

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF CEDAR LAKE

LAKE COUNTY, INDIANA

January 1, 2014 to December 31, 2016



FILED
12/14/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Amy J. Gross	01-01-12 to 12-31-19
President of the Town Council	Randell Niemeyer	01-01-14 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE TOWN OF CEDAR LAKE, LAKE COUNTY, INDIANA

This report is supplemental to our examination report of the Town of Cedar Lake (Town), for the period from January 1, 2014 to December 31, 2016. It has been provided as a separate report so that the reader may easily identify any Examination Result and Comment that pertains to the Town. It should be read in conjunction with our Financial Statements Examination Report of the Town, which provides our opinion on the Town'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 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 Official Response to the Examination Result and Comment, incorporated within this report, was not verified for accuracy.

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

December 13, 2017

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CLERK TREASURER
TOWN OF CEDAR LAKE

CLERK TREASURER
TOWN OF CEDAR LAKE
EXAMINATION RESULT AND COMMENT

INTERNAL CONTROLS

A similar comment appeared in prior Report B45166, entitled *FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING*.

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not separated incompatible activities related to all areas of the financial statements. The failure to establish these controls enabled material misstatements to occur and go undetected.

Financial Statements

The Clerk-Treasurer prepared the financial statements; however, there was no evidence of an oversight, review, or approval process to ensure that the financial statements were accurate. Furthermore, a comparison of the reconciled cash and investment balances to the reported cash and investment balances was not made.

The Town maintained computerized ledgers on a modified accrual basis, but prepared the financial statements on the regulatory basis of accounting. The financial statements were prepared using a cash summary report from computerized accounting software. This report excluded certain entries such as voided checks that were receipted back, and other corrections to posted activities. However, documentation to support the excluded activities, except for the voided checks, was not provided. Excluded transactions for 2014, 2015, and 2016 totaled \$905,505, \$474,181, and \$4,823,749, respectively.

Investments were purchased based on total monies on deposit. Upon purchase, investment funds were established with negative cash balances, and positive investment balances in the principal amounts of the investments; thus, the total cash and investment balances of these funds accounted for the accumulated interest earned on the investments. In 2016, the investment balances at January 1, excluding the negative cash balances were reported which overstated the cash and investment balances of the investment funds by \$2,900,000.

The revenue and expenditure classifications within a fund could not be substantiated to the cash receipts or disbursements due to collections, which were posted as negative expenditures.

Receipts

The Town implemented controls over receipts by segregating the duties of the employees performing key functions that included preparing the reports of collections, reconciling the collection reports, preparing the deposit slip, and taking the deposit to the bank. However, the documentation of the controls was performed by the Utility Manager. The Utility Manager then entered the initials of the employee who performed the functions on each of the respective reports.

CLERK TREASURER
TOWN OF CEDAR LAKE
EXAMINATION RESULT AND COMMENT
(Continued)

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. . . ."

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 Manual for Cities and Towns, Chapter 1)

Town of Cedar Lake

Office of the Clerk-Treasurer

7408 Constitution Ave – PO Box 707 – Cedar Lake, IN 46303

Tel (219) 374-7000 – Fax (219) 374-8588



December 13, 2017

Paul Joyce, CPA
State Examiner
State Board of Accounts
302 Washington St., Room E418
Indianapolis, Indiana 46204-2765

This letter is in response to the Supplement Compliance Report for the period of January 1, 2014 to December 31, 2016. Thank you for bringing the following matters to our attention so we may continue reviewing our procedures for improved internal controls.

Financial Statements

The Clerk-Treasurer will assign one or two clerks to be instructed on the Annual Financial Report (AFR) that is submitted through the Gateway portal to the State of Indiana. This instruction will consist of retrieving the proper data from the existing software program, ascertaining the appropriate reports for data entry, entering the data, confirming the entries, and submitting the report. There are two reports that can be retrieved for the AFR in the program; cash summary and financial statement. The cash summary reflects debits and credits while the financial statement generates the receipts and disbursements for the modified accrual application. This does cause a cumbersome task for the AFR. We will further examine our software for compliance to the reporting requirements, and if necessary, contact our financial advisor for the best outcome. This improvement will begin with the Y2017 Annual Financial Report after January 1, 2018. We will also correct any items that were noted during the examination to the previously-submitted reports. This will occur by the end of December 31, 2017.

Receipts

The Utility Manager will be instructed to segregate the responsibilities as defined in the examination. This directive will be effective immediately.

Signed: *Andy J. Gross*

Title: CLERK-TREASURER

Date: 12-13-2017

Signed: _____

Title: _____

Date: _____

CLERK TREASURER
TOWN OF CEDAR LAKE
EXIT CONFERENCE

The contents of this report were discussed on December 13, 2017, with Amy J. Gross, Clerk-Treasurer; Jill Murr, Town Administrator; Ralph Miller, Town Council member; Richard Sharpe, Town Council member; and Robert Carnahn, Town Council member.