

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, 2019 to December 31, 2020



FILED

09/15/2021

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Lori Collmar Dorothy Zimmer	01-01-19 to 12-31-19 01-01-20 to 12-31-21
President of the Town Council	Sharon Szwed	01-01-19 to 12-31-21



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, 2019 to December 31, 2020. 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

September 2, 2021

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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 Reports B48175, entitled *STATE REVOLVING FUND ACCOUNTS* and B54123, entitled *INTERNAL CONTROLS - FINANCIAL TRANSACTIONS AND REPORTING*.

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 statement, including cash and investments, receipts, 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.

Monthly financial reports, including a Fund Report and an Appropriations Report, were prepared by the Clerk-Treasurer, and presented to the members of the Town Council for their monthly meetings. However, evidence of an adequate review or oversight process by the Town Council of the reports was not provided.

Receipts

The Clerk-Treasurer prepared the official receipts in the financial accounting software system, and a separate individual posted those receipts to the computerized accounting system documentation was not provided to support the separation of duties.

Disbursements

Manual accounts payable vouchers (APVs) were completed by the Clerk-Treasurer and another employee. The APVs were certified by the Clerk-Treasurer and approved by the Town Council. The Clerk-Treasurer also recorded the disbursements to the computerized accounting system.

Although individual payroll claims were reviewed and approved by someone other than the preparer, there was no evidence of review after the payroll disbursements had been recorded to the financial accounting software. Also, the payroll claims did not document the preparer.

An adequate review or oversight process had not been designed or implemented to ensure the accuracy, completeness, and proper classification of 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 statement. 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, complete, and classified properly.

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

*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 has not recorded the financial transactions relating to the SRF accounts in the Town's financial records since 2013. Due to the financial activity not being recorded, the amounts reported in the financial statement did not reflect the activity of the SRF accounts.

This resulted in the understatement of the Water Bond & Interest fund receipts and disbursements by \$741,619 and \$738,892, respectively. This resulted in the understatement of the Water Debt Service Reserve fund receipts by \$9,884.

Audit adjustments were proposed, approved by the Town, and made to 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:

"The control environment is the basic commonality for all and comprises the integrity and ethical values of the political subdivision established by the oversight body and management. The standards, processes, and structures which form the control environment pervasively impact the overall system of internal control. The oversight body and management convey leadership expectations, and overall tone which are reinforced by all officials and management throughout the various offices and departments. The control environment also contains the overall accountability structure for all employees through performance and reward measures. Within this structure, leadership demonstrates commitment to the political subdivision by having a process for attracting, developing, and retaining competent individuals. This component is static in that its underpinnings do not generally change with a given objective."

"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 NEW CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

"Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information. Internal communication enables personnel to receive a clear message that control responsibilities are taken seriously by the organization. External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties."

"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. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

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 audited entity 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 (MVH) RESTRICTED

Condition and Context

The Town created the Motor Vehicle Highway (MVH) Restricted sub-fund; however, the fund was not presented separately on the Annual Financial Report (AFR) for 2019 or 2020 as required. The AFR is the basis for the Town's financial statement.

An audit adjustment was proposed, approved by the Town, and made to the financial statement to report the MVH Restricted fund separately, including 2019 receipts of \$23,001, and 2020 receipts and disbursements of \$37,242 and \$9,904, respectively.

Furthermore, the Town did not begin posting 50 percent of the State Motor Vehicle Highway Account distribution to the MVH Restricted fund until September 2019. An additional \$20,794 should have been recorded as receipts in the MVH Restricted fund in 2019 for the 50 percent of distributions received between January and August 2019.

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AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

State Examiner Directive 2018-2 states:

"The purpose of this Directive is to authorize and require counties, cities, and towns that receive distributions from the State Motor Vehicle Highway Account to create a new sub-fund within the MVH Fund to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018.

The sub-fund will be referred to throughout this Directive as "MVH Restricted" and will be used to account for MVH monies which have been statutorily restricted for construction, reconstruction, and preservation purposes.

On the chart of accounts, the MVH Fund and MVH Restricted sub-fund shall be shown as follows: . . .

Cities and Towns

Fund 201	MVH
Fund 203	MVH Restricted

Together, MVH and MVH Restricted shall constitute the total MVH Fund. MVH and MVH Restricted will be shown separately on the Annual Financial Report and Annual Operational Report.

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."

FAILURE TO REPORT MISAPPROPRIATION OF ASSETS

Condition and Context

The Town failed to immediately report misappropriation (theft) of public assets to the Indiana State Board of Accounts (SBOA) as required by Indiana Code 5-11-1-27(l). A written notice of the theft was not sent to the SBOA.

The SBOA was not aware of the misappropriation of assets until July 2021 while reviewing the minutes of the Town during the audit. The Town Council meeting minutes from February 12, 2020, indicated missing police equipment of approximately \$20,000.

Criteria

Indiana Code 5-11-1-27(l) states:

"A public officer who has actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds or assets of the public office, including:

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TOWN OF NEW CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

- (1) information obtained as a result of a police report;
- (2) an internal audit finding; or
- (3) another source indicating that a misappropriation has occurred;

shall immediately send written notice of the misappropriation to the state board of accounts and the prosecuting attorney serving in the area governed by the political subdivision."



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Illinois

September 7, 2021

Paul Joyce, CPA
State Examiner
Indiana State Board of Accounts
VIA Email only: officialresponse@sboa.in.gov

RE: 2020 "Official Response" to Audit Results and Comments

Dear Mr. Joyce,

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 has already adopted and implemented procedures to comply with the State Board of Accounts Audit Results and Comments at the next Town Board Meeting of September 8, 2021. The following is a partial list of the responsive changes made by the Town.

Internal Controls-Financial Transactions and Reporting - The procedures to ensure accuracy and completeness have been written, reviewed, approved and enacted.

Motor Vehicle Highway Funds are now reported separately on the financial report.

Sincerely,

Lloyd P. Mullen
Lloyd P. Mullen
Attorney, Town of New Chicago

Response to SBOA Audit for 2019

Regarding the receipts and disbursements comments-I had a process in place where once the receipts and disbursements were made, I required office personnel to sign off on the sewer receipts daily as well as the water receipts. The same personnel also signed off on the monthly Fund Reports and Appropriation Reports. This system was put into place after my last audit. Reports always balanced to the penny when checked with the sewer, water and town ledgers that were used.

Regarding Payroll-I had an office clerk who prepared the payroll claims. Once they were completed, I then reviewed them and processed payroll. The Town Council also reviewed and approved the claims.

Regarding the SRF matter-I had been working with a financial planner to correct this matter. The monies were separated in the ledgers accordingly.

Regarding the preparation of the financial reports for the 2019 MVH Restricted Funds-I did not prepare those reports as I was no longer in office. When I learned of funds needing to be separated, I cut a check to move those funds from 201 to 203.

Respectfully,

Lori L. Collmar

Lori L. Collmar, Former Clerk-Treasurer
Town of New Chicago

CLERK-TREASURER
TOWN OF NEW CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on September 2, 2021, with Dorothy Zimmer, Clerk-Treasurer; Sharon Szvedo, President of the Town Council; Jimmy Gibson, Town Council Vice President; Dave Anderson, Town Council member; Sue Pelfrey, Town Manager; and Lloyd Mullen, Town Attorney.

The contents of this report were sent on September 2, 2021, to Lori Collmar, former Clerk-Treasurer.