

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF HIGHLAND

LAKE COUNTY, INDIANA

January 1, 2017 to December 31, 2018



**FILED**  
10/31/2019



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Michael W. Griffin	01-01-16 to 12-31-19
President of the Town Council	Daniel Vassar Mark Herak Steve Wagner	01-01-17 to 12-31-17 01-01-18 to 12-31-18 01-01-19 to 12-31-19
Public Works Director	John Bach	01-01-17 to 12-31-19



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the Town of Highland (Town), for the period from January 1, 2017 to December 31, 2018. 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/](http://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 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 Audit Result and Comment, incorporated within this report, was not verified for accuracy.

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

October 9, 2019

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CLERK-TREASURER  
TOWN OF HIGHLAND

CLERK-TREASURER  
TOWN OF HIGHLAND  
AUDIT RESULT AND COMMENT

**FINANCIAL TRANSACTIONS AND REPORTING**

*Condition and Context*

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. There was a lack of segregation of duties as the Town had not separated incompatible activities related to disbursements.

*Debt Payments*

The Town Council adopted an ordinance, in accordance with the Indiana Code, permitting certain expenses, including debt payments, to be made in advance of approval by the governing body. The Accounts Payable Voucher for each debt payment, per the applicable provisions, was to be approved by the governing body at its next meeting. However, the Town did not have internal controls in place to ensure that debt payments were timely and properly approved and by the Town Council or Sanitary Board of Commissioners (Sanitary Board).

We identified twelve debt payments during the audit period totaling \$1,197,579 that were not timely included on a claims docket approved by the Town Council or Sanitary Board. One of the Town debt payments was made with a journal entry and an Accounts Payable Voucher was never issued during the audit period. Therefore, that debt payment was not included on a claims docket for approval. Eleven Sanitary Debt payments were not included on the Sanitary Board claims docket for the Sanitary Board to approve. In addition, we noted instances where debt payments were made as wire transfers through the bank prior to month end, but not recorded in the unit's ledger on the date or even the same month that the funds were transferred from the bank. The disbursements were not recorded in the Town's ledger until the next month or in one instance two months after the funds were transferred from the bank. Subsequent to the audit period, Town officials indicated their intent was to present these debt payments to the Sanitary Board for approval in October 2019.

*Journal Entries*

The Town did not have internal controls in place to ensure that disbursements made by journal entries were timely and properly approved. Disbursement entries to the Town's ledger in the form of a journal entries were not timely approved by the Town Council and did not consistently include supporting documentation. Three journal entries totaling \$37,504 did not have supporting documentation. A debt payment of \$442,500 was paid by Journal Entry instead of an Accounts Payable Voucher and was not approved by the Town Council during the audit period. Furthermore, none of the journal entries tested were included on a claims docket for approval by the Town Council during the audit period. Subsequent to the audit period, Town officials indicated their intent was to present these disbursements to the Town Council for approval in October 2019.

CLERK-TREASURER  
TOWN OF HIGHLAND  
AUDIT RESULT AND COMMENT  
(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; the list is by no means all inclusive, but is reproduced here for reference purposes:

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

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

# Town of Highland

Highland Municipal Building • 3333 Ridge Road • Highland, Indiana 46322-2089  
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Thursday, October 31, 2019

Paul Joyce, State Examiner  
State Board of Accounts  
State of Indiana  
302 W. Washington Street  
Indianapolis, Indiana 46204

**Re: Town of Highland Responses to audit result and comment  
Accompanying the filing of the FY 2017 & 2018. Filed pursuant to IC 5-11-5-1(b)**

Dear Mr. Joyce:

Hello. I hope this arrives to find you well. Please receive this correspondence as the official response to the written comments of the audit identified on the caption above. I hope it can be made a part of the record and made a part of the final audit report.

## Overview and Operating Ethos

This officer and the Town of Highland highly affirm the role of the Indiana State Board of Accounts as the entity tasked with performing the periodic external audits for the municipality, pursuant to IC 5-11 et seq. It is our belief that the State Board of Accounts, a public entity, provides the best, cost-effective performance of this essential duty in a professional and *disinterested* but not *uninterested* manner, promoting good stewardship, public accounting and the essential interests of the public we are both oath-bound to serve. Please, nothing in this response to the audit results and comments should be seen as departing from this ambient context, and deeply held opinion of this agency.

Further, this officer has relied and continues to rely sincerely upon the State Board of Accounts to review the compliance and financial reporting of the Town generally and the office of the Clerk-Treasurer in particular, welcoming its comments as instructive and helpful, consistent with the general objective of this officer to pursue excellence in the performance of the duties of office. This has been true for the whole of this officer's career as a public finance professional, now completing 28 years as the Town's elected fiscal officer. It is acknowledged that the governing body (management), is ultimately responsible for the policies of internal control, and this officer as fiscal officer is primarily responsible for the implementation of the controls affecting the control environment, providing reasonable – *not absolute assurance* -- reducing error or misstatement.

*Appreciation.* Highland further acknowledges and is very grateful to the State Board of Accounts for conducting and completing this examination, covering



## Town Council

Bernie Zeman  
Ward One

Mark A. Herak  
Ward Two

Dan Vassar  
Ward Three

Steven Wagner  
Ward Four

Konnie Kuiper  
Ward Five

John Bach  
Public Works Director

Rhett Tauber  
Attorney

Clerk-Treasurer  
Michael Griffin

the period January 1, 2017 through December 31, 2018. While an external audit frequency of not less than four years is lawful under the new risk based criteria of IC 5-11-1-25(b), Standard and Poor's continues to insist for its Indiana entities that have rated debt, the frequency of external audits must be greater. Thank you very much.

**The Key Audit Metric.** Finally, we acknowledge with pleasure that Highland is once again to receive an *unqualified or unmodified* opinion regarding our financial records and reporting. We thank the Indiana State Board of Accounts for opining to this finding.

### **Response to audit results and comments.**

**Internal Controls.** The Town of Highland welcomes any and all suggestions to improve its internal control regime. The Town of Highland notes that internal controls are never fully perfected but always a work in progress. The Town of Highland also acknowledges and welcomes the State Board of Accounts requirement under IC 5-11-1-27(e) to define the acceptable minimum level of internal control standards.

So, the Town of Highland appreciates these written comments, which are written to instruct and improve the continuing end of enhanced and effective internal controls.

**Debt Payments and Journal Entries.** Highland fully concurs that the group of debt service payments for the sanitary district bond issues totaling \$1,197,579, a typical debt payment amount, due in August 2017 were in fact paid timely. While the examiner seemed to amplify this matter by including the number of separate bond issues for which payment was made, it is a convention and practice that these are paid as a group, organized according to the originating or issuing authority, noting that these debt payments are scheduled to be due at the same time. Regardless the number of specific bond issues in a given group payment, Highland has intentionally scheduled amortization for the annual payments to included a February 1 installment and an August 1 installment, in most cases. Still further, The Town of Highland is pleased that the examiner notes the *lawful authority to pay debt service in advance of board or council allowance* pursuant to Section 3.10.010(A)(9) and capital lease rentals pursuant to Section 3.10.010(A)(8) of the Highland Municipal Code. (*Confer IC 36-5-4-12*)

Executing timely payment for debt service to bond holders or capital lease payments due to one of two building corporations established to finance certain improvements and facilities of the town increasingly relies on the payment by *electronic file transfer* (EFT).

The Town of Highland made payment of principal and interest on the several Sanitary District Bonds described in the examiner's comment by *electronic file*

transfer and the expense was recorded by making a journal entry posted to the proper fund(s) and account.

Further, the Town of Highland made payment of the capital lease rental payment due to the Public Building Corporation described in the examiner's comment by *electronic file transfer* and the expense was recorded by making a journal entry posted to the proper fund(s) and account.

The Town of Highland further states that in both instances, these payments by *electronic funds transfer* are specifically authorized by Section 3.25.060(B)(1) of the Highland Municipal Code. (Confer IC 36-1-8-11)

The code and the enabling law further provide that any payments made in advance of board or council allowance *shall be reviewed and allowed* at the next special or meeting following the **preapproved payment of the expense**.

The examiner's written comments correctly noted the erroneous omission of filing of the preapproved expenses which occurred in the latter part of 2017. Highland usual operation, accounts payable vouchers are filed at the next nearest meeting of the proper board or commission with jurisdiction which then shall review and allow the accounts payable voucher.

In consequence of that instructive information, the **Board of Sanitary Commissioners at its meeting of Tuesday, October 15, 2019 did review and allow these lawful and proper payments**. Further, **at its meeting of Monday, October 28, 2019 the Town Council did review and allow this lawful and proper payment**.

*The examiner characterized that these payments were "not approved" by either the Board of Sanitary Commissioners or in the case of the capital lease rental, the Town Council. The Town of Highland, again, takes great exception to this characterization. As shown, state law and municipal code provide for the payment of capital leases and bond and interest in advance of board or council allowance. These are preapproved expenses.*

Further, the amount and date of the payments were **approved** by action of the issuing body and the Town Council as fiscal body when the bond and lease financing were approved. Using that term connotes that payments were undertaken outside of lawful authority. *This is simply untrue* and inaccurate. What remained to be performed was the review and allowance (ratification) of the expenses which the governing statute states these bodies *shall* perform. The review and allowance *are not discretionary. It is required*. So, the continued use in the examiner's comment that the expenses were "not approved", creates an impression that characterizes the object of the comment in an insalubrious manner.

The Town of Highland notes with appreciation the examiners instructive comment regarding these two incidents from 2017, which we note have not recurred. While the review and allowance of **lawful, preapproved expenses** is not a discretionary task for the proper body of jurisdiction, the Town of Highland concurs in the importance of bringing of the *preapproved* expenses to the proper body of jurisdiction as a part of the internal control regime. Further, the Town of Highland and this officer are pleased to report that this important step has been achieved as of the writing of this response and as specified herein.

The examiner's report also expresses concerns regarding timeliness between the execution of the electronic funds transfers and the posting to the proper ledger, which is acknowledged. The Town of Highland concurs in the description and shares the desire to continue to develop an internal control regime to forfend this from recurring.

*Context and Rejoinder.* The Town of Highland acknowledges the control concerns shared in the written comments to this report. During the last five months of FY 2017, there was a vacancy in a key staff position. During this period, a single staff person was trying to ensure that key duties usually performed by the vacant position were maintained, while also performing the duties associated with the accounts payable position. Each position is very demanding on its own. So in this instance, it is all the more so. There was also a vacancy in a chancery/bursar position, which compounded the workflow demand. (*This position actually is cross trained to perform accounts payable tasks if needed.*) This context was shared with the examiners on site in the course of the field work. Since that time period, the staff has enjoyed salubrious changes and there is greater depth related to cross training in the accounts payable position. Moreover, such incidents have not recurred.

The Town of Highland stresses that the written comments ensue from incidents that took place in two instances in the latter part of 2017. As shared with the examiners during the field work, these incidents represent an error born of the unusual circumstance, highly uncommon series of incidents, owing to a key vacancy in the senior staff being co-produced by the accounts payable person and another staff vacancy that would have provided ameliorating staff capacity. All of this affected the optimal performance relative to our controls.

However, Highland believes it is not likely to recur as previously described. It is further strongly noted that none of the concerns raised occurred anytime previous the period reviewed, and most importantly, has not occurred since. The conditions during the last months of FY 2017 fostered a confluence of unusual circumstances that explain and offer context to the incidents noted in the examiner's written comments.

In addition to staffing, the Town of Highland continues to review the work process, and has identified refinements to the process of managing the accounts payable dockets generally, and the process of managing the filing of lawful, proper payments made in advance of board or council allowance. It is believed that these refinements will improve the level of acceptable control, providing reasonable – *not absolute assurance* – in reducing error.

The Town of Highland welcomes the review.

*Corrective measures inferred from the audit report.* Highland possesses written policies describing segregation of duties and identifying assignments for certain tasks consistent with the control concepts raised in the written comments.

*Journal entries.* While it is noted that the actions recorded by journal entry **were lawful and authorized**, Highland notes the audit report comment regarding documentation for some of the journal entries. These were not *expenses*, but were correcting entries for deposits posted to a wrong account, or a non-substantive mistaken account number assignment that are initiated routinely within the Office of the Clerk-Treasurer. Further, the rationale for the journal entry is referenced in the heading or is self-evident. In all other cases, the Town of Highland regularly requires documentation such as the authorizing action of the proper body (attaching a resolution) or an express instruction from the proper officer. Further, no journal entry can be executed without the signature of the Clerk-Treasurer or the Deputy Clerk-Treasurer.

In each case, these were authorized, but the Town of Highland and this officer recognizes the value and importance of having the documentary authority or rationale affixed to the signed journal entry. In each case, the journal entries were proper. It will be policy to assure that all journal entries will have corresponding documentation even if generated to make a transparent correction to an account posting.

*Payment by journal entry.* The examiner references a journal entry of \$442,500 which was the capital lease rental payment for the Public Buildings Corporation. This seems to restate the concerns of the comment discussed in the section above styled as Debt Payments and journal entries. The payment was lawful, as stated, state law and municipal code provide for the payment of capital leases and bond and interest in advance of board or council allowance. These are preapproved expenses. However, as stated in the forgoing responses, the Town of Highland notes the error but also reports its correction has been executed.

Even with the written control policies, this officer notes that all processes should include demonstration or better proof of application. The Town of Highland shares this objective and is reviewing processes in an on-going

manner in order to assure that the policies are honored and that there is evidence of compliance.

### **Final Comments**

The audit entity believes that the examiners were professional in their execution of the recent two-year examination. In addition to a review of the control environment, risk assessment, control activities, information and communication employed and monitoring, there should be some explication of the practitioners and the regular practices of the unit examined, as well as any relevant circumstances -- both exogenous as well as endogenous. It is hoped that the examiners consider the temperament of and education of the management and the working ethos of the unit. This officer affirms Highland's long public record of continuing improvement and endeavoring to conform to the highest standards of financial stewardship. Internal controls are always a work in progress.

This response is prepared to offer additional insight and an expository reply to the audit comments and results report.

The TOWN of HIGHLAND

A handwritten signature in blue ink, appearing to read "Michael W. Griffin".

Michael W. Griffin, M.P.A., IAMC/MMC/CPFA/CPFIM/CMO  
Clerk-Treasurer

CLERK-TREASURER  
TOWN OF HIGHLAND  
EXIT CONFERENCE

The contents of this report were discussed on October 9, 2019, with Michael W. Griffin, Clerk-Treasurer; Kelli Strbjak, Deputy Clerk-Treasurer; and Steve Wagner, President of the Town Council.