

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF LONG BEACH

LAPORTE COUNTY, INDIANA

January 1, 2019 to December 31, 2019



FILED
02/16/2021

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	William DeFuniak	01-01-19 to 12-31-21
President of the Town Council	Robert Lemay	01-01-19 to 12-31-21
President of the Water Utility Board	Richard Blank	01-01-19 to 12-31-21
Utility Office Manager	Barbara Stupeck Angela Palmieri Mary Lou McFadden (interim) Laurel Kuczynski (interim) Lynne Conlon	01-01-19 to 02-28-19 03-01-19 to 01-10-20 01-11-20 to 02-17-20 01-11-20 to 02-17-20 02-17-20 to 12-31-21



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF LONG BEACH, LAPORTE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Long Beach (Town), for the period from January 1, 2019 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

January 28, 2021

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CLERK-TREASURER
TOWN OF LONG BEACH

CLERK-TREASURER
TOWN OF LONG BEACH
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

Repeat Comment

A similar comment appeared in the immediately prior Report B53318, entitled *INTERNAL CONTROLS*.

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not separated incompatible activities related to cash and investments, receipts, disbursements, or financial close and reporting.

Cash and Investments - Water Utility

The Water Utility did not have internal controls in place to ensure the accuracy of the bank reconcilements. The Office Manager prepared the bank reconcilements and the Clerk-Treasurer and/or Water Utility Board member reviewed the bank reconcilements; however, there was no documentation of any review.

Receipts

The Town did not have effective internal controls in place to ensure the accuracy of the receipts. The Town did not create receipts for the journal entry adjustments; therefore, had no review process in place for those adjustments.

The Water Utility did not have internal controls in place to ensure the accuracy of the receipts. The Office Manager collected the funds, issued receipts, created the deposit ticket, and recorded the receipts without proper oversight or review.

Vendor Disbursements

The Town did not have effective internal controls in place to ensure the accuracy of vendor disbursements. Debt payments totaling \$157,045 for six ACH disbursements were made and recorded in the Town's ledgers, but lacked standard approved documentation (e.g., voucher forms, check registers) and the required approval processes did not take place since they were ACH payments. The Town was not using accounts payable vouchers for journal entries or placing those adjustments on the claims register; therefore, no review process was in place for those adjustments. In addition, the Clerk-Treasurer was entering invoices into the financial software and generating an accounts payable voucher without proper oversight or review.

The Water Utility did not have effective internal controls in place to ensure the accuracy of vendor disbursements. The invoices were to be approved by the department head before the Office Manager enters the invoices into the financial software; however, there was no documentation of a review by the department head over the invoices. In addition, the Office Manager, after entering the invoices into the financial system, prints the checks, check register, and signs the check register without proper oversight or review.

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

Payroll Disbursements

The Town did not have effective internal controls in place to ensure the accuracy of payroll disbursements. The Clerk-Treasurer provided a report to the Town Council for approval on a monthly basis, instead of a biweekly basis as payroll is disbursed. The provided report lacked sufficient information needed to provide appropriate oversight over the payroll process.

Financial Close and Reporting

The Town did not have internal controls in place to ensure the accuracy of the financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the financial statement. One person entered the information into Gateway without proper oversight or review.

Some receipts were recorded in the Town's ledger, but not on the financial statement. The Town received \$573,593 for a Community Crossing grant that was listed in the Town's ledger in the Motor Vehicle Highway fund, and then was transferred to the Community Crossing Grant fund; however, the transfer of the Community Crossing Grant funds was not included on the financial statement. The receipts for the Motor Vehicle Highway fund were understated by \$5,505 and the Community Crossing Grant fund receipts were understated by \$573,593. The MVH-Restricted fund receipts and disbursements were understated by \$20,000. The Water Utility-Operating fund was understated on the financial statements by \$302,549 and \$257,335 for receipts and disbursements, respectively.

Audit adjustments were proposed, accepted by the Town, and included in the financial statement.

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. . . ."

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

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 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](#)."

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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 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)

CONDITION OF RECORDS

Condition and Context

The Town was not in compliance with applicable laws and regulations regarding vendor claims and payroll. There were two vendor claims that were not approved by the officer receiving the goods, certified on the voucher or register by the fiscal officer, and were not approved by the Town Council.

Additionally, two employee's timesheets were not signed by the department head or fiscal officer. Timesheets for three employees of the Town (Street Superintendent, Water Superintendent, and Building Inspector) showed no indication of review or approval. Employee timesheets were not being accurately maintained for four employees. Police officers submit timesheets indicating hours to be paid in excess of regular hours worked only. Street and Water employees submitted copies of timesheets indicating the same hours worked each week, with the only change being the addition of overtime hours requested for pay. Moreover, paid time-off for vacation, sick, or personal leave was not being tracked by the Town.

Criteria

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;

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

- (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. . . ."

Indiana Code 5-11-9-4(b) states in part:

"The state board of accounts shall require that records be maintained showing which hours are worked each day by officers and employees: . . .

- (2) employed by more than one (1) public agency or in more than one (1) position by the same public agency . . ."

Officials and employees are required to use prescribed and approved forms in the manner prescribed. . . .

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. . . .

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins being kept for all employees. These requirements can be met by use of the following prescribed general forms:

- General Form 99A, Employee's Service Record
- General Form 99B, Employee's Earnings Record
- General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

The Town of Long Beach policy regarding "work time recording" as indicated on page 25 of the Town of Long Beach Employee Handbook states: "At the end of each two-week period, Department heads report all time to be paid for each employee. This includes all hours worked and authorized overtime. The reports will also indicate any Holiday, Vacation Time, Sick Time, Jury Duty, Bereavement Leave taken during the pay period."

COMPENSATION AND BENEFITS

Condition and Context

During our payroll compliance testing, we noted 11 instances of noncompliance, of which 4 were for employees being paid in excess of the approved salary ordinance. The Town's salary ordinance contained salary ranges in 10-year increments. The Town stated that employees were paid based on years of life experience; however, that was not included in the Town's salary ordinance. Additionally, the Town was unable to provide any supporting documentation to document why employees were being paid in specific salary ranges.

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

Payroll for one employee included 46 hours of overtime during a period in which the employee was paid 16 hours of holiday pay and 64 hours of vacation pay. The employee was paid an overtime rate for hours worked during her vacation, not hours worked in excess of 40 hours per week.

Criteria

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)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

The Town of Long Beach Employee Manual states in part: "Employees are to be paid overtime for hours WORKED in excess of 40 hours per week. . . ."

CERTIFICATION ON INTERNAL CONTROL STANDARDS

The same comment appeared in the immediately prior Report B53318.

Condition and Context

The Clerk-Treasurer incorrectly certified on the Annual Financial Report that employees were trained on internal control standards; however, not all employees who handle financial transactions for the Town had received the training.

Criteria

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](#)."

MOTOR VEHICLE HIGHWAY - RESTRICTED FUND

Condition and Context

The Town did not allocate or deposit at least 50 percent of the distributions received from the Motor Vehicle Highway fund into the MVH Restricted fund.

Criteria

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted. (State Examiner Directive 2018-2)

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

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

BANK ACCOUNT RECONCILIATIONS

A similar comment appeared in the immediately prior Report B53318, entitled *BANK ACCOUNT RECONCILEMENTS*.

Condition and Context

The reconciliations of the bank account balances were conducted; however, the reconciliations contained variances that were not identified. The reconciled bank balances did not agree to the fund balances for the audit period.

For December 31, 2019, the record balance exceeded the reconciled bank balance for the Town by \$14,575, and the Water Utility by \$49,852, for a total of \$64,427.

The Town was not reconciling their Water Utility bank accounts in a timely manner at the end of the month. The Water Utility bank account was reconciled ten months, and the Water Capital bank account was reconciled three months, after the end of the month.

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)

CLERK TREASURER
TOWN OF LONG BEACH
EXIT CONFERENCE

The contents of this report were discussed on January 28, 2021, with William DeFuniak, Clerk-Treasurer; Deanna Carlson, Deputy Clerk; Robert Lemay, President of the Town Council; Richard Blank, President of the Water Utility Board; Mary Lou McFadden, Town Council member; Laurel Kuczynski, Water Utility Board member; John Wall, Town Council member; John Kocher, Town Council member; and Rick Remijas, Water Utility Board member.

TOWN COUNCIL
TOWN OF LONG BEACH

TOWN COUNCIL
TOWN OF LONG BEACH
AUDIT RESULTS AND COMMENTS

COMPENSATION AND BENEFITS

Condition and Context

During our payroll compliance testing, we noted 11 instances of noncompliance, of which 4 were for employees being paid in excess of the approved salary ordinance. The Town's salary ordinance contained salary ranges in 10-year increments. The Town stated that employees were paid based on years of life experience; however, that was not included in the Town's salary ordinance. Additionally, the Town was unable to provide any supporting documentation to document why employees were being paid in specific salary ranges.

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Criteria

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)

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The Town of Long Beach Employee Manual states in part: "Employees are to be paid overtime for hours WORKED in excess of 40 hours per week. . . ."

TRAINING ON INTERNAL CONTROL STANDARDS

The same comment appeared in immediately prior Report B53318.

Condition and Context

The Town Council did not ensure training was provided for all personnel over the adopted internal control standards. The Office Manager for the Water Department and a police dispatcher handled financial activities, but had not received the training on internal control standards.

Criteria

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

"After June 30, 2016, 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."

TOWN COUNCIL
TOWN OF LONG BEACH
EXIT CONFERENCE

The contents of this report were discussed on January 28, 2021, with William DeFuniak, Clerk-Treasurer; Deanna Carlson, Deputy Clerk; Robert Lemay, President of the Town Council; Richard Blank, President of the Water Utility Board; Mary Lou McFadden, Town Council member; Laurel Kuczynski, Water Utility Board member; John Wall, Town Council member; John Kocher, Town Council member; and Rick Remijas, Water Utility Board member.