

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, 2020 to December 31, 2021



FILED

11/10/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Courtney Udvare	01-01-20 to 12-31-22
President of the Town Council	Sharon Darnell Jennifer Fisher	01-01-20 to 12-31-21 01-01-22 to 12-31-22
Utility Superintendent	David E. Ryan	01-01-20 to 12-31-22



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, 2020 to December 31, 2021. 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.

Beth Kelley, CPA, CFE
Deputy State Examiner

October 26, 2022

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CLERK-TREASURER
TOWN OF CHESTERTON

CLERK-TREASURER
TOWN OF CHESTERTON
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

A similar comment also appeared in prior Report B45748, entitled *FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING*; Report B50149, entitled *INTERNAL CONTROLS*; and Report B56210, entitled *INTERNAL CONTROLS*.

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions. The Town did not have effective internal controls in place to ensure accuracy and compliance over cash and investments.

The Town had implemented internal control procedures over bank reconciliations; however, the internal controls were determined to not be effective in ensuring the accuracy and completeness of the cash and investment ledger balances. Effective internal control and closing procedures were not in place to ensure that transactions were not back dated to previous months activity that had already been reconciled. In addition, the Town does not have a procedure in place to ensure that adjusting items are timely reconciled.

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. . . ."

BANK ACCOUNT RECONCILIATIONS

The same comment also appeared in the prior Report B56210.

Condition and Context

In reviewing the bank reconciliations provided, we noted the following items:

1. Bank reconciliations were completed; however, the cash and investment balance used at the time the reconciliation was completed did not agree to the year-end cash and investment ledger balance or the financial statement reported balance.

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

2. The Health Insurance bank account reconciliation included a reconciling item in the amount of \$209,851, entitled "Old debits never reconciled in the past" which was posted to the ledger on January 31, 2020; however, supporting documentation was not provided for audit to verify the validity of the entry.
3. The Health Insurance bank account reconciliation also included a reconciling item in the amount of \$274,262, entitled "Miscellaneous - Outstanding Entry for Old entries never reconciled in the past" for which supporting documentation was not provided for audit to verify the validity of the adjusting item.
4. The Wastewater Utility bank reconciliation included a \$264,008 deposit in transit adjustments for items dated from 2013 through 2020 that have not been researched and timely reconciled.

At December 31, 2021, the adjusted bank balance was determined to be greater than the record balance by \$169,515 after removing the unsupported items from the Health Insurance bank reconciliation. The financial statement was not adjusted for these variances.

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."

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)

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)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ANNUAL FINANCIAL REPORT - OTHER INFORMATION

Condition and Context

Supplemental schedules of Other Information are required to be reported annually on the Indiana Gateway for Government Units (Gateway) financial reporting system. The Town was not in compliance with the Other Information as follows:

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

Schedule of Payables and Receivables

The Town did not maintain a detailed listing of accounts payable and receivable and failed to report any payables and receivables on Gateway. The Town approved the omission of the Schedule of Payables and Receivables from the Financial Statement Audit Report.

Schedule of Leases and Debt

The Town failed to report all seven of its equipment leases on Gateway. Adjustments were proposed, approved by the Town, and made to the Schedule of Leases and Debt.

Schedule of Capital Assets

The Town did not accurately report the capital assets on the Financial Statement Report. The Town reported the "Remaining Depreciation 2022" totals in the Capital Assets Schedule instead of the purchase cost, which resulted in an understatement of \$45,585,622. Adjustments were proposed, approved by the Town, and made to the Schedule of Capital Assets.

Investment Fund Statement

The Town failed to report \$3,625,612 of investments on its Investment Fund Statement as of December 31, 2021, in the Gateway financial reporting system.

Criteria

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](#)."

AMERICAN RESCUE PLAN ACT (ARPA) FUNDS

On July 28, 2021, the Town received half of the American Rescue Plan Act (ARPA) distribution which was receipted to the American Rescue Plan fund. However, adjustments were posted in December 2021, which removed the \$1,590,641 of ARPA distribution plus interest from the American Rescue Plan fund ledger balance.

The ARPA fund receipt activity and balance was reported in the financial statement for the American Rescue Plan fund; however, the ledger did not support the amount reported. Additional audit procedures were performed to substantiate the amount reported. Furthermore, the Town had not included the ARPA funds in the ledger as of October 1, 2022.

Subsequently, on August 17, 2022, \$1,590,342 for the second half of the ARPA funds were deposited into a Town bank account. However, the funds had not been receipted to the Towns records as of October 1, 2022.

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

Criteria

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)

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)

OVERDRAWN CASH BALANCES

Condition and Context

The financial statement included the 151 2012 R/D Bond and 2016 GO BOND funds with overdrawn cash and investments balances at December 31, 2021, in the amounts of \$82,359 and \$147,784, respectively.

Criteria

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ACCOUNTING FOR IFA ADMINISTERED CRF FUND

Condition and Context

The Town did not properly account for the Coronavirus Relief Fund (CRF) monies in accordance with State Examiner Directive 2020-3.

The Town receipted the Indiana Finance Authority (IFA) non-payroll reimbursements of \$44,933 into the General Fund, Motor Vehicle Highway fund, and Co Economic Development Income Tax fund, that were the funds from which the expenditures were made. The reimbursements should have been receipted to the CARES Act Fund and the corresponding expenditures moved from the three funds to the CARES Act Fund through reversing entries. This would have reinstated the three funds' cash balances and reappropriated the funds.

Subsequently in 2021, the Town received an additional payroll reimbursement of \$1,425. Expenditures, not related to the reimbursement, were then moved to the CARES Act Fund. Since the expenditure activity related to this reimbursement was made in 2020, the expenses could not be reversed. The Town should have claimed the reimbursement to the General Fund, which would have allowed the money to be expended for any general unit purpose.

The CARES Act Fund had a zero balance as of December 31, 2020 and 2021.

Criteria

Transactions for public health and safety payroll costs must be accounted for through one of these two prescribed options.

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AUDIT RESULTS AND COMMENTS
(Continued)

Option One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. The reimbursed amount for public health and safety payroll costs originally incurred in the general fund (or other fund) will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the general fund (or other fund) cash balance and re-appropriate the general fund (or other fund) in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the general fund (or other fund), it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once option one is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

Option Two. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. A claim will be created against the separate CARES grant fund for the reimbursed amount in favor of the general fund. This claim must be supported by documentation of the public health and safety payroll costs that have been expensed from the general fund or other funds.

The amount of the claim will be receipted into the general fund cash balance. Normal appropriation procedures will apply to these funds.

Once option two is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. This option requires a resolution or ordinance as detailed in the memorandum CARES Reimbursement of Public Health and Safety Payroll Costs, September 30, 2020. . . .**

Transactions for other permitted costs reimbursed by IFA must be accounted for through one of the following prescribed frameworks.

Framework One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. Reimbursed disbursements originally incurred in another fund will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the fund cash balance and re-appropriate the fund in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the original fund, it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

Framework Two. If IFA has provided reimbursement based on unpaid invoices or purchase orders, then reimbursements received from IFA shall be receipted into the separate CARES grant fund. The expenditures to vendors will be made through the CARES grant fund and these expenditures must match the application made to IFA. If the actual invoice or invoices relating to a purchase order is less than the purchase order, then the difference in the money expended to the vendor and the amount received for the purchase order from IFA must be returned to IFA. The items on the invoice must match the items on the purchase order. All documentation must be maintained.

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

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

Framework Three. If you have created a negative balance in your CARES fund based on expenditures made in anticipation of receipt of reimbursement for allowable expenditures where invoices have already been submitted to IFA then leave as is and receipt reimbursement when received, bringing the balance in the separate CARES grant fund to zero. Going forward, expend any anticipated allowable expenditures from a fund with an appropriation and follow framework one. If a negative balance in the CARES grant fund is not fully reimbursed, then the unreimbursed amount will require a reverse entry and posting of the expenditure to the general or other appropriate fund within an appropriated line item.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

(State Examiner Directive 2020-3)

CLERK-TREASURER
TOWN OF CHESTERTON
EXIT CONFERENCE

The contents of this report were discussed on October 26, 2022, with Courtney Udvaré, Clerk-Treasurer; Jennifer Fisher, President of the Town Council; Jim Ton, Town Council member; and Dane Lafata, Town Council member.