

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF HIGHLAND

LAKE COUNTY, INDIANA

January 1, 2019 to December 31, 2019



FILED
12/27/2021

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Certification on Internal Control Standards	6
Condition of Records.....	6
Motor Vehicle Highway (MVH) Restricted Fund	6-7
Internal Controls.....	7-8
Official Response.....	9-15
Exit Conference	16
Town Council:	
Audit Result and Comment:	
Training on Internal Control Standards	18
Exit Conference	19

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Michael W. Griffin	01-01-19 to 12-31-21
President of the Town Council	Steven Wagner	01-01-19 to 12-31-19
	Mark Schocke	01-01-20 to 12-31-20
	Roger Sheeman	01-01-21 to 12-31-21
Public Works Director	John Bach	01-01-19 to 06-30-20
	(Vacant)	07-01-20 to 07-11-20
	Mark Knesek	07-12-20 to 12-31-21



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE TOWN OF HIGHLAND, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Highland (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

December 17, 2021

(This page intentionally left blank.)

CLERK-TREASURER
TOWN OF HIGHLAND

CLERK-TREASURER
TOWN OF HIGHLAND
AUDIT RESULTS AND COMMENTS

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Town could not verify that all applicable personnel completed training on internal control standards. The Town certified on the Annual Financial Report that the Town had provided training on internal control standards. Since the Town could not verify that all personnel were trained, the certification that they had trained on internal control standards was incorrect.

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](#)."

CONDITION OF RECORDS

Condition and Context

Bank reconciliations were prepared monthly with several reconciling items. On the December 31, 2019 bank reconciliation, 81 reconciling items were included that totaled \$75,538. Supporting documentation was requested for 16 items, but the Town was not able to provide adequate supporting documentation for any of the items selected.

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 Towns, Chapter 1)

MOTOR VEHICLE HIGHWAY (MVH) RESTRICTED FUND

Condition and Context

The Town did not comply State Examiner Directive 2018-2 by establishing the MVH fund and the MVH Restricted sub-fund with the appropriate fund numbers. The Town recorded the MVH Restricted sub-fund as a department under the MVH fund to code disbursements as restricted.

Additionally, the MVH Restricted sub-fund was used for non-restricted purposes, such as mower repair parts, vehicle repair parts, and payroll costs for snow removal. MVH Restricted disbursements were for non-restricted purposes for 6 out of 10 disbursements.

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

Criteria

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 Towns, Chapter 1)

The purpose of this Directive is to authorize and require . . . 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. . . .

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. . . . (State Examiner Directive 2018-2)

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."

INTERNAL CONTROLS

Condition and Context

There were deficiencies in the internal control system of the Town related to cash and investments, payroll disbursements, and financial close and reporting. The Town had not separated activities related to those significant audit areas.

Cash and Investments

The internal controls established by the Town were not operating effectively. Bank reconciliations were prepared by a consultant, and reviewed and approved by the Clerk-Treasurer. Investments totaling \$7,192,481 in two separate bank accounts were excluded from the reconciliation.

Payroll Disbursements

The Town designed a system of internal controls over payroll and payroll-related disbursements, but the internal control system was not properly implemented. The Clerk-Treasurer and Town Council approved payroll; however, the payroll docket did not adequately detail the payroll fund appropriations associated with each employee or the types of payroll withholdings.

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

Financial Close and Reporting

The Town had implemented internal controls for financial reporting; however, the internal controls were not effective. Due to the lack of effective internal controls, the activity for the Payroll fund was not included on the financial statement. This resulted in an understatement of the Town's financial statement for receipts and disbursements of \$3,375,895.

Audit adjustments were proposed, accepted 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:

"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. . . ."

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](#)."

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)



TOWN OF HIGHLAND

Highland Municipal Building • 3333 Ridge Road

Highland, Indiana 46322

219-838-1080 • Fax 219-972-5097



Population 23,696

Incorporated in 1910

Audit Results Official Response

Friday, December 17, 2021

Paul Joyce, State Examiner
State Board of Accounts
State of Indiana
302 W. Washington Street
Indianapolis, Indiana 46204

Re: Town of Highland Responses to audit result and comment Accompanying the filing of the FY 2019 Audit, the period ended December 31, 2019. Filed pursuant to IC 5-11-5-1(b)

Dear Mr. Joyce and State Board of Accounts:

Hello. I hope this arrives to find you well. Please receive this correspondence as the official response to the written comments of the audit identified on the caption above. I hope it can be made a part of the record and made a part of the final audit report.

Overview and Operating Ethos

This officer and the Town of Highland highly affirm the role of the Indiana State Board of Accounts as the entity tasked with performing the periodic external audits for the municipality, pursuant to IC 5-11 et seq. It is our belief that the State Board of Accounts, a public entity, provides the best, cost-effective performance of this essential duty in a professional and *disinterested* but not *uninterested* manner, promoting good stewardship, public accounting and the essential interests of the public we are both oath-bound to serve. Please, nothing in this response to the audit results and comments should be seen as departing from this ambient context, and deeply held opinion of this agency.

Further, this officer has relied and continues to rely sincerely upon the State Board of Accounts to review the compliance and financial reporting of the Town generally and the office of the Clerk-Treasurer in particular, welcoming its comments as instructive and helpful, consistent with the general objective of this officer to pursue excellence in the performance of the duties of office. This has been true for the whole of this officer's career as a public finance professional, now completing 30 years as the Town's elected fiscal officer. It is acknowledged that the governing body (management), is ultimately responsible for the policies of internal control, and this officer as fiscal officer is primarily

responsible for the implementation of the controls affecting the control environment, providing reasonable – *not absolute assurance* -- reducing error or misstatement.

Appreciation. Highland further acknowledges and is very grateful to the State Board of Accounts for conducting and completing this examination, covering the period January 1, 2019 through December 31, 2019. While an external audit frequency of not less than four years is lawful under the new risk based criteria of IC 5-11-1-25(b), Standard and Poor's continues to insist for its Indiana entities that have rated debt, the frequency of external audits must be greater. Thank you very much.

The Key Audit Metric. Finally, we acknowledge with pleasure that Highland is once again to receive an unqualified or unmodified regulatory opinion regarding our financial records and reporting. We thank the Indiana State Board of Accounts for opining to this finding. With this finding, the Town of Highland regards the written comments as part of a process of continuing improvement that inform our understanding to enhance the stewardship and reporting of the Town. This is especially acknowledged with internal controls, which should be continually reviewed and improved.

Response to audit results and comments.

Internal Controls. The Town of Highland welcomes any and all suggestions to improve its internal control regime. The Town of Highland notes that internal controls are never fully perfected but always a work in progress. The Town of Highland also acknowledges and welcomes the State Board of Accounts requirement under IC 5-11-1-27(e) to define the acceptable minimum level of internal control standards.

So, the Town of Highland genuinely appreciates and welcomes these written comments, which we take to be rendered to instruct and improve the continuing end of enhanced and effective internal controls.

CERTIFICATION ON INTERNAL CONTROL STANDARDS. The Town of Highland acknowledges and concurs in the auditor's recorded comment. Highland's policy as set forth in Section 3.60.070 (A) of the Highland Municipal Code provides is "*The personnel, whether an official or employee, of the town of Highland whose official duties include receiving, processing, depositing, disbursing, or otherwise having access to funds ... shall comply with these minimum internal control standards and procedures and any other policy regarding standards and procedures determined necessary by the town of Highland now and as modified in the future*"

To that end, pursuant to the same code, this officer has clarified the training in a policy styled as town-wide Internal Control Policy, that *“All newly elected officials, all newly appointed officers and newly hired employees whose official duties include receiving, processing, depositing, disbursing, or otherwise having access to funds ... shall be trained through the review of the training video produced by the Indiana State Board of Accounts regarding Internal Controls. Once viewed, the named official, officer or employee shall complete the certification form regarding the training and file the original with the Office of the Clerk-Treasurer.”*

The Town of Highland further acknowledges that following up on the receipt of the certifications and the execution of policy can be strengthened.

Response and Remedial Measures. All currently serving and newly appointed officers on boards and commissions will be presented with the code citation, the written policy and the training instructions. There will be follow-up by a discrete deadline to verify compliance by return of the identified certification of compliance.

Further, for all future appointments and new hires, the Associate Clerk (Treasurer) for payroll and personnel has been tasked with providing the materials above at on-boarding and will assist in maintaining the records of the training certifications.

CONDITION of RECORDS. The Town of Highland concurs in the finding. The Town of Highland notes that the written comment evidences the context of significant turn-over and changes in staffing during the subject audit period and the acute learning curves associated with such circumstances. In this context, staff expressed challenges with performance of the reconciliations – particularly accounting of the credit card transactions. The Town of Highland and this officer engaged outside professional assistance, and assigned leased talent in order to aid the learning curve and continue to provide the monthly reconciliations.

Response and Remedial Measures. The Town of Highland has taken steps to refine the process with the existing software, and has identified a process that will fully align the monthly bank reconciliations with the processing program of the financial and accounting software, that improve accuracy, better account for supporting records, refinancing the production of the reconciliations. Finally, it is the objective of this officer to fully return the reconciliation task to staff.

MOTOR VEHICLE HIGHWAY FUND MVH RESTRICTED. The Town of Highland acknowledges the written finding and concurs in part but demurs in part as to the completeness of information surrounding the comment.

The Town of Highland acknowledges that it has not converted its funds to reflect the prescribed chart of accounts, newly modified for FY 2022. The Town of Highland was aware of the existing chart of accounts that were recommended but not required. The Town of Highland further notes that the chart of accounts that is prescribed beginning in 2022, will be adopted and placed in operation.

Further, the Town of Highland notes the Examiner's Directive designed to discretely account for the portion of the motor vehicle highway monthly distribution, to assure that at "least fifty percent" of monthly distribution was accounted for to align with its statutory purposes of "*preservation, construction, and reconstruction.*" The Town of Highland expects to fully align with the directive, using a sub fund, once the new chart of accounts is fully implemented in FY 2022. However, the Town of Highland asserts that with the limitations of the software relative to hosting a subaccount, the Town of Highland took several measures that aligned fully with the objects and purposes of the Examiner's Directive.

When the motor vehicle highway law, IC 8-14-1-5(c) was first amended in 2017, the Town of Highland took steps pursuant to the initial guidance to comply with the changes in the law. The Town Council adopted **Section 3.45.055** in the Municipal code establishing the Administration department for MVH and the Construction, reconstruction and maintenance department. Each department would be appropriated and used to account for expenditures aligned with the change in IC 8-14-1-5 generally.

Further, the Town of Highland through its proper officer established a discrete revenue account, to recognize and identify the distributions, divided as received to further identify the added restriction of use for the construction, reconstruction and maintenance of the Town's highways. (The Town of Highland further acknowledges that this language was changed in 2018, removing maintenance and adding preservation as defined in IC 8-14-1-1.) In summary, even without using the chart numbered fund, the town did still serve all the accounting objects and purposes of the guidance, the state law and the Examiner's Directive. It is the Town of Highland's intention, again to implement the new chart of accounts and will then identify a "sub-fund" that will account for the restricted resources of the Motor Vehicle Highway Fund.

Still further, the Town of Highland acknowledges and concurs in the additional finding regarding the mistaken posting of certain expenses to the motor vehicle highway Construction, Reconstruction and Maintenance Department, which now must be confined to construction, reconstruction and *preservation* purposes. The Town of Highland, in good faith, posted the expenses aligned with the costs associated with snow

plowing and the posting of the salary of a custodian in the public works department as well. However, it notes that the expenses are lawful from the Motor Vehicle Highway Fund but should have been posted to the administration department rather than the local fund department aligned with the restricted purposes.

Response and Remedial Measures. The Town of Highland will be implementing the new SBOA Chart of Accounts in FY 2022. Further, before the end of 2021, the Town of Highland will amend the current Highland municipal code **Section 3.45.055**, to better align its language with the changes in the Motor Vehicle Highway Law and the guidance of the Examiner's directive.

INTERNAL CONTROLS. Context and Rejoinder. The Town of Highland acknowledges the control concerns shared in the following written comments to this report. As stated previously, the Town of Highland believes these comments evidence the context of significant turn-over and changes in staffing during the subject audit period and the acute learning curves associated with such circumstances.

Condition and Context. The Town of Highland acknowledges the written comment. The usual separation of duties in part were affected by significant turn-over and changes in staffing during the subject audit period and the acute learning curves associated with such circumstances. There are vacant positions in the office of the clerk-treasurer.

Response and Remedial Measures. The Town of Highland asserts that concerns raised in the comment will be addressed and corrected once there is a full staff in place. The Town of Highland will also improve documentation and processes dealing with the subjects of this comment.

Cash and Investments. The Town of Highland acknowledges the written comment. It is noted that the investments identified, includes the Trust Indiana Local Government Investment Pool and a local now account earning an above market rate of interest. The Town of Highland believes that narrative associated with this comment are not complete in their characterization. The investments with the Local Investment Pool (LGIP) are entered into the accounting software as an investment, all balances of which tie to the LGIP Statements. Further, each month the statements are reviewed and any earnings are then posted in the financial accounting software. The Town of Highland concurs that the Trust Indiana balances, on deposit with the State of Indiana as custodian, where they are invested by its investment management group, have not been included in the monthly bank reconciliations review. The Town of Highland further offers that there has not been a documented review of the ending balances in the Trust Indiana statements and the balances in the accounting and financial software, our local record.

Response and Remedial Measures. The Town of Highland restates the response and remedial measures described under the rubric of **Condition of Records**, previously stated in this response. Further, the responsible officer will cause a review of the current process as illustrated for the monthly bank reconciliations. In addition to the current monthly bank reconciliations, with its documentation of a second level of review, there will be a discrete, monthly investment report reconciliation, with documentation of its review by a second reviewer.

Payroll Disbursements. The Town of Highland heartily acknowledges and concurs in the written comment and thanks the examiners for the recognition of this matter and the guidance in its solution.

The Town of Highland continues to review the work process, and has identified refinements to the process of managing the review and the payroll dockets generally. The Town of Highland now understands that there is a need to either enhance payable docket for allowance by the relevant boards of jurisdiction to also show discretely the payments withheld and then paid to the US Treasury, state revenue departments as well as related payees.

Response and Remedial Measures. The Town of Highland and the responsible officer have already discussed with the relevant staff the processes related to the payroll claims involving payments withheld from payroll. Subject to the limitations of the software, an enhanced report will be developed to discretely exhibit payroll withholding payments, and will be set before the several proper boards of jurisdiction for allowance or ratification.

Financial Close and Reporting. The Town of Highland acknowledges and concurs in the written comment. It is noted that the written comment further evidences the context of significant turn-over and changes in staffing during the subject audit period and the acute learning curves associated with such circumstances. In this context, the Town of Highland engaged outside professional assistance, to prepare the annual financial report. The specific comment was based upon a choice made to net the receipts and disbursements in the payroll agency fund for the summary of schedule of the annual report. The practice was discovered and curtailed in future reports.

Response and Remedial Measures. The Town of Highland acknowledges that the subject of the comment was noted, with current controls operating more effectively

and the reporting was corrected. The Town of Highland avers that AFR filed for FY 2020 was corrected and fully reported the payroll activity according to the guidance.

Final Comments

The audit entity believes that the examiners were professional in their execution of this examination. In addition to a review of the control environment, risk assessment, control activities, information and communication employed and monitoring, there should be some explication of the practitioners and the regular practices of the unit examined, as well as any relevant circumstances -- both exogenous as well as endogenous. It is believed that the examiners considered these and the working ethos of the unit. The Town of Highland and this officer thank the State Board of Accounts for its external audit of the period ending December 31, 2019. This officer affirms Highland's long public record of continuing improvement and endeavoring to conform to the highest standards of financial stewardship. Internal controls are always a work in progress.

This response is prepared to offer additional insight and an expository reply to the audit comments and results report.

The TOWN of HIGHLAND



Michael W. Griffin, M.P.A., IAMC/MMC/CPFA/ACPFIM/CMO
Clerk-Treasurer

CLERK-TREASURER
TOWN OF HIGHLAND
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2021, with Michael W. Griffin, Clerk-Treasurer; Janice Figueroa, Fiscal Analyst; Roger Sheeman, President of the Town Council; Mark Herak, Town Council member; and Tom Black, Town Council member.

TOWN COUNCIL
TOWN OF HIGHLAND

TOWN COUNCIL
TOWN OF HIGHLAND
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

The Town Council could not verify that all applicable personnel completed 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 HIGHLAND
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2021, with Michael W. Griffin, Clerk-Treasurer; Janice Figueroa, Fiscal Analyst; Roger Sheeman, President of the Town Council; Mark Herak, Town Council member; and Tom Black, Town Council member.