

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF CHESTERTON

PORTER COUNTY, INDIANA

January 1, 2015 to December 31, 2017



FILED
06/01/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Internal Controls	6-7
Condition of Records.....	7-10
Electronic Audit Trail	10
Official Response.....	11
Exit Conference	12

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Stephanie Kuziela	01-01-15 to 12-31-18
President of the Town Council	Sharon Darnell Emerson Delaney James Ton Lloyd Kittredge	01-01-15 to 12-31-15 01-01-16 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18
Superintendent of Wastewater Utility	Terry Atherton David Ryan	01-01-15 to 06-25-15 06-26-15 to 12-31-18
Superintendent of Storm Water Utility	Mark O'Dell	01-01-15 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE TOWN OF CHESTERTON, PORTER COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Chesterton (Town), for the period from January 1, 2015 to December 31, 2017. 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 our Financial Statements Audit 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 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.

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

May 7, 2018

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CLERK-TREASURER
TOWN OF CHESTERTON

CLERK-TREASURER
TOWN OF CHESTERTON
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

A similar comment appeared in prior Report B45748, entitled *FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING*.

There were deficiencies in the internal control system for the Town related to Financial Transactions and Reporting. The Town had not separated incompatible activities related to Cash and Investments, Receipts, Vendor Disbursements, Payroll Disbursements and Financial Reporting.

Cash and Investments

Controls had not been developed to ensure that all bank accounts were reconciled, and that all bank accounts held in the name of the Town were recorded in the financial records of the Town.

Receipts

Effective controls had not been developed over the journal entry process. Journal entries recorded by the Clerk-Treasurer or the Deputy Clerk-Treasurer were to be reviewed by the party who did not record the transaction. This control was not consistently documented or implemented. There were journal entries that did not have evidence of a review.

Utility receipts were recorded to the accounting system at the time customer paid the bill; however, internal controls were not in place to ensure that the Utility collections were recorded to the correct fund.

Disbursements - Vendor

Departments prepared and approved accounts payable registers, which included vendor invoices submitted to the Accounts Payable Clerk for processing. However, the Accounts Payable Clerk was able to edit and add transactions to the Accounts Payable register without department head approval.

Disbursements - Payroll

Pay rates were entered into the payroll system by the Deputy Clerk-Treasurer. The Clerk-Treasurer performed spot-checks of employees' pay rates, but did not document this review.

Financial Reporting

The Town did not have a system of internal controls in place to prevent, or detect and correct, errors in the preparation of the financial statements. The Clerk-Treasurer entered the financial information into the Indiana Gateway for Government Units (Gateway) financial reporting system, and the Deputy Clerk-Treasurer reviewed the information entered; however, comparisons were not made to reconciled bank account balances to ensure that all activity was included.

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:

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

"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. . . ."

CONDITION OF RECORDS

A similar comment also appeared in prior Report B45748, entitled *FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING*.

The Clerk-Treasurer was responsible for maintaining ledgers, and recording the activities of all Town funds in those ledgers. The Clerk-Treasurer was also responsible for reporting all of the financial information for the Town in the Gateway financial reporting system, which was the source of the Town's financial statements. There were errors and omissions in the financial information entered in Gateway and the resulting financial statements as follows:

1. The cash and investment balance for the Fire Pension fund excluded a \$110,000 investment as of December 31, 2015.
2. The ledgers excluded the financial activity of the State Revolving Fund (SRF) loan funds. The financial activities of the SRF loan funds were accounted for in trust bank accounts.
3. The financial activity for the SRF loan funds, which included SRF Equity, SRF Construction, Debt Reserve SRF, Fox Chase SRF 2015A, and Fox Chase SRF 2015B funds, reported in the financial statements was not reflective of the actual activity. The following adjustments to the reported cash and investment balances, receipts, and disbursements were necessary:

Adjustments to Reported Cash and Investments			
Fund	01-01-15	01-01-16	01-01-17
SRF Equity	\$ (353,393)	\$ (244,823)	\$ (39,514)
SRF Construction	-	(1,914,532)	(51,424)
SRF Debt Reserve	-	116,152	244,915
Fox Chase SRF 2015A	-	(934,888)	(60,651)
Fox Chase SRF 2015B	-	(10,031)	-

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

Adjustments to Reported Receipts			
Fund	2015	2016	2017
SRF Equity	\$ 149,991	\$ 205,309	\$ 39,514
SRF Construction	221	1,280	3,155
Debt Reserve SRF	116,152	128,763	145,133
Fox Chase SRF 2015A	(1,289,873)	1,229,221	-
Fox Chase SRF 2015B	(10,031)	10,031	-

Adjustments to Reported Disbursements			
Fund	2015	2016	2017
SRF Equity	\$ 41,421	\$ -	\$ -
SRF Construction	1,914,753	(75,802)	(79,357)
Fox Chase SRF 2015A	(354,985)	361,606	(60,651)

4. The receipts and disbursements reported in the financial statements for the Wastewater Utility- Operating fund did not agree with the financial records. The differences were as follows:

Fund	2015	2016	2017
Wastewater Utility- Operating			
Receipts	\$ 492,189	\$ (691)	\$ 357,514
Disbursements	1,496,131	(17,085)	338,282

5. The receipts and/or disbursements reported in the financial statements for the Wastewater Utility- Bond and Interest, Wastewater Utility- Deprec/Improv, and Wastewater Utility- Customer Deposit funds did not agree with the financial records. The differences were as follows:

Fund	Receipts	Disbursements
Wastewater Util- Bpond and Interest	\$ -	\$ 3,428
Wastewater Utility- Deprec/Imrpove	70,312	2,493
Wastewater Utility- Customer Deposit	(12,357)	(13,697)

6. The reconciled bank balances at the end of each year did not agree to the cash and investments balance reported in the financial statements as follows:

Year End	Reconciled Bank Balance	Reported Cash and Investments	Cash Long
December 31, 2015	\$ 13,727,084	\$ 13,568,321	\$ 158,763
December 31, 2016	15,234,419	15,140,180	94,239
December 31, 2017	15,905,993	15,811,751	94,242

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

Audit adjustments were proposed, accepted by the Clerk-Treasurer, and made to the financial statements.

The Town also did not always reconcile its depository balances to its financial records timely or accurately.

1. The Town carried "outstanding deposits" on the bank reconcilements which did not clear the bank in the following month. These accumulated "outstanding deposits" totaling \$274,292 as of December 31, 2017, consisted of journal entry adjustments improperly recorded as receipts for such items as forgiving late fees, and other adjustments to customer accounts. Some of these "outstanding deposits" date back to July 13, 2013.
2. The bank account for the Health Insurance fund was not reconciled as of December 31, 2017. The bank balance per the bank statement at December 31, 2017, was \$117,374. The Health Insurance fund reported cash and investment balance was \$118,674.
3. The bank reconcilements for the Kat Escrow and Dickenson Road Escrow funds were not performed in a timely manner. The bank reconcilements for the Kat Escrow for 2015 and 2016 were completed in December 2016. The bank reconcilements for the Dickinson Road Escrow fund for 2015 and half of 2016 were completed in October 2016 and the reconcilements for September to December were completed in March 2017, when the account was closed.

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)

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

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 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)

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

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ELECTRONIC AUDIT TRAIL

A similar comment appeared in prior Report B45748, entitled *FINDING 2014-004 - ELECTRONIC AUDIT TRAIL*.

We noted deficiencies in the Town's computerized accounting system related to electronic audit trails. The computer software allowed users to enter disbursements by electronic transfer of funds (DFT). The computer software automatically assigned sequential numbers to each DFT. However, according to the vendor, if the DFT software was opened by the user but a disbursement was not recorded, the system assigned that non-disbursement a DFT number. When a DFT number was assigned without a corresponding disbursement, users could not produce any type of documentation to account for or support that the DFT number did not have an amount associated with it.

The Town paid vendors and employees by DFT. Most of the payroll deductions were remitted by DFT. Numerous DFT numbers were generated by the system, but officials could not locate any documents to support that some DFT numbers were not used.

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.

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Town of
Chesterton
INDIANA

Office of the Clerk-Treasurer

May 17, 2018

OFFICIAL RESPONSE

Via Email (ldavid@sboa.in.gov)

State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, IN 46204

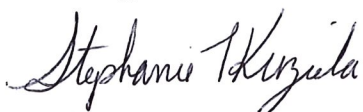
RE: Town of Chesterton Response to 2015-2017 Examination Results and Audit Comment as Presented by the State Board of Accounts ("SBOA") in Exit Interview

To Whom It May Concern:

The Town of Chesterton ("Town") writes to respond to the audit comments presented to the Town at its May 7, 2018 exit conference with SBOA auditors.

The Town is in agreement with the SBOA findings and will be actively implementing the solutions as described in our Corrective Active Plan (CAP). Solutions shall be implemented within the next six months.

Sincerely,



Stephanie T. Kuziela
Clerk-Treasurer

CLERK-TREASURER
TOWN OF CHESTERTON
EXIT CONFERENCE

The contents of this report were discussed on May 7, 2018, with Stephanie Kuziela, Clerk-Treasurer; Lloyd Kittredge, President of the Town Council; James Ton, Council member; and Emerson Delaney, Council member.