

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF NORTH LIBERTY

ST. JOSEPH COUNTY, INDIANA

January 1, 2013 to December 31, 2016



FILED
04/06/2018

TABLE OF CONTENTS

| <u>Description</u> | <u>Page</u> |
|-----------------------------------|-------------|
| Schedule of Officials | 2 |
| Transmittal Letter | 3 |
| Clerk-Treasurer: | |
| Examination Results and Comments: | |
| Overdrawn Cash Balances | 6 |
| Internal Controls | 6-8 |
| Official Response..... | 9 |
| Exit Conference | 10 |

SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|----------------------------------|--|
| Clerk-Treasurer | Vicki L. Kitchen | 01-01-12 to 12-31-19 |
| President of the Town Council | Jayson Kincaid Gerry E. Brown | 01-01-13 to 12-31-13 01-01-14 to 12-31-18 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF NORTH LIBERTY, ST. JOSEPH COUNTY, INDIANA

This report is supplemental to our examination report of the Town of North Liberty (Town), for the period from January 1, 2013 to December 31, 2016. It has been provided as a separate report so that the reader may easily identify any Examination Results and Comments that pertain 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 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

February 21, 2018

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CLERK-TREASURER
TOWN OF NORTH LIBERTY

CLERK-TREASURER
TOWN OF NORTH LIBERTY
EXAMINATION RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statements presented in the Financial Statements Examination Report of the Town included the following funds with overdrawn cash balances at December 31, 2013, 2014, 2015, and 2016:

| Fund | Amount Overdrawn as of December 31 | | | |
|---------------------------|------------------------------------|-------|--------|--------|
| | 2013 | 2014 | 2015 | 2016 |
| General Obligation Bonds | \$ 446 | \$ - | \$ - | \$ - |
| Recycling | 15,606 | - | - | - |
| INDOT T/E | - | 3,463 | 3,606 | 3,463 |
| INDOT Tamarack Trail | - | - | 19,261 | 16,617 |
| INDOT School Trail | - | - | 11,801 | 56,974 |
| LOIT Special Distribution | - | - | - | 19,823 |
| WW Constructions | - | - | 3,750 | 3,750 |

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

INTERNAL CONTROLS

A similar comment also appeared in prior Report B43807 entitled, *FINDING 2012-001- 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 remain undetected.

Financial Statements and Bank Reconcilements

The Clerk-Treasurer prepared and submitted the financial information into the Gateway for Government Units financial reporting system, which is the source of the Annual Financial Report (AFR) and the financial statements. There was no evidence of an oversight, review, or approval process to ensure that information, and, therefore, the AFR and financial statements, were accurate prior to submission.

The Town had not established controls to ensure that reconciled cash and investment balances agreed to the Cash and Investment Balances reported in the financial statements. The Town had not been able to reconcile depository Cash and Investment Balances to their financial records since new accounting software was implemented in 2011. The record balances exceeded the depository balances at December 31, 2013, 2014, 2015, and 2016, by \$9,571, \$9,740, \$39,524, and \$31,696, respectively.

Receipts and Disbursements

Corrections and adjustments were made to the Town's ledger by the accounting software company in April 2013 without evidence of review or approval by Town officials. We were not able to determine the amounts of the adjustments made by the software company.

CLERK-TREASURER
TOWN OF NORTH LIBERTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

The Town backdated \$1,009,250 of receipts in the accounting software in 2015. One backdated receipt of \$399,250 from December, 2015, was a duplicate receipt, which was not corrected until February 2016. The Town also backdated \$31,801 of receipts in 2016.

There were \$279,214 in State Revolving Loans Fund grant receipts electronically deposited in 2016, but not recorded in the Town's ledger until September 2017. Additionally, there were \$324,650 in grant receipts in 2016 that were not recorded or reported.

The Town's accounting software allowed receipts, disbursements, and correcting entries of \$207,500, \$409,475, and \$194,500, respectively, to be recorded to a fund that was closed. A \$7,475 disbursement was not included in the AFR or financial statements. These entries were not included in reports given to the Town Council for approval.

Adjusting entries were proposed, approved by the Town, and made to the financial statements.

The Town issued refunds to customers from the Wastewater Deposit and Water Meter Deposit funds. The individual disbursements (checks) were made to the applicable customer, but the vendor listed in the records and on the Register of Claims approved by the Town Council did not agree. The Town recorded those disbursements under two separate vendors in the software.

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. . . ."

"Control activities are designed to support the completeness, accuracy, and validity of information processing by technology. . . ."

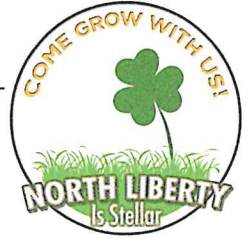
"Audit Trails allow for sufficient documentation to trace all transactions from the original source of entry into the system, through all system process, and to the results produced by the system."

CLERK-TREASURER
TOWN OF NORTH LIBERTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

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)

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TOWN OF NORTH LIBERTY



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February 28, 2018

State Board of Accounts
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Re: OFFICIAL RESPONSE TO EXAMINATION RESULTS AND COMMENTS

OVERDRAWN BALANCES:

General Obligation Bonds due to shortfall of property tax collections and receipt of funds.

Recycling a temporary loan should have been done between funds. The deficit is due to a hazardous waste disposal that exceeded expectations with old tv conversions to flat screens.

INDOT GRANT FUNDS:

The grant funds are reimbursable. All projects ran over budget in engineering and construction. The time frame from grant award to construction and audit is five to six years. Additional requirements of geo tech professional services were added as a requirement by INDOT but no additional funds were allocated.

SPECIAL LOIT FUND/INDOT COMMUNITY CROSSINGS:

Used as a reimbursable grant fund. Reimbursement from the State was received in February, 2017. Reimbursement back to INDOT for bids coming in under budget were returned in July, 2017.

INTERNAL CONTROLS:

The Internal Control Policy is being reviewed and revised for additional controls. An additional employee hired in 2016 and software conversion (training started January, 2017 and not completed until January, 2018) have changed the process.

UTILITY DEPOSITS:

The Utility Deposits have been corrected in the new software.

Vicki L. Kitchen
Clerk-Treasurer
Town of North Liberty

CLERK-TREASURER
TOWN OF NORTH LIBERTY
EXIT CONFERENCE

The contents of this report were discussed on February 21, 2018, with Vicki L. Kitchen, Clerk-Treasurer, and Gerry E. Brown, President of the Town Council.