

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, 2018 to December 31, 2019



FILED
12/21/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Stephanie Kuziela Courtney Udvare	01-01-18 to 12-31-19 01-01-20 to 12-31-20
President of the Town Council	Lloyd Kittredge Nathan Cobbs Sharon Darnell	01-01-18 to 12-31-18 01-01-19 to 12-31-19 01-01-20 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2018 to December 31, 2019. 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 opinions 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

December 17, 2020

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CLERK-TREASURER
TOWN OF CHESTERTON

CLERK-TREASURER
TOWN OF CHESTERTON
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Repeat Comment

A similar comment appeared in two prior reports, Report B45748, entitled *FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING*, and Report B50149, entitled *Internal Controls*.

Condition and Context

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

Internal 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 internal 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 internal control was not consistently documented or implemented. There were journal entries that did not have evidence of a review.

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. In addition, the Clerk-Treasurer reviews the Accounts Payable register, but did not document this review.

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 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.

CLERK-TREASURER
TOWN OF CHESTERTON
AUDIT RESULTS AND COMMENTS
(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. . . ."

REDEVELOPMENT TAX INCREMENT FINANCING (TIF)

Condition and Context

The Redevelopment Commission (Commission) declared a portion of the Town an economic development area to be developed under Indiana Code 36-7-14 and 36-7-25. The Commission prepared an economic development plan for the two districts within the selected economic development area known as the Consolidated Allocation Area I & II and Allocation Area III.

Additional taxes collected due to redevelopment in an economic development area are remitted to the Commission from the County as Tax Increment Financing (TIF) allocations.

The County did not provide the Clerk-Treasurer with a breakdown of the taxes by economic development area. Furthermore, the Clerk-Treasurer did not establish separate TIF funds for each allocation area as required by statute. Instead, the distributions were divided and receipted to the Redevelopment, Redevelopment Debt Service, and the 151 2012 R/D Bond funds.

Criteria

Indiana Code 36-7-14-39(b)(2) states in part:

"The excess of the proceeds of the property taxes imposed for the assessment date with respect to which the allocation and distribution is made . . . shall be allocated to and, when collected, paid into the funds of the taxing unit for which the referendum or local public question was conducted."

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

Indiana Code 36-7-14-39(b)(3) states in part:

"Except as otherwise provided in this section, property tax proceeds in excess of those described in subdivisions (1) and (2) shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following: . . ."

BANK ACCOUNT RECONCILIATIONS

Condition and Context

The Town did not reconcile their bank accounts monthly in 2018. The Health Insurance account was not reconciled until September 2019. The bank accounts did not reconcile to the records by \$123,781 and \$207,414, on December 31, 2018 and 2019, respectively.

Criteria

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."

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)

CONDITION OF RECORDS

Repeat Comment

A similar comment also appeared in the two prior reports, Report B45748, entitled *FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING*, and Report B50149, entitled *Condition of Records*.

Condition and Context

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

1. The Wastewater Utility - Operating fund receipts and disbursements were overstated by \$283,209 and \$205,804 on December 31, 2018, and receipts and disbursements were overstated by \$341,864 on December 31, 2019.
2. The Wastewater Utility - Customer Deposit fund receipts and disbursements were overstated by \$33,637 and \$28,825 on December 31, 2018 and 2019, respectively.

CLERK-TREASURER
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AUDIT RESULTS AND COMMENTS
(Continued)

3. The Wastewater Utility Improvement fund receipts and disbursements was overstated by \$31,249 and understated by \$1,296,810 on December 31, 2018 and 2019, respectively.
4. The BNY SRF Sewage fund was omitted from the financial statement with receipts and disbursements of \$60,652 on December 31, 2018.
5. There were various other immaterial amounts in several funds that were not properly recorded in the financial statement.

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

Criteria

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)

CAPITAL ASSETS

Condition and Context

The Town's Capital Asset ordinance states physical inventory of capital assets should be completed yearly. The unit has not completed an inventory count since 2013.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF CHESTERTON
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2020, with Courtney Udvardi, Clerk-Treasurer; Jim Ton, Town Council member; and Stephanie Kuziela, former Clerk-Treasurer.