B52180

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF ST. JOHN

LAKE COUNTY, INDIANA

January 1, 2016 to December 31, 2017

FILED
02/19/2019

TABLE OF CONTENTS

SCHEDULE OF OFFICIALS

Office	Official	Term
Clerk-Treasurer	Beth Hernandez	01-01-16 to 12-31-19
President of the Town Council	Michael Forbes	01-01-16 to 12-31-17
	Christian Jorgensen	01-01-18 to 12-31-18
	Mark Barenie	01-01-19 to 01-24-19
President of the Utility Board of Commissioners	Gregory Volk	01-01-16 to 12-31-18
President of the Waterworks Board of Commissioners	Gregory Volk	01-01-16 to 12-31-18
President of the Sanitary District Board of Commissioners	Frank Bradtke	01-01-16 to 12-31-18
President of the Park Board	Frank Bradtke	01-01-16 to 12-31-18
President of the Redevelopment Board of Commissioners	Mark Barenie	01-01-16 to 12-31-18
Town Manager	Stephen Kil	01-01-16 to 12-31-19

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 ST. JOHN, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of St. John (Town), for the period from January 1, 2016 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 Statement Audit Report of the Town, which provides our opinion on the Town's financial statement. 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

January 24, 2019

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CLERK-TREASURER
TOWN OF ST. JOHN

INTERNAL CONTROLS

There were several deficiencies in the internal control system of the Town related to financial transactions and reporting. The lack of internal controls was a systemic issue throughout the audit period.

1. Lack of Segregation of Duties: The Town had not separated incompatible activities related to cash and investments, payroll disbursements, and financial reporting. A separation of duties for each of these areas had not been designed or implemented to prevent or detect and correct errors.

   Cash and Investments - The reconcilement of the bank and ledger activity was prepared by a clerk without a documented oversight or review process.

   Payroll Disbursements - A clerk entered the hours worked and rates of pay for all employees, as well as initiated, approved, and reconciled payroll transactions in the computerized accounting system without evidence of a proper system of oversight or review to ensure that the employees were paid the correct amounts from the proper funds.

   Financial Reporting - The financial information was prepared and the Annual Financial Report was electronically submitted through the Indiana Gateway for Government Units financial reporting system without a documented oversight or review process of the report prior to submission to prevent, or detect and correct, errors.

2. Monitoring of Controls: An evaluation of the Town's system of internal controls had not been conducted. Additionally, the Town had no process to identify or communicate corrective actions to improve controls.

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. . . ."
>
> "Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators."

DISTRIBUTION OF SALARIES AND WAGES

A similar comment also appeared in prior Report B48216, entitled *DISTRIBUTION OF SALARIES AND WAGES.*

Salaries and wages of employees in the Clerk-Treasurer's office and the Town Manager's office were allocated to the General fund, Sanitary District, Water District, Water Utility, and Wastewater Utility. Throughout the audit period, the percentages of salaries and wages allocated to the respective funds varied from year-to-year without a documented or systematic methodology or rationale that adequately supported the distributions.

Records of hours worked on various activities, which would have substantiated the percentages of salaries and wages allocated to each of the funds, were not maintained.

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Report B48216.

The financial statement included the following funds with overdrawn cash balances at December 31, 2016 and 2017:

	Amount Overdrawn	
Fund	12-31-16	12-31-17
Health Claims	$ 20,905	$ -
Christmas Events	7,063	-
Lease Rental	5,689	9,965
Payroll	6,426	-
Police Pension 1977	3,580	-
PERF	28,854	-

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)

ORDINANCES AND RESOLUTIONS

Resolution 2017-07-27 addressed a $495,525 interfund transfer from the General fund to the Rainy Day General fund. The disbursement of the $495,525 was posted to the Rainy Day General fund as opposed to the General fund. As a result, no amount was transferred to the Rainy Day General fund.

Ordinances 1625 and 1626 addressed the establishment of a Waterworks Utility Cash Reserve fund and a temporary loan from the Waterworks Utility Cash Reserve fund to the Town and to the Sewage Works Utility. The Town failed to comply with Ordinance 1625 in that a Waterworks Utility Cash Reserve fund was not established, nor funded with $2,600,000 in surplus earnings of the Water Operating fund as stated by Exhibit A of the Ordinance. Also, on December 29, 2017, the Water Operating fund loaned the Wastewater System Development fund $2,082,083. The Town failed to comply with Ordinance 1626 since a temporary loan was only authorized from the Waterworks Utility Cash Reserve fund, not the Water Operating fund.

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Office of the
Town Council

Mark Barenie

Gerald Swets
Michael S. Forbes
Libby Popovic
Rose Hejl

Founded 1837
INDIANA

St. John Municipal Building
10955 West 93rd Avenue
St. John, Indiana 46373-8822

*219 . 365 . 6043 *1 telephone*
219 . 558 . 2078 facsimile
www.stjohnin.com

STATE OF INDIANA
STATE BOARD OF ACCOUNTS

FINANCIAL STATEMENTS
EXAMINATION REPORT OF THE
TOWN OF ST. JOHN, LAKE COUNTY, INDIANA

TOWN OFFICIAL RESPONSE

INTRODUCTION

The Town of St. John, Lake County, Indiana, is a unit of Local Government in Lake County, Indiana, subject to the review and examination responsibilities and jurisdiction of the Indiana State Board of Accounts. The Independent Auditor's Financial Statement-Examination Report of the Town of St. John, Lake County, Indiana, for the period from January 1, 2016 to December 31, 2017. The Field Examiner assigned communicated with the Town Administrative Staff and Clerk-Treasurer from Entrance Conference to and through the January 24, 2019, Exit Conference.

Based upon scheduling and coordination instructions of said State Board of Accounts Field Examiner, the Exit Conference was scheduled and conducted January 24, 2019, for the review of the Independent Auditor's Financial Statement-Examination Report mentioned aforesaid. The attendees at the Exit Conference of January 24, 2019, are identified by name and signature on the Exit Conference Acknowledgment Form 8. As represented by said Field Examiner in said Exit Conference, an Official Response may be made by the Town of St. John, Lake County, Indiana. This document, and information contained herein, shall serve as that Official Response.

Additional Exit Conference documentation, namely, review acknowledgment of Exit Conference with Field Examiner, and Verification that this Official Response would be made was executed by attendees at said conference.

The balance of the response hereto will provide the Town Response to the Independent Auditor's Financial Statement-Examination Report. Said Official Response will follow immediately hereinafter.

TOWN CLERK-TREASURER'S OFFICIAL RESPONSE

INTERNAL CONTROLS

1. ***Lack of Segregation of Duties***: The Town unintentionally and unknowingly failed to implement a procedure relating to segregation of duties, which conforms to the State Board of Accounts Internal Control Policies.

Cash and Investments:

In 2016-2017, the Accounting Assistant prepared bank reconciliations. These were then forwarded to the Town's Accounting Firm for review and input. The Accounting Assistant made any recommended reconciling adjustments. At that time, it was the Town's belief that the Town's Accounting Firm provided the necessary control over this process.

The procedure outlined above is still in effect. The Clerk-Treasurer has implemented the following additional step. The bank reconciliations are reviewed by the Chief Deputy for final approval. All steps in this procedure are initialed and dated by the Accounting Assistant and Chief Deputy.

Payroll Disbursements:

In 2016-2017, the Accounting Assistant entered the hours worked and rates of pay for all employees into the payroll program. The Class I Clerk then used an Hours Detail Report generated from the payroll program and compared it to the department time sheets for accuracy. The Accounting Assistant made any necessary corrections, re-ran the Hours Detail Report and the Class I Clerk verified the corrections. The Accounting Assistant and Class I Clerk both initialed and dated their work products.

The procedure outlined above is still in effect. The Clerk-Treasurer has implemented the following additional steps. At the beginning of the year, the Accounting Assistant generates an Employee Master File Report from the payroll program that shows pay distribution and hourly amounts reflected in the salary ordinance for the year for each employee. The Chief Deputy checks this report for accuracy and retains the Employee Master File Report for reference. In the event there are any salary changes, the Accounting Assistant will provide the Chief Deputy an updated report.

Each pay period, the Accounting Assistant will provide the Chief Deputy a Detailed Final Hours Report that the Chief Deputy will check against the Master

File for accuracy. Please note, all steps in this procedure are initialed by the Accounting Assistant, Class I Clerk, and Chief Deputy.

Financial Reporting:

In 2016-2017, the Accounting Assistant prepared the financial reports. which were uploaded to Gateway. These were then forwarded to the Town's Accounting Firm for review and input. The Accounting Assistant made any recommended adjustments. At that time, it was the Town's belief that the Town's Accounting Firm provided the necessary control over this process.

The procedure outlined above is still in effect. The Clerk-Treasurer has implemented the following additional step. The financial reports are reviewed by the Chief Deputy for final approval. All steps in this procedure are initialed and dated by the Accounting Assistant and Chief Deputy.

2. ***Monitoring of Controls***: Monitoring of Controls: The Town unintentionally and unknowingly failed to implement a procedure relating to monitoring of controls, which conforms to the State Board of Accounts Internal Control Policies.

   In 2016-2017, the Town reviewed and amended controls as needed. The controls and amendments were communicated to employees via email, memos, and staff meetings.

   The procedure outlined above is still in effect. The Clerk-Treasurer has implemented the following additional step. A log is being maintained to record the implementation and communication of internal controls.

The town by taking these proactive responses, in no way admits and strictly denies any malfeasance, misfeasance, nonfeasance, and/or intentional wrongdoing as related to any Town official, agent and/or employee.

DISTRIBUTION OF SALARIES AND WAGES

The Town has unintentionally and unknowingly not maintained a Salary Ordinance, which discusses percentages of salaries and wages allocated to certain accounts. The Town Manager will prepare and the Town Council will now adopt an Amended Salary Ordinance which will discuss percentages of salaries and wages allocated to certain accounts as discussed with Todd Caldwell, Auditor in Charge of the State Board of Accounts on February 7, 2019. The Town by taking this proactive response, in no way admits and strictly denies any malfeasance, misfeasance, nonfeasance, and/or intentional wrongdoing as related to any Town official, agent, and/or employee. The Town will also be filing a Corrective Action Plan as related to this finding.

OVERDRAWN CASH BALANCES

The Town has unintentionally and unknowingly maintained at periodic times an overdrawn cash balance. The Town Council has already adopted a system of approving multiple additional appropriations over the year, instead of one (1) additional appropriation toward the end of the calendar year. The Town by taking this proactive response, in no way admits and strictly denies any malfeasance, misfeasance, nonfeasance, and/or intentional wrongdoing as related to any Town official, agent, and/or employee. The Town will also be filing a Corrective Action Plan as related to this finding.

ORDINANCES AND RESOLUTIONS

The Town has unintentionally and unknowingly included both appropriation and fund transfers on the same resolution and did not establish a cash reserve fund.

The Clerk-Treasurer's office completed the interfund transfer from the General Fund to the Rainy Day Fund in the amount of $495,525 per Resolution 2017-07-27. The Town Council approved Resolution 2018-01-11A, a resolution authorizing certain transfers which included both appropriation transfers and the interfund transfer of $495,525 from the Rainy Day Fund back to the General Fund. The Clerk-Treasurer's office completed all transfers per Resolution 2018-01-11A.

The Town will ensure that only appropriation transfers are referenced on appropriation transfer resolutions and only fund transfers are referenced on fund transfer resolutions.

Per Ordinances 1625 and 1626, a Waterworks Utility Cash Reserve Fund was supposed to be established. Then, $2,600,000 from the Water Operating Fund was supposed to be transferred to the Waterworks Cash Reserve Fund. Finally, a temporary loan of not more than $2,600,000 was supposed to be made from the Waterworks Cash Reserve Fund to the Sewage Works Utility Fund. The transfer was made directly from the Water Operating Fund to the Sewage Works Utility Fund in the amount of $2,082,083. It is important to note that the funds were transferred correctly from the Water Operating Fund to the Sewage Works Utility Fund, but they did not pass through the Waterworks Cash Reserve Fund.

The Clerk-Treasurer's office established a Waterworks Utility Cash Reserve Fund per Ordinance 1625 and 1626 and transferred the remaining balance of $517,917 from Water Operating Fund to the Waterworks Cash Reserve Fund to comply with Ordinances 1625 and 1626.

The Town, by taking this proactive response, in no way admits and strictly denies any malfeasance, misfeasance, nonfeasance, and/or intentional wrongdoing as related to any Town official, agent, and/or employee.

TOWN COUNCIL'S OFFICIAL RESPONSE

TRAINING ON INTERNAL CONTROL STANDARDS

The Town has unintentionally and unknowingly not trained all employees on Internal Control Standards. The Town will now gather and train all employees, which have not been introduced to such Standards. The Town by taking this proactive response, in no way admits and strictly denies any malfeasance, misfeasance, nonfeasance, and/or intentional wrongdoing as related to any Town official, agent, and/or employee.

ORDINANCE VIOLATIONS

The Town has unintentionally and unknowingly adopted Ordinances, which contain a fine mechanism that exceeds the Town's jurisdictional limit. The Town will be adopting a corrective Ordinance(s), which remedy and correct this situation. The Town by taking this proactive response, in no way admits and strictly denies any malfeasance, misfeasance, nonfeasance, and/or intentional wrongdoing as related to any Town official, agent, and/or employee. The Town will also be filing a Corrective Action Plan as related to this finding.

REDEVELOPMENT COMMISSION NOT APPROVING ACCOUNTS PAYABLE VOUCHERS

The Town has unintentionally and unknowingly not approved the claims as related to the Tax Incremental Financing (TIF) allocation funds allegedly in accordance with Indiana Code. The Town will be approving claims on a monthly basis as related to same. The Town by taking this proactive response, in no way admits and strictly denies any malfeasance, misfeasance, nonfeasance, and/or intentional wrongdoing as related to any Town official, agent, and/or employee. The Town will also be filing a Corrective Action Plan as related to this finding.

CONCLUSION

The foregoing constitutes the Official Response of the Town of St. John, Lake County, Indiana, a Municipal Corporation, to the Financial Statement-Examination Report of the Town by the Indiana State Board of Accounts for the period of January 1, 2016, to December 31, 2017. It is our understanding that the Independent Auditor's Financial Statement-Examination Report and Town Official Response, and the Town Attorney Litigation Opinion Letter will be processed and made public on or after February 15, 2019.

Very truly yours,

TOWN OF ST. JOHN,
LAKE COUNTY, INDIANA,
A Municipal Corporation

Mark Barenie

By: Mark A. Barenie
Town Council President

ATTEST:
Beth R. Hernandez
(KO)
Beth R. Hernandez, Clerk-Treasurer

CLERK-TREASURER
TOWN OF ST. JOHN
EXIT CONFERENCE

The contents of this report were discussed on January 24, 2019, with Beth Hernandez, Clerk-Treasurer, and Stephen Kil, Town Manager.

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TOWN COUNCIL
TOWN OF ST. JOHN

TRAINING ON INTERNAL CONTROL STANDARDS

The Town did not provide documentation that all required personnel had received the required internal control training.

The Clerk-Treasurer issued memos to Town departments in an attempt to get all required personnel to take the internal control training, but had not received a response to the memos, nor signed certifications of completion of the training from most departments and commissions.

Indiana Code 5-11-1-27(g) states in part:

". . . the legislative body of a political subdivision shall ensure that: . . .

(2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

ORDINANCE VIOLATIONS

The same comment also appeared in prior Report B48216.

The Town Council adopted two ordinances, Zoning Ordinance 1483 and Storm Drainage Control Ordinance 1432, which addressed fines and penalties as ranges with minimums and maximums; however, they do not address who or what department is responsible for determining the fine or penalty charged, and how the fine is determined.

Ordinance violation fees have been adopted for some violations with penalties exceeding $250. Fines for violations of these ordinances were paid at the Clerk-Treasurer's office as the Town's ordinance violations clerk. However, the Indiana Code limits the collections that can be accepted for civil penalties by an ordinance violations clerk at $250.

Fees can only be collected as specifically authorized by law or properly authorized ordinance/resolution. When a fee is NOT specified by law, but instead through the use of an ordinance/resolution, sufficient authoritative reference should be maintained. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 33-36-2-3 states in part:

"The violations clerk may accept: . . .

(4) payment of civil penalties up to a specific dollar amount set forth in an ordinance adopted by the legislative body, but not more than two hundred fifty dollars ($250);

in ordinance violation cases, subject to the schedule prescribed under IC 33-36-3 by the legislative body."

Indiana Code 33-36-3-1(a) states:

"Upon the appointment or designation of the violations clerk as provided by IC 33-36-2-1, the legislative body shall designate, by ordinance or code, a schedule of ordinance and code provisions of the municipal corporation that are subject to admission of violation before the violations clerk and the amount of civil penalty to be assessed to a violator who elects to admit a violation under this chapter."

Office of the
Town Council

Mark Barenie

Gerald Swets
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Libby Popovic
Rose Hejl

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Founded 1837
INDIANA

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The Clerk-Treasurer's office established a Waterworks Utility Cash Reserve Fund per Ordinance 1625 and 1626 and transferred the remaining balance of $517,917 from Water Operating Fund to the Waterworks Cash Reserve Fund to comply with Ordinances 1625 and 1626.

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TOWN COUNCIL'S OFFICIAL RESPONSE

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CONCLUSION

The foregoing constitutes the Official Response of the Town of St. John, Lake County, Indiana, a Municipal Corporation, to the Financial Statement-Examination Report of the Town by the Indiana State Board of Accounts for the period of January 1, 2016, to December 31, 2017. It is our understanding that the Independent Auditor's Financial Statement-Examination Report and Town Official Response, and the Town Attorney Litigation Opinion Letter will be processed and made public on or after February 15, 2019.

Very truly yours,

TOWN OF ST. JOHN,
LAKE COUNTY, INDIANA,
A Municipal Corporation

Mark Barenie

By: Mark A. Barenie
Town Council President

ATTEST:
Beth R. Hernandez
(KB)
Beth R. Hernandez, Clerk-Treasurer

TOWN COUNCIL
TOWN OF ST. JOHN
EXIT CONFERENCE

The contents of this report were discussed on January 24, 2019, with Beth Hernandez, Clerk-Treasurer, and Stephen Kil, Town Manager.

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REDEVELOPMENT COMMISSION
TOWN OF ST. JOHN

REDEVELOPMENT COMMISSION
TOWN OF ST. JOHN
AUDIT RESULT AND COMMENT

REDEVELOPMENT COMMISSION NOT APPROVING ACCOUNTS PAYABLE VOUCHERS

The Redevelopment Commission was established in accordance with Indiana Code 36-7-14 and is the governing body of the Department of Redevelopment. The Redevelopment Commission also created a separate Tax Increment Finance (TIF) allocation area in accordance with Indiana Code 36-7-14. The allocation area received tax increment revenues that were receipted to the St. John TIF fund. However, the Redevelopment Commission did not approve the claims for the St. John TIF fund as required by Indiana Code. The claims for the St. John TIF fund were approved by the Town Council.

Indiana Code 36-7-14-8(c) states in part: "The treasurer of the redevelopment commission may disburse funds of the redevelopment commission only after the redevelopment commission allows and approves the disbursement. . . ."

Indiana Code 36-7-14-29(a) states: "All payments from any of the funds established by this chapter shall be made by warrants drawn by the proper officers of the unit upon vouchers of the redevelopment commission signed by the president or vice president and the secretary or executive secretary."

Office of the
Town Council

Mark Barenie
Gerald Swets
Michael S. Forbes
Libby Popovic
Rose Hejl

St. John
Founded 1837
INDIANA

St. John Municipal Building
10955 West 93rd Avenue
St. John, Indiana 46373-8822

*219 . 365 . 6043 *1 telephone*
219 . 558 . 2078 facsimile
www.stjohnin.com

STATE OF INDIANA
STATE BOARD OF ACCOUNTS

FINANCIAL STATEMENTS
EXAMINATION REPORT OF THE
TOWN OF ST. JOHN, LAKE COUNTY, INDIANA

TOWN OFFICIAL RESPONSE

INTRODUCTION

The Town of St. John, Lake County, Indiana, is a unit of Local Government in Lake County, Indiana, subject to the review and examination responsibilities and jurisdiction of the Indiana State Board of Accounts. The Independent Auditor's Financial Statement-Examination Report of the Town of St. John, Lake County, Indiana, for the period from January 1, 2016 to December 31, 2017. The Field Examiner assigned communicated with the Town Administrative Staff and Clerk-Treasurer from Entrance Conference to and through the January 24, 2019, Exit Conference.

Based upon scheduling and coordination instructions of said State Board of Accounts Field Examiner, the Exit Conference was scheduled and conducted January 24, 2019, for the review of the Independent Auditor's Financial Statement-Examination Report mentioned aforesaid. The attendees at the Exit Conference of January 24, 2019, are identified by name and signature on the Exit Conference Acknowledgment Form 8. As represented by said Field Examiner in said Exit Conference, an Official Response may be made by the Town of St. John, Lake County, Indiana. This document, and information contained herein, shall serve as that Official Response.

Additional Exit Conference documentation, namely, review acknowledgment of Exit Conference with Field Examiner, and Verification that this Official Response would be made was executed by attendees at said conference.

The balance of the response hereto will provide the Town Response to the Independent Auditor's Financial Statement-Examination Report. Said Official Response will follow immediately hereinafter.

TOWN CLERK-TREASURER'S OFFICIAL RESPONSE

INTERNAL CONTROLS

1. ***Lack of Segregation of Duties***: The Town unintentionally and unknowingly failed to implement a procedure relating to segregation of duties, which conforms to the State Board of Accounts Internal Control Policies.

Cash and Investments:

In 2016-2017, the Accounting Assistant prepared bank reconciliations. These were then forwarded to the Town's Accounting Firm for review and input. The Accounting Assistant made any recommended reconciling adjustments. At that time, it was the Town's belief that the Town's Accounting Firm provided the necessary control over this process.

The procedure outlined above is still in effect. The Clerk-Treasurer has implemented the following additional step. The bank reconciliations are reviewed by the Chief Deputy for final approval. All steps in this procedure are initialed and dated by the Accounting Assistant and Chief Deputy.

Payroll Disbursements:

In 2016-2017, the Accounting Assistant entered the hours worked and rates of pay for all employees into the payroll program. The Class I Clerk then used an Hours Detail Report generated from the payroll program and compared it to the department time sheets for accuracy. The Accounting Assistant made any necessary corrections, re-ran the Hours Detail Report and the Class I Clerk verified the corrections. The Accounting Assistant and Class I Clerk both initialed and dated their work products.

The procedure outlined above is still in effect. The Clerk-Treasurer has implemented the following additional steps. At the beginning of the year, the Accounting Assistant generates an Employee Master File Report from the payroll program that shows pay distribution and hourly amounts reflected in the salary ordinance for the year for each employee. The Chief Deputy checks this report for accuracy and retains the Employee Master File Report for reference. In the event there are any salary changes, the Accounting Assistant will provide the Chief Deputy an updated report.

Each pay period, the Accounting Assistant will provide the Chief Deputy a Detailed Final Hours Report that the Chief Deputy will check against the Master

File for accuracy. Please note, all steps in this procedure are initialed by the Accounting Assistant, Class I Clerk, and Chief Deputy.

Financial Reporting:

In 2016-2017, the Accounting Assistant prepared the financial reports. which were uploaded to Gateway. These were then forwarded to the Town's Accounting Firm for review and input. The Accounting Assistant made any recommended adjustments. At that time, it was the Town's belief that the Town's Accounting Firm provided the necessary control over this process.

The procedure outlined above is still in effect. The Clerk-Treasurer has implemented the following additional step. The financial reports are reviewed by the Chief Deputy for final approval. All steps in this procedure are initialed and dated by the Accounting Assistant and Chief Deputy.

2. ***Monitoring of Controls***: Monitoring of Controls: The Town unintentionally and unknowingly failed to implement a procedure relating to monitoring of controls, which conforms to the State Board of Accounts Internal Control Policies.

   In 2016-2017, the Town reviewed and amended controls as needed. The controls and amendments were communicated to employees via email, memos, and staff meetings.

   The procedure outlined above is still in effect. The Clerk-Treasurer has implemented the following additional step. A log is being maintained to record the implementation and communication of internal controls.

The town by taking these proactive responses, in no way admits and strictly denies any malfeasance, misfeasance, nonfeasance, and/or intentional wrongdoing as related to any Town official, agent and/or employee.

DISTRIBUTION OF SALARIES AND WAGES

The Town has unintentionally and unknowingly not maintained a Salary Ordinance, which discusses percentages of salaries and wages allocated to certain accounts. The Town Manager will prepare and the Town Council will now adopt an Amended Salary Ordinance which will discuss percentages of salaries and wages allocated to certain accounts as discussed with Todd Caldwell, Auditor in Charge of the State Board of Accounts on February 7, 2019. The Town by taking this proactive response, in no way admits and strictly denies any malfeasance, misfeasance, nonfeasance, and/or intentional wrongdoing as related to any Town official, agent, and/or employee. The Town will also be filing a Corrective Action Plan as related to this finding.

OVERDRAWN CASH BALANCES

The Town has unintentionally and unknowingly maintained at periodic times an overdrawn cash balance. The Town Council has already adopted a system of approving multiple additional appropriations over the year, instead of one (1) additional appropriation toward the end of the calendar year. The Town by taking this proactive response, in no way admits and strictly denies any malfeasance, misfeasance, nonfeasance, and/or intentional wrongdoing as related to any Town official, agent, and/or employee. The Town will also be filing a Corrective Action Plan as related to this finding.

ORDINANCES AND RESOLUTIONS

The Town has unintentionally and unknowingly included both appropriation and fund transfers on the same resolution and did not establish a cash reserve fund.

The Clerk-Treasurer's office completed the interfund transfer from the General Fund to the Rainy Day Fund in the amount of $495,525 per Resolution 2017-07-27. The Town Council approved Resolution 2018-01-11A, a resolution authorizing certain transfers which included both appropriation transfers and the interfund transfer of $495,525 from the Rainy Day Fund back to the General Fund. The Clerk-Treasurer's office completed all transfers per Resolution 2018-01-11A.

The Town will ensure that only appropriation transfers are referenced on appropriation transfer resolutions and only fund transfers are referenced on fund transfer resolutions.

Per Ordinances 1625 and 1626, a Waterworks Utility Cash Reserve Fund was supposed to be established. Then, $2,600,000 from the Water Operating Fund was supposed to be transferred to the Waterworks Cash Reserve Fund. Finally, a temporary loan of not more than $2,600,000 was supposed to be made from the Waterworks Cash Reserve Fund to the Sewage Works Utility Fund. The transfer was made directly from the Water Operating Fund to the Sewage Works Utility Fund in the amount of $2,082,083. It is important to note that the funds were transferred correctly from the Water Operating Fund to the Sewage Works Utility Fund, but they did not pass through the Waterworks Cash Reserve Fund.

The Clerk-Treasurer's office established a Waterworks Utility Cash Reserve Fund per Ordinance 1625 and 1626 and transferred the remaining balance of $517,917 from Water Operating Fund to the Waterworks Cash Reserve Fund to comply with Ordinances 1625 and 1626.

The Town, by taking this proactive response, in no way admits and strictly denies any malfeasance, misfeasance, nonfeasance, and/or intentional wrongdoing as related to any Town official, agent, and/or employee.

TOWN COUNCIL'S OFFICIAL RESPONSE

TRAINING ON INTERNAL CONTROL STANDARDS

The Town has unintentionally and unknowingly not trained all employees on Internal Control Standards. The Town will now gather and train all employees, which have not been introduced to such Standards. The Town by taking this proactive response, in no way admits and strictly denies any malfeasance, misfeasance, nonfeasance, and/or intentional wrongdoing as related to any Town official, agent, and/or employee.

ORDINANCE VIOLATIONS

The Town has unintentionally and unknowingly adopted Ordinances, which contain a fine mechanism that exceeds the Town's jurisdictional limit. The Town will be adopting a corrective Ordinance(s), which remedy and correct this situation. The Town by taking this proactive response, in no way admits and strictly denies any malfeasance, misfeasance, nonfeasance, and/or intentional wrongdoing as related to any Town official, agent, and/or employee. The Town will also be filing a Corrective Action Plan as related to this finding.

REDEVELOPMENT COMMISSION NOT APPROVING ACCOUNTS PAYABLE VOUCHERS

The Town has unintentionally and unknowingly not approved the claims as related to the Tax Incremental Financing (TIF) allocation funds allegedly in accordance with Indiana Code. The Town will be approving claims on a monthly basis as related to same. The Town by taking this proactive response, in no way admits and strictly denies any malfeasance, misfeasance, nonfeasance, and/or intentional wrongdoing as related to any Town official, agent, and/or employee. The Town will also be filing a Corrective Action Plan as related to this finding.

CONCLUSION

The foregoing constitutes the Official Response of the Town of St. John, Lake County, Indiana, a Municipal Corporation, to the Financial Statement-Examination Report of the Town by the Indiana State Board of Accounts for the period of January 1, 2016, to December 31, 2017. It is our understanding that the Independent Auditor's Financial Statement-Examination Report and Town Official Response, and the Town Attorney Litigation Opinion Letter will be processed and made public on or after February 15, 2019.

Very truly yours,

TOWN OF ST. JOHN,
LAKE COUNTY, INDIANA,
A Municipal Corporation

Mark Barenie

By: Mark A. Barenie
Town Council President

ATTEST:
Beth R. Hernandez (KB)

Beth R. Hernandez, Clerk-Treasurer

REDEVELOPMENT COMMISSION
TOWN OF ST. JOHN
EXIT CONFERENCE

The contents of this report were discussed on January 24, 2019, with Beth Hernandez, Clerk-Treasurer, and Stephen Kil, Town Manager.