others, written Results and Comments were delivered to the City regarding issues discovered during the Audit for FY 2016.

One of the comments was entitled "Redevelopment Commission City of Crown Point Audit Results and Comments".

It is to this section of Audit results I respectfully respond as Attorney for the Redevelopment Commission.

Immediately upon being made aware of the comments on November 1, 2017 of the document I reviewed and requested a review of the comments by our various advisors concerned with financial matters. Financial Solutions Group, Inc. and Ice Miller, LLP were supplied with copies of the Results and Comments. After much study, research and conversation regarding the SBOA's results and comments it was determined, that

The results portion of the SBOA report as to a factual recantation of occurrences during FY 2016 of the actions taken by the Clerk/Treasurer's office have rightfully caused the SBOA and the City some concern. That determination being made the RDC, City, will undertake a corrective action plan with the aid of our advisors, as indicated above, within the next six (6) months to bring the City into statutory compliance with those various sections of the statute as cited in the SBOA report.

After the corrective action plan has been completed by the City it will so notify the SBOA of that fact.

While there may be some matters that have caused the SBOA to comment upon; the City respectfully "agrees to disagree", as stated by the Mayor in the Exit Conference. But, moving forward we hope in a spirit of openness and transparency to resolve those remaining issues also and to maintain a solid foundation with the SBOA as the City advances and continues to be an example of one of the great growing cities of Indiana and the Hub of Lake County.

Sincerely,

David H. Nicholls
Indiana Attorney No. 9624-45

11-13-17

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REDEVELOPMENT COMMISSION
CITY OF CROWN POINT
EXIT CONFERENCE

The contents of this report were discussed on October 31, 2017, with Kristie L. Dressel, Clerk-Treasurer; David D. F. Uran, Mayor; Laura Sauerman, President Pro Tempore of the Common Council; Andrew Kyres, President of the Redevelopment Commission; and Greg Falkowski, Chief of Staff.