

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF NEW CHICAGO

LAKE COUNTY, INDIANA

January 1, 2016 to December 31, 2018



FILED
12/20/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Internal Controls - Financial Transactions and Reporting.....	6-7
Receipt Issuance.....	8
Official Response.....	9-10
Exit Conference	11

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Lori Collmar	01-01-16 to 12-31-19
President of the Town Council	Pamela Richard Sharon Szwedo	01-01-16 to 12-31-17 01-01-18 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF NEW CHICAGO, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of New Chicago (Town), for the period from January 1, 2016 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 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

November 14, 2019

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CLERK-TREASURER
TOWN OF NEW CHICAGO

CLERK-TREASURER
TOWN OF NEW CHICAGO
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS - FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Report 48175, entitled *STATE REVOLVING FUND ACCOUNTS*.

Condition and Context

There were several 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, including cash and investments, receipts, disbursements, and financial close and 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 reconciliation of the bank and ledger activity was prepared by the Clerk-Treasurer without an oversight or review process documented.

Receipts

The Clerk-Treasurer issued the official receipts, recorded the receipts to the computerized accounting system, prepared the bank deposits, and reconciled the bank reconciliations. The Town had not designed or implemented adequate segregation of duties, such as an oversight, review, or approval process.

Disbursements

Manual Accounts Payable Vouchers were completed and certified by the Clerk-Treasurer and Town Council. Then the Clerk-Treasurer recorded the disbursements to the computerized accounting system. An adequate review or oversight process had not been designed or implemented to ensure the accuracy, completeness, and proper classification of the disbursements recorded to the computerized accounting system.

Financial Reporting

The financial information was prepared and electronically submitted through the Indiana Gateway for Government Units financial reporting system, which was the basis for the Town's financial statements. The Clerk-Treasurer stated that a review process had been established to prevent, or detect and correct, errors. However, documentation of the review process was not provided and the review process was not effective in ensuring that the financial information recorded and reported was accurate and complete.

*State Revolving Fund (SRF) Trust - Receipts, Disbursements,
and Cash and Investment Balances*

The failure to establish a system of internal controls enabled material misstatements to remain undetected for receipts, disbursements, and cash and investment balances related to the State Revolving Fund (SRF) trust accounts. The Clerk-Treasurer did not record the financial transactions relating to the SRF accounts since 2013 in the Town's financial records. The amounts reported in the financial statements did not reflect the activity of the SRF accounts since no receipt or disbursement activity was recorded.

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

This resulted in the understatement of the Water Bond & Interest fund receipts and disbursements by \$1,121,388 and \$1,107,148, respectively. This resulted in the understatement of the Water Debt Service Reserve fund receipts by \$152,645. This resulted in the understatement of the Water Construction fund receipts and disbursements by \$63 and \$37,225, respectively.

Audit adjustments were proposed, approved by the Town, and made to the financial statements.

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. . . ."

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 Indiana Code 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

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

RECEIPT ISSUANCE

Condition and Context

Receipts were not always issued at the time of the transaction as money was collected.

Hand-written, three-copy, approved receipt forms were issued for sewer turn-on fees, pet registrations, copies of public records, and various park collections at the time of the transaction. Computerized receipts were issued when collections were remitted to the Clerk-Treasurer from the Police Department, daily sewer collections, and weekly water collections.

Neither hand written receipts nor computerized receipts were issued at the time of transaction to the customer for business licenses and building permits. At a time after collection and to record the transactions, computerized receipts were recorded for the business licenses and building permits.

Criteria

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



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November 20, 2019

From: Lori L. Collmar, IAMC
Clerk-Treasurer
Town of New Chicago

To: State Board of Accounts

RE: 2016-2018 "Official Response" to Audit Results and Comments

The Town of New Chicago is grateful to the State Board of Accounts for all of its hard work and assurance that its books were accurate but better methods were needed to ensure that town funds were properly deposited, disbursed and accurately reported. The Town will adopt and implement the following procedures to comply with the State Board of Accounts Audit Results and Comments. They are expected to be implemented as soon as possible and adopted by the Town Council and the Clerk Treasurer formally at the next meeting on December 10, 2019.

Internal Controls-Finance Transactions and Reporting

Cash and Investments

Moving Forward, once the bank statements and fund reports are reconciled by the Clerk-Treasurer, they will be reviewed by either a staff member of the water department, the Town Manager or a Council member.

Receipts

Moving forward, when monies are collected, receipted and recorded by the Clerk-Treasurer and the bank deposits are prepared, they will be verified by a staff member of the water department, the Town Manager or a council member. The Clerk-Treasurer will no longer prepare the deposits and take them to the bank. The daily deposits will be made by another individual either from the police department or the water utility department.

Disbursements

Moving forward, once the manual vouchers (APV's) have been completed and certified by the Clerk-Treasurer, they will be verified by a staff member of the water department or the Town Manager.

Financial Close and Reporting

Moving forward, once the Annual Report has been completed, it will be reviewed by either a council member or the Town Manager before it is electronically submitted through Gateway.

State Revolving Fund (SRF) Trust

The proposed adjustments were approved, and the changes were made by the Financial advisor and will be reported accordingly moving forward.

RECEIPT ISSUANCE

Receipts will now be issued at the time monies are collected for building permits, business licenses and from the police department.

Lori L. Collmar

Lori L. Collmar, IAMC

Clerk-Treasurer, Town of New Chicago

CLERK-TREASURER
TOWN OF NEW CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on November 14, 2019, with Lori Collmar, Clerk-Treasurer; Sharon Szvedo, President of the Town Council; Jim Gibson, Town Council member; Tara Pelfrey, Town Council member; Brenda Swallow, Town Council member; Sue Pelfrey, Town Manager; and Lloyd Mullen, Town Attorney.