

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

SPECIAL INVESTIGATION REPORT
OF

WATER DEPARTMENT
TOWN OF LONG BEACH
LAPORTE COUNTY, INDIANA

January 1, 2019 to January 10, 2020



FILED
02/19/2021

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STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This is a special investigation report for the Town of Long Beach (Town), for the period January 1, 2019 to January 10, 2020, and is in addition to any other reports for the Town as required under Indiana Code 5-11-1. All reports pertaining to the Town may be found at www.in.gov/sboa/.

We performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts and were limited to records associated with the Water Department, including bank statements, customer utility stubs, transaction register reports, and customer history reports. The 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 Results and Comments, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

December 1, 2020

WATER DEPARTMENT
TOWN OF LONG BEACH
RESULTS AND COMMENTS

BACKGROUND

Angela Palmieri (Palmieri) was hired as the Office Manager for the Water Department on January 3, 2019. As Office Manager, Palmieri was responsible for preparing the utility bills, collecting utility payments, posting payments to customer accounts, making adjustments to customer accounts, preparing and making deposits into the Water Department's bank account, processing invoices and preparing checks, and reconciling the bank account.

Palmieri resigned on January 10, 2020.

The Town notified the Indiana State Board of Accounts of concerns over the collection of funds in the Water Utility on February 9, 2020. The Indiana State Board of Accounts examined the records and the accounting for water collections to determine if any additional monies were not deposited by Palmieri. The results of our investigation are described in the following comments.

COLLECTIONS NOT DEPOSITED

Comparison of Transaction Register Report to Bank Deposits

A "Transaction Register" report from the Water Department's software system (Civic Systems) that detailed the customer's name, account number, description, check number (left blank if paid with cash), and amount paid was compared to the bank deposits and bank statements from January 1, 2019 through January 10, 2020. Cash collections totaling \$1,754.49 were not deposited in the bank as follows:

<u>Transaction Date</u>	<u>Deposit Date</u>	<u>Cash Not Deposited</u>
07-31-19	No Deposit	\$ 600.20
09-30-19	09-30-19	81.25
10-03-19	No Deposit	100.00
12-02-19	No Deposit	873.04
1-10-20	1-10-20	<u>100.00</u>
		<u>\$ 1,754.49</u>

Comparison of Customer Utility Stubs to Bank Deposits

Customer utility stubs were compared to the bank deposits and bank statements for January 1, 2019 to January 10, 2020. Collections from September 13, 2019, totaling \$746.05 were not deposited. The collections were comprised of four utility stubs each marked as "cash." These customers' payments were not listed on the Transaction Register report. Upon further review, these four payments were noted as billing adjustments to the customers' accounts.

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the unit. The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of the payers. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

WATER DEPARTMENT
TOWN OF LONG BEACH
RESULTS AND COMMENTS
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Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any official or employee may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

We requested Palmieri to reimburse the Water Department \$2,500.54 for collections not deposited. (See Summary of Charges, page 13)

BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

Billing Adjustments

On July 26, 2010, the Water Board approved a policy for any adjustments made to customers' accounts. The policy stated: "The Long Beach Water Department reserves the right to make customer account adjustments (debit or credit) on a case by case basis as presented to them at the regular monthly board meetings. The Board will also allow Barb to make adjustments under \$5.00 on a case by case basis." Barb was the office manager from May 24, 1993 to December 31, 2018.

The Water Board did not approve any water adjustments for customers' accounts from January 1, 2019 to January 10, 2020. Based upon the policy, Palmieri did not have the authority to adjust customers' accounts.

Billing adjustments were routinely made to correct customers' accounts whose payments were not deposited; therefore, we reviewed billing adjustments in excess of \$5 for which documentation supporting the adjustment was not provided.

We could substantiate the validity of the explanations for the adjustments made to 18 customer accounts, which included: non-sufficient funds (NSF) checks, stopped payments on checks, payments posted to another customer's account, and water meter usage adjustments.

We could not substantiate the validity of the explanations for adjustments to five customers' accounts totaling \$875.32, which included: "billed incorrectly," "billed in error," and "remove penalty."

For one of the five customers' accounts, the customer (Customer A) made a \$203.20 payment on his account with a check. Of that \$203.20 check amount, only \$121.95 was correctly posted to customer A's account; the remaining \$81.25 was posted to another customer's account (Customer B). Customer B had actually paid his bill with cash, but the cash was not deposited. An adjustment was subsequently made to Customer A's account with the explanation "software issue" to remove the remaining balance due and the associated penalty.

The governing body of a unit must have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balance. Documentation must exist for all efforts made by the unit to collect amounts owed prior to any write-offs. Write-offs or adjustments to records which are not documented or warranted may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any official or employee may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

We requested Palmieri to reimburse the water department \$875.32 for billing adjustments. (See Summary of Charges, page 13)

WATER DEPARTMENT
TOWN OF LONG BEACH
RESULTS AND COMMENTS
(Continued)

SPECIAL INVESTIGATION COSTS

The State of Indiana incurred costs in the amount of \$6,293.20 due to the special investigation of the Water Department.

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

"If the attorney general institutes civil proceedings related to this section or under [IC 5-11-5-1](#), the attorney general shall seek, in addition to the recovery of any funds misappropriated, diverted, or unaccounted for, restitution of:

(1) costs incurred by the state board of accounts . . .

in connection with the civil proceedings."

Audit costs incurred because of poor records, nonexistent records, or any other inadequate book-keeping practices, or because of theft or a shortage may be the personal obligation of the responsible official or employee.

Any audit costs paid without the prior approval of the SBOA when the SBOA has the statutory requirement to perform the audit of the unit may be considered a duplication of service and an unnecessary expense. These payments may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

We requested Palmieri to reimburse the State of Indiana for the special investigation costs in the amount of \$6,293.20. (See Summary of Charges, page 13)

PUBLIC EMPLOYEES BLANKET BOND

The Town obtained the following public employees' blanket bonds:

<u>Employee Blanket Bond</u>	
<u>Period</u>	<u>Amount</u>
01-01-19 to 12-31-19	\$ 5,000
01-01-20 to 12-31-20	5,000

INSURANCE POLICY

The Town, of which the Water Department is a portion, had an insurance policy that protects them from wrongful employment practices.

<u>Term</u>	<u>Coverage</u>
12-15-18 to 12-15-19	\$ 5,000,000
12-15-19 to 12-15-20	5,000,000

WATER DEPARTMENT
TOWN OF LONG BEACH
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BANK ACCOUNT RECONCILIATIONS

A similar comment also appeared in prior Report B53318, entitled *BANK ACCOUNT RECONCILIATIONS*.

Palmieri was responsible for performing the bank reconciliations of the Water Department account. After her resignation, the Town discovered that Palmieri had not reconciled the bank account beyond July 31, 2019.

After Palmieri resigned on January 10, 2020, the Town's computer software company performed the bank reconciliations from August 2019 to current.

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).

UNTIMELY DEPOSITS

Town officials found nine checks totaling \$1,393.84 that were not deposited by Palmieri. One check for \$76.98, which was not deposited, was found to have been posted as an adjustment to the customer's account. The remaining eight checks were not posted as payments to the customer's accounts and were not found to have been recorded as adjustments against the customer's accounts. One check was dated June 30, 2018, and the remaining eight checks were dated from May 25, 2019 to May 29, 2019.

Indiana Code 5-13-6-1 states in part:

"(c) Except as provided in subsections (d) and (g), all local officers, except township trustees, who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the several local boards of finance that have jurisdiction of the funds. The public funds collected by township trustees shall be deposited in the designated depository on or before the first and fifteenth day of each month. Public funds deposited under this subsection shall be deposited in the same form in which they were received. . . .

(g) The following are not required to deposit funds on the business day following receipt if the funds on hand do not exceed five hundred dollars (\$500):

- (1) An office of the legislative branch of state government.

WATER DEPARTMENT
TOWN OF LONG BEACH
RESULTS AND COMMENTS
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- (2) A local officer of a political subdivision required to deposit funds under subsection (c) other than a township trustee.
- (3) A city or a town required to deposit funds under subsection (d).

However, the funds on hand must be deposited not later than the business day following the day that the funds exceed five hundred dollars (\$500)."

RECEIPT ISSUANCE

Receipts were not issued for all collections received by the Water Department. Three checks were deposited into the Water Department's bank account for miscellaneous charges (selling a mailing list and damages). Receipts were not issued for these collections. Furthermore, there was no fee schedule for these services; therefore, we could not verify if the payments received were correct.

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Fees can only be collected as specifically authorized by law or properly authorized ordinance/resolution. When a fee is NOT specified by law, but instead through the use of an ordinance/resolution, sufficient authoritative reference should be maintained. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CASH DRAWER AND PETTY CASH FUNDS

A "Trial Balance Report" for the Water Department indicated that the Water Department had established a cash change fund (cash drawer) of \$75 and a petty cash fund of \$50. Officials were unable to locate an ordinance or resolution for the establishment of the cash change and petty cash funds.

On January 10, 2020, officials deposited cash that they determined were utility collections, which left \$35 in the cash drawer.

There were no procedures in place to transfer the monies from the former Office Manager to the new Office Manager; therefore, we could not determine if the \$75 cash change and \$50 petty cash funds were intact when the Office Managers changed.

Indiana Code 36-1-8-2 states:

"(a) The fiscal body of a political subdivision may permit any of its officers or employees having a duty to collect cash revenues to establish a cash change fund. Such a fund must be established by a warrant drawn on the appropriate fund of the political subdivision in favor of the officer or employee, in an amount determined by the fiscal body, without need for appropriation to be made for it.

(b) The officer and employee who establishes a cash change fund shall convert the warrant to cash, shall use it to make change when collecting cash revenues, and shall account for it in the same manner as is required for other funds of the political subdivision.

(c) The fiscal body shall require the entire cash change fund to be returned to the appropriate fund whenever there is a change in the custodian of the fund or if the fund is no longer needed."

WATER DEPARTMENT
TOWN OF LONG BEACH
RESULTS AND COMMENTS
(Continued)

Indiana Code 36-1-8-3 states:

"(a) The fiscal body of a political subdivision may establish a petty cash fund for any of its offices in a like manner to that prescribed by section 2 of this chapter.

(b) The custodian of a petty cash fund shall use it to pay small or emergency items of operating expense. A receipt shall be taken for each expenditure made from the fund.

(c) The custodian of a petty cash fund shall periodically file a voucher, with all original receipts totaling the cash claimed expended being attached to it, so that the fund can be reimbursed for expenditures from it. Reimbursement must be approved and made in the same manner as is required for other expenditures of the political subdivision."

INTERNAL CONTROLS

Deficiency in Internal Controls - Segregation of Duties

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

There were no internal controls evident, such as an oversight, review, or approval process, over the cash and investments, receipts, and disbursements of the Water Department. The Office Manager was the sole person responsible for all financial processes.

We noted the following deficiencies:

1. The Office Manager was responsible for reconciling the bank account without any review by either the Clerk-Treasurer or the Water Board; thus, it was not noticed when the bank reconciliations were not performed.
2. The same person who billed the customer accounts also collected, recorded, and deposited the collections on the customer accounts, as well as, performing adjustments on the customer accounts.

The failure to establish these internal controls could have enabled material misstatements or irregularities to go undetected.

Adjustments Without Water Board Authority

There was no oversight, review, or approval of billing and payment adjustments. There was no documentation maintained to support the adjustments. No one reviewed to ensure documentation was retained to support adjustments or reviewing the adjustment to ascertain the legitimacy of adjustments.

There were penalty adjustments that ranged from \$6.11 to \$75.56, which were adjusted off customer accounts without Water Board authorization.

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:

WATER DEPARTMENT
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RESULTS AND COMMENTS
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"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. . . ."

INVESTIGATIONS BY OTHER GOVERNMENTAL AGENCIES

Investigation of the Water Department is also being conducted by the Indiana State Police.

WATER DEPARTMENT
TOWN OF LONG BEACH
EXIT CONFERENCE

The contents of this report were discussed on January 20, 2021, with William DeFuniak, Clerk-Treasurer; Bob Lemay, Town Council President; John Kocher, Town Council Board member; Mary Lou McFadden, Town Council Board member/Water Board member; John Wall, Town Council Board member; Richard Blank, Water Board President; Rick Remijas, Water Board member; and Mark Swistek, Chief Marshal.



BILL DE FUNIAK
Clerk-Treasurer

2400 Oriole Trail
Long Beach, IN 46360-1614
TELEPHONE 219-874-6616

January 30, 2021

Mr. Paul Joyce

State Examiner

Indiana State Board of Accounts

302 W. Washington Street

Suite E418

Indianapolis, IN 46204

Dear Mr. Joyce,

The Town of Long Beach Town Council, Water Board and Clerk-Treasurer are in receipt of your audit delivered on January 20, 2021. We accept fully all of your findings and have reviewed procedures and courses of action to remediate issues identified in your report.

Attached are specific responses to items identified as needing correction or improvement.

Sincerely,

William S. de Funiak

Clerk-Treasurer



TOWN COUNCIL

JOHN KOCHER
BOB LEMAY
MARY LOU McFADDEN
NICK MEYER
JOHN WALL

OFFICIAL RESPONSE

RECONCILIATIONS

The Long Beach Water Board (LBWB) will have a Board member, separate from the person preparing the monthly bank reconciliations review the statements and reconciliations and document the review.

LEDGERS

LBWB will contract with an outside accounting firm for a quarterly review to confirm and match ledger balances and reconciled bank statements for all water department funds.

INTERNAL CONTROLS

All town and water department employees, who handle funds, have been trained (and documented) in state mandated internal control standards.

DEPOSITS

Timely deposits will be made and receipt issuance compliance will be maintained.

All other comments and deficiencies recorded in the report will be reviewed and an action plan will be developed.

WATER DEPARTMENT
TOWN OF LONG BEACH
SUMMARY OF CHARGES
(Due to Malfeasance, Misfeasance, or Nonfeasance)

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Angela Palmieri, former Office Manager:			
Collections Not Deposited, pages 3-4	\$ 2,500.54	\$ -	\$ 2,500.54
Bad Debts and Uncollectible Accounts, page 4	875.32		875.32
Special Investigation Costs, page 5	<u>6,293.20</u>	<u>-</u>	<u>6,293.20</u>
 Totals	 <u><u>\$ 9,669.06</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 9,669.06</u></u>

This report was forwarded to the Office of the Indiana Attorney General and the local prosecuting attorney.

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AFFIDAVIT

STATE OF INDIANA)
PORTER COUNTY)

I, Kristin Campbell, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the Town of Long Beach, LaPorte County, Indiana, for the period from January 1, 2019 to January 10, 2020, is true and correct to the best of my knowledge and belief.

Kristin Campbell
Field Examiner

Subscribed and sworn to before me this 2ND day of FEBRUARY, 2021



Kathleen A. Thapak
Notary Public

My Commission Expires: JANUARY 24, 2026

County of Residence: PORTER