

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

EXAMINATION REPORT

OF

TOWN OF SAINT JOHN

LAKE COUNTY, INDIANA

January 1, 2004 to December 31, 2005



FILED
10/04/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sherry Sury	01-01-04 to 12-31-07
President of the Town Council	Michael Fryzel	01-01-04 to 12-31-06
Director of Public Works	Robert Pharazyn	01-01-04 to 12-31-06
Town Manager	Stephen Kil	01-01-04 to 12-31-06
President of the Water Utility/ Waterworks District	Alex Monanteras	01-01-04 to 12-31-06
President of the Wastewater Utility/Sanitary District	Alex Monanteras	01-01-04 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF SAINT JOHN, LAKE COUNTY, INDIANA

We have examined the schedules of receipts, disbursements, and cash and investment balances of the Town of Saint John (Town), for the period of January 1, 2004 to December 31, 2005. The Town's management is responsible for the schedules. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the schedule of receipts, disbursements, and cash and investment balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedules referred to above present fairly, in all material respects, the cash transactions of the Town for the years ended December 31, 2004 and 2005, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

August 2, 2006

TOWN OF ST. JOHN
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As of And For The Year Ended December 31, 2004

	Cash and Investments 01-01-04	Receipts	Disbursements	Cash and Investments 12-31-04
Governmental Funds:				
General	\$ 1,304,336	\$ 3,689,546	\$ 3,720,690	\$ 1,273,193
Motor Vehicle Highway	332,955	419,713	619,354	133,314
Local Road and Street	163,662	99,402	171,137	91,927
Park and Recreation	53,312	264,490	182,817	134,985
Law Enforcement Continuing Education	10,983	5,689	12,829	3,844
Economic Development Commission	44,767	5,400	21,462	28,705
Electronic Map Generation	275	150	425	-
Police PIDP	9,140	3,836	5,492	7,484
Hazmat Response	885	-	884	1
Sanitary District Operating	114,377	232,881	223,993	123,265
Waterworks District Operating	175,429	43,488	144,753	74,164
Quad Town	6,895	-	194	6,702
Solid Waste Operating	22,825	39,388	35,815	26,398
Police Department Grants	4,149	51,628	54,514	1,263
Asset Forfeiture Account	4,771	-	-	4,771
Police Department Special Revenue	57,590	75,946	54,794	78,741
Police Gift	9,227	11,874	7,049	14,052
Police Canine	1,059	-	-	1,059
CATV Franchise	35,779	62,408	69,647	28,540
Christmas Events	-	1,780	1,780	-
DARE	120	500	620	-
Park Bond and Interest	42,707	90,703	87,048	46,363
Sanitary District Bond and Interest	151,002	1,075	153,128	(1,050)
Barrett A Principal and Interest	27,726	23,984	13,360	38,349
Barrett B Principal and Interest	12,229	9,698	6,003	15,924
Redevelopment Construction	84,999	-	-	84,999
Ambulance Capital Replacement	26,089	20,828	15,112	31,805
Cumulative Fire Fund	242,156	53,491	19,170	276,477
Cumulative Sewer	500,160	444,508	188,219	756,449
Riverboat Revenue	329,529	178,645	211,633	296,541
Park and Recreational	114,562	179,148	221,488	72,222
St. John South TIF	990	1,887	-	2,877
Barrett A - Road/Water Project	6,516	-	6,516	-
Barrett B - Sewer Project	1,850	-	1,850	-
Cumulative Capital Improvement	125,934	31,279	48,939	108,274
Cumulative Capital Development	353,561	64,394	122,699	295,256
Proprietary Funds:				
Water Utility - Operating	216,076	1,301,254	1,313,083	204,247
Water Utility - Bond and Interest	192,367	317,511	346,466	163,412
Water Utility - Debt Service Reserve	288,478	20,153	-	308,631
Water Utility - Customer Deposit	90,140	19,250	3,605	105,785
Water Utility - System Development	-	151,000	-	151,000
Water Utility - Improvement	338,898	145,000	163,511	320,386
Wastewater Utility - Operating	220,812	1,421,318	1,334,925	307,206
Wastewater Utility - Bond and Interest	67,753	411,857	450,349	29,260
Wastewater Utility - System Development	-	150,000	-	150,000
Wastewater Utility - Ban Refunding	-	1,810,676	-	1,810,676
Wastewater Utility - Construction	-	4,810,712	2,474,723	2,335,989
Wastewater Utility - Improvement	381,099	122,163	501,087	2,174
Wastewater Utility - Debt Service Reserve	160,485	11,784	160,485	11,784
Wastewater Utility - WWTP Expansion	1,077,718	518,442	1,203,600	392,560
Fiduciary Funds:				
Police Pension Metro	67,056	33,003	18,634	81,424
Police Pension '77	7,338	33,527	32,285	8,581
Group Insurance	1,934	356,503	350,155	8,282
PERF	10,107	162,989	160,197	12,899
Escrow Building	220,000	327,000	187,000	360,000
Park Security Deposits	300	2,700	2,900	100
Escrow Clearing/Reimbursement	11,175	42,811	48,946	5,040
Annuity	734	732	1,465	-
Traffic Tickets	1,456	42,536	42,640	1,352
Street Lights Escrow	13,798	6,017	10,175	9,640
Payroll	-	2,835,979	2,835,979	-
Totals	<u>\$ 7,740,268</u>	<u>\$ 21,162,677</u>	<u>\$ 18,065,624</u>	<u>\$ 10,837,321</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF ST. JOHN
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Years Ended December 31, 2005

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ 1,273,193	\$ 5,746,654	\$ 5,115,398	\$ 1,904,449
Motor Vehicle Highway	133,314	880,831	816,802	197,343
Local Road and Street	91,927	192,324	266,165	18,086
Park and Recreation	134,985	285,174	290,331	129,828
Law Enforcement Continuing Education	3,844	5,065	5,061	3,848
Economic Development Commission	28,705	5,400	28,565	5,540
Electronic Map Generation	-	155	95	60
Police PIDP	7,484	410	6,245	1,649
Hazmat Response	1	-	1	-
Sanitary District Operating	123,265	434,804	298,215	259,854
Waterworks District Operating	74,164	353,496	210,944	216,716
Quad Town	6,702	-	-	6,702
Solid Waste Operating	26,398	23,170	46,040	3,528
Police Department Grants	1,263	9,835	11,099	-
Asset Forfeiture Account	4,771	-	904	3,867
Police Department Special Revenue	78,741	66,923	101,988	43,677
Police Gift	14,052	2,455	10,441	6,066
Police Canine	1,059	-	1,059	-
CATV Franchise	28,540	73,211	67,583	34,168
Christmas Events	-	4,120	4,120	-
Festival Event	-	44,322	44,322	-
Farmers Market Event	-	6,915	6,915	-
Women's Fair Event	-	1,215	1,215	-
Federal Grant	-	44,620	44,620	-
Police Family Violence Grant	-	2,000	-	2,000
Park Arts Program Grant	-	2,000	960	1,040
Park V3 Donation	-	30,000	-	30,000
Park Bond and Interest	46,363	169,381	133,164	82,580
Sanitary District Bond and Interest	(1,050)	270,143	149,571	119,522
Barrett A Principal and Interest	38,349	30,218	21,083	47,484
Barrett B Principal and Interest	15,924	13,576	7,076	22,424
Redevelopment Construction	84,999	-	-	84,999
Ambulance Capital Replacement	31,805	33,338	335	64,808
Cumulative Fire Fund	276,477	148,560	322,382	102,655
Cumulative Sewer	756,449	559,987	997,785	318,651
Riverboat Revenue	296,541	116,895	363,867	49,568
St. John '05 Town Project	-	1,719,113	1,373,817	345,296
Park and Recreational	72,222	414,308	172,376	314,154
St. John South TIF	2,877	48,102	24,579	26,399
St. John North TIF	-	10,957	-	10,957
Cumulative Capital Improvement	108,274	137,574	63,657	182,191
Cumulative Capital Development	295,256	376,862	295,781	376,337
Proprietary Funds:				
Water Utility - Operating	204,247	1,557,140	1,570,362	191,025
Water Utility - Bond and Interest	163,412	326,752	345,568	144,597
Water Utility - Debt Service Reserve	308,631	20,151	-	328,782
Water Utility - Customer Deposit	105,785	24,750	4,080	126,455
Water Utility - System Development	151,000	584,866	22,866	713,000
Water Utility - Improvement	320,386	295,709	173,273	442,822
Water Utility - Construction	-	2,512,271	1,073,184	1,439,087
Wastewater Utility - Operating	307,206	1,570,244	1,659,759	217,692
Wastewater Utility - Bond and Interest	29,260	222,046	87,780	163,526
Wastewater Utility - System Development	150,000	581,678	21,678	710,000
Wastewater Utility - Ban Refunding	1,810,676	-	1,810,676	-
Wastewater Utility - Construction	2,335,989	43,040	1,062,958	1,316,071
Wastewater Utility - Improvement	2,174	287,669	67,111	222,733
Wastewater Utility - Debt Service Reserve	11,784	47,148	-	58,932
Wastewater Utility - WWTP Expansion	392,560	1,870,137	-	2,262,697
Fiduciary Funds:				
Police Pension Metro	81,424	51,075	16,209	116,290
Police Pension '77	8,581	42,145	40,189	10,536
Group Insurance	8,282	411,855	420,137	-
PERF	12,899	177,755	174,303	16,351
Escrow Building	360,000	404,000	195,000	569,000
Park Security Deposits	100	2,400	2,500	-
Escrow Clearing/Reimbursement	5,040	1,707	1,707	5,040
Traffic Tickets	1,352	38,480	38,064	1,768
Traffic School Court Cost	-	37,854	32,382	5,472
Street Lights Escrow	9,640	9,616	4,621	14,634
Katrina Relief	-	5,181	5,181	-
Payroll	-	3,341,041	3,341,041	-
Totals	\$ 10,837,321	\$ 26,730,823	\$ 23,475,190	\$ 14,092,955

The accompanying notes are an integral part of the financial statements.

TOWN OF SAINT JOHN
NOTES TO SCHEDULES

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety, health and social services, culture and recreation, and general administrative services.

Note 2. Fund Accounting

The Town uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Town in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

Note 5. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Town contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible

TOWN OF SAINT JOHN
NOTES TO SCHEDULES
(Continued)

to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

Note 7. Long-Term Debt

The Town has entered into various debt such as bonds to provide funds for the acquisition and construction of major capital facilities, a loan for the construction of improvements to the water and wastewater treatment facility, and capital leases for a town hall, public safety building, and equipment. The outstanding principal at December 31, 2005, was as follows:

	<u>Governmental</u>	<u>Water</u>	<u>Wastewater</u>
General Obligation Bonds	\$ 950,581	\$ -	\$ 775,000
Revenue Bonds	-	2,135,000	3,000,000
Notes and Loans	-	2,500,000	-
Leases	18,515,614	-	-
 Totals	 \$ 19,466,195	 \$ 4,635,000	 \$ 3,775,000

Note 8. Circuit Breaker Agreement

In 2004, the state provided to Lake County, for the benefit of various taxing units, a circuit breaker loan. The loan was to cover tax bill amounts in excess of 2% of the property's assessed valuation, subject to the property having a homestead exemption on file. On January 11, 2005, the County entered into an agreement with the Town of Saint John and other taxing units receiving gaming tax distributions from Lake County for repayment of the loan. The Town will have its gaming distribution reduced by \$3,837 quarterly for five years, beginning in April 2005, to repay its share of the loan.

TOWN OF SAINT JOHN
NOTES TO SCHEDULES
(Continued)

Note 9. Tax Levies and Rates for 2004 and 2005

Property tax rates and levies were not established by February 15, 2004, as required by state statute due to the delay in the completion of the reassessment of Lake County. The 2004 property tax rates and levies were not established until October 2004. The tax bills were not mailed until March 2005 with the first installment due in April 2005 and the second installment due by June 2005. The 2005 property tax rates and levies were not established until September 2005. The 2004 payable 2005 property tax bills were mailed out October 31, 2005, with the first installment due November 18, 2005, and the second installment due February 10, 2006.

Note 10. Subsequent Event

Property tax rates and levies were not established by the Indiana Department of Local Government Finance as of February 15, 2006, as required by statute, due to the continued delay caused by the reassessment of Lake County. As of August 1, 2006, the 2005 payable 2006 property tax bills have not been mailed out.

TOWN OF SAINT JOHN
EXAMINATION RESULTS AND COMMENTS

ORDINANCES AND RESOLUTIONS

As stated in the prior report, The Town has an ordinance (Ordinance 985) concerning building rules, codes, and standards, required to be enforced, in addition to matters pertaining to permit issuance, penalties for violations, and all related matters. Escrow monies are being retained beyond the expiration of permits. The Town Manager has a list which shows outstanding escrows from as far back as 1998. Officials were unable to explain why the monies were still in escrow.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

RECEIPT ISSUANCE

As stated in the prior report, official receipts for building department permits and park impact fees are not completed at the time of the transaction. The Building Department collects the monies, issues the permits, then takes the money to the Clerk-Treasurer's office several times a day. The Clerk-Treasurer's staff issues a receipt, which is later mailed to the owner and/or builder.

The Building Department uses approved forms for the receipt and disbursement of escrow monies. However, the department does not complete the form in its entirety, omitting the receipt date and receipt number. This is due to the fact that the department does not issue receipts at the time of transaction.

Receipts shall be issued and recorded at the time of the transaction. For example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TRAFFIC SCHOOL RECEIPT REMITTANCES

Thirty percent of the traffic school receipts tested was remitted to the Clerk-Treasurer four to eight days after receipt.

Indiana Code 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories selected by the city or town as provided in an ordinance adopted by the city or the town."

CREDIT CARD USE

The Town has issued credit cards to various departments. According to the Town's credit card policy, "original charge slips are to be remitted to the Clerk Treasurer no later than five business days after the original charges were incurred." In some instances, original charge slips were not being remitted to the Clerk-Treasurer. These included charges for Kmart, Cheers Food, restaurants, gas, and online purchases. In addition, receipts were not remitted within five days from the date the charges were incurred.

TOWN OF SAINT JOHN
EXAMINATION RESULTS AND COMMENTS
(Continued)

The credit card policy authorizes the use for "seminars, conventions, training sessions, meals, hotels, and other out-of-town and travel expenses or for the purchase of materials and miscellaneous items for the Town, but only in extreme emergency basis; that the Town Manager shall make a determination of what constitutes an extreme emergency basis and shall pre-authorize such credit card use." Credit Card purchases included a luncheon for workers and independent contractors, pet finder stickers, food and drinks for ground breaking, prizes and supplies for festival totaling over \$7,370, furniture, fabric, supplies for Christmas in the Park, software, photo enlargements, photo development, copies, tarps, plywood, videos, and stamps. In addition, these purchases were not pre-authorized but approved after the purchases were made. It would appear that these purchases do not meet the criteria of an "extreme emergency".

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria, among other criteria enumerated in the Accounting and Uniform Compliance Manual, are observed:

- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FUND SOURCES AND USES

Amounts were disbursed from the following funds for the following purposes:

- (1) Motor Vehicle Fund for lunches for employees and independent contractors totaling \$461.88 in 2005.
- (2) Water Utility Operating Fund under account for Transmission and Distribution/Pensions and Benefits for pizza for employees totaling \$112.41 in 2005.
- (3) General Fund under Town Council/Other Services and Charges for \$50 gift certificates from various stores and restaurants for Christmas gifts for 159 Town employees totaling \$7,950 in 2005.
- (4) General Fund under Town Council/Other Supplies for \$302 for embroidered jackets for 4 out of 5 of the council members and 1 for the Police Chief in 2004.
- (5) Motor Vehicle Fund, Water and Wastewater Operating under Pensions and Benefits for a total of \$1,098 for 158 T-Shirts.

TOWN OF SAINT JOHN
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (6) General Fund under Building and Planning/Other Supplies for \$230 for a jacket and 5 shirts.
- (7) General Fund under Town Council/Other Supplies for \$420 for 14 shirts.

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

MOVING VIOLATIONS

As stated in the prior audit, the Town adopted Ordinance 1012, regulating traffic and establishing fines and penalties for violations. This ordinance also established a driver education program for first time violators. The Town later adopted Ordinance 1273 which increased the fee for the driver education program to \$125. The Ordinance also required \$70 of the fee to be deposited into a Police Special Revenue Fund and the remaining \$55 to be deposited into the General Fund. At the end of 2005, the Town adopted Ordinance 1409, raising the fee to \$152, of which \$72 is sent to the County Clerk for court costs.

If the violator pays the fee for the course and successfully completes the driver education course, the charges shall be dismissed. If the violator does not qualify for or complete the course, then the matter is referred to the County Court. As a result, most violations are handled locally, as opposed to being prosecuted through the County Court system.

Indiana Code 36-1-6-3 states: "(a) Certain ordinances may be enforced by a municipal corporation without proceeding in court through:

- (1) an admission of violation before the violations clerk under IC 33-6-3; or
 - (2) administrative enforcement under section 9 of this chapter.
- (b) Except as provided in subsection (a), a proceeding to enforce an ordinance must be brought in accordance with IC 34-28-5, section 4 of this chapter, or both.
- (c) An ordinance defining a moving traffic violation may not be enforced under IC 33-6-3 and must be enforced in accordance with IC 34-28-5.

An ordinance defining a moving traffic violation may not be enforced under IC 33-36 and must be enforced in accordance with IC 34-28-5 which requires such cases to be heard in any circuit, superior, county, city or town court or traffic violations bureau designated by these courts (IC 36-1-6-3). (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2004)

Indiana Code 34-28-5-8 states in part: "The violations clerk or deputy violations clerk shall:

- (2) issue receipts and account for any judgments (including costs) collected; and
- (3) pay the judgments (including costs) collected to the appropriate unit of government as provided by law."

TOWN OF SAINT JOHN
EXAMINATION RESULTS AND COMMENTS
(Continued)

TRAVEL POLICY

The Town has an ordinance concerning travel. It states: "when separate checks are not available, a Town Official may claim reimbursement for the other Town Officials up to the maximum amount provided for in the preceding section multiplied by the number of Town Officials provided that each Town Official is identified by name and that an original receipt is provided." Meals are reimbursed for dinner up to a maximum of \$25. In one instance, the Town's credit card was charged \$150 for five dinners for Town Officials instead of \$125.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COUNCIL BOARD MINUTES

The Town Council's actions were not clearly recorded in the minutes in regards to public purchase awards. For example, decisions regarding the purchase of the three police vehicles purchased through the State Bid and the electrical work for Prairie Park West for the Festival of Lights were not documented.

Indiana Code 5-14-1.5-4 states in part:

"(b) As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes take, by individual members if there is a roll call.
- (5) An additional information required under IC 5-1.5-2-2.5 or IC 20-12-63-7."

PERSONAL USE OF TOWN-OWNED VEHICLES

Vehicles are furnished by the Town to the Public Works Director, and two public works foremen. These vehicles are taken home daily and allowed to be used for personal business. A log was not presented for audit by these employees documenting personal use. No additional income for this fringe benefit was reported on these employees' W-2 forms.

Whenever an item or other asset owned by the political subdivision is entrusted to an officer or employee, to be used at times outside the normal work time for business purposes, such as a cellular phone, or vehicle, a log should be maintained which clearly shows the business use. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Page 51-9)

Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF SAINT JOHN
EXAMINATION RESULTS AND COMMENTS
(Continued)

PUBLIC WORKS PROJECT

The Town entered into a contract for the Patterson Street Sewer Repair project. The contract was for \$56,000 with St. John Plumbing. The Town was invoiced \$88,149 for this project. The Town actually paid \$70,519 which is 26% over the contract price. A change order was not presented for audit.

Documentation for quotes is not being retained for audit. For example, verbal quotes were taken for the Patterson Rail Road Right of Way ditch cleaning project, but no documentation was retained.

If, in the course of construction, reconstruction or repair of a public work project, it becomes necessary to change or alter the original specifications, a change order may be issued to add, delete, or change an item or items in the original contract. All change orders must be directly related to the original public work project.

Addendum. The change order becomes an addendum to the contract and must be approved and signed by the board and the contractor.

Increase in Scope of Project. The total of all change orders issued that increase the scope of the project may not exceed 20% of the amount of the original contract. A change order issued as a result of circumstances that could not have been reasonably foreseen does not increase the scope of the project.

Cost of Materials. If additional units of materials included in the original contract are needed, the cost of these units in the change order must be the same as those shown in the original contract.

A change order may not be issued before commencement of the actual construction, reconstruction, or repairs except in the case of an emergency. In that case, the board must make a declaration, and the board's minutes must show the nature of the emergency. [IC 36-1-12-18] (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

REQUEST FOR PURCHASE

The Town adopted Ordinance 1213 creating an independent municipal purchasing agency and establishing administrative rules on purchases. Under section 12(A) the ordinance states in part that if the purchase does not exceed the sum of \$1,200 the Town Department head or designee shall complete the Request for Purchase form and shall submit the same to the St. John Town Manager for approval. Thereafter, the Town Manager shall approve or deny the request and if approved, the request shall be transmitted to the Town of St. John Clerk-Treasurer who will then issue a purchase order for the same.

In the event that the purchase is between \$1,200 and under \$15,000 the department head will complete the Request for Purchase form and will submit to the Town Manager for approval. Before the Town Manager approves any request under this subsection and he shall obtain the signatures of at least three Town Council members. If three Town Council members' signatures are not obtained, the request shall be deemed denied.

There were purchases that were made that did not have a request for purchase. Examples include credit card purchases and purchases of shirts and jackets. In addition, items over the \$1,200 and under \$15,000 were not being approved by the Town Council. Examples include purchases by credit cards, landscaping, and Christmas decorations

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF SAINT JOHN, LAKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 2, 2006, with Sherry Sury, Clerk-Treasurer; Steve Kil, Town Manager; Jerri Teibel, Vice President of the Town Council; Eunice Michalski, Chief Deputy Clerk; Beverly Gawrys, Accounting Assistant; David Austgen and Danette Garza, Town Attorneys. The official response has been made a part of this report and may be found on pages 15 through 28.

**Office of the
Town Manager**

St. John Municipal Building
10955 West 93rd Avenue
St. John, Indiana 46373-8822



Stephen Z. Kil

219 . 365 . 6043 telephone
219 . 365 . 6044 facsimile
E-mail: stevekil.tm@stjohnin.com

August 17, 2006

**VIA FACSIMILE &
FIRST CLASS MAIL**

Indiana State Board of Accounts
Attn: Mary Jo Small
155 Indiana Avenue
Valparaiso, Indiana 46383

Re: Response to the Y2006 Town of St. John Audit Results and Comments

Dear Mary Jo,

The following responses are provided to the Town of St. John, Indiana, Audit Results and Comments Report delivered to Town officials at the exit conference held on August 2, 2006:

• **ORDINANCES AND RESOLUTIONS**

Pursuant to the State Board of Accounts recommendation, a draft of a proposed amendment to Town Ordinance 985 is being prepared to establish procedures relating to the management and distribution of unclaimed building escrow fees. Upon completion, the amendatory ordinance will be presented to the Town Council for consideration.

• **RECEIPT ISSUANCE**

Town Manager Stephen Kil has issued the following interdepartmental memorandum to the Town Planning and Building Department in response to audit comments regarding proper receipt issuance procedures: "Any individual or entity which presents a check or any other form of legal tender to the Building and Planning Department for payment of a permit, license, fee or the like shall now submit same directly to the office of the Clerk Treasurer, not to the Building and Planning Department. A receipt for same shall be presented, prior to the issuance of said permit, license, etc. to the department as proof of payment to the Clerk Treasurer." This directive became effective immediately and amends the manner in which money was received and receipted in order to conform to required State Board of Accounts Standards.

• **TRAFFIC SCHOOL RECEIPT REMITTANCES**

The audit comments are hereby acknowledged. In order to ensure compliance, Police Chief F. Frego has issued and posted an interdepartmental memorandum stating the following, "... all funds received at the St. John Police Department must be remitted to the Clerk-Treasurer no later than the next business day after receiving said funds... Failure to adhere to this policy will result in disciplinary action." This directive became effective immediately and amends the manner in which money was received and receipted in order to conform to required State Board of Accounts Standards.

- CREDIT CARD USE

The audit position stated is hereby acknowledged. In order to address audit comments relating to the use of credit cards under extreme emergencies, the Town provisions will be reviewed in detail for a conformance amendment. The Town Attorney will prepare a draft of an Amendatory Ordinance expanding the authorized use of credit cards and upon completed it will be submitted to the Town Council for consideration and adoption. Due to technological advances in our society, credit card use has become common place and in many instances is a requirement for access to certain products or services.

- FUNDS SOURCES AND USES

The audit position stated is hereby acknowledged. The Town Manager has transmitted the same to the appropriate Town Personnel for immediate compliance. In the future, promotional accounts such as Cable T.V. and E.D.C. will be utilized for purchases as set forth in the audit comments.

- MOVING VIOLATIONS

The audit position stated is hereby acknowledged. The Town has operated and conducted the Driver's Education Program consistent with the Court Order of the Lake Superior Court, Division II, the Honorable Judge Sheila Moss presiding. The Town Attorney is completing a review and analysis of the Driver's Education Program and the Indiana State statutory requirements in response to the recommendations of the State Board of Accounts. In addition, this matter has been scheduled for immediate discussion with the Town Council.

- TRAVEL POLICY

As indicated during the exit interview, regardless of what is referenced on the receipt from Outback Steak House, there were, in fact, six (6) officials or employees of the Town in attendance at the referenced dinner. As indicated, the receipt erroneously states five (5) guests due to the fact that one (1) party arrived late. This expense was incurred in conjunction with attendance at the Annual IACT Conference in Fort Wayne, Indiana. The parties in attendance have been verified to include Mr. Robert Pharazyn, Mr. Fred Frego, Mr. John Mainwaring, Councilman Michael Fryzel, Councilman Jerri Tiebel and Town Manager Stephen Kil. As a result of six (6) Town Officials being in attendance, the dinner expense incurred was well within the allowable expense of One Hundred and Fifty Dollars (\$150.00).

- COUNCIL BOARD MINUTES

The audit position stated is hereby acknowledged, and the Town Manager has transmitted the same to the appropriate Town Personnel for immediate compliance. In the future, all Board Minutes shall include sufficient additional detailed information to comply with State Board of Accounts requirements.

- PERSONAL USE OF TOWN-OWNED VEHICLES

The audit position stated is hereby acknowledged. The Town Attorney has prepared the Amendatory Ordinance to comply with the Internal Revenue Service requirements. In addition, the Clerk-Treasurer has evaluated procedures and is prepared to implement the steps necessary to properly document and administer the requirements upon adoption of the Amendatory Ordinance.

- PUBLIC WORKS PROJECT

The audit position stated is hereby acknowledged. The Town Manager has transmitted the same to the Public Works Director for immediate compliance with the State Board of Accounts recommendations.

- REQUEST FOR PURCHASE

The audit position stated is hereby acknowledged. An Amendatory Ordinance will be prepared to amend the procedures for requests to purchase items that exceed the current maximum of Fifteen Thousand Dollars (\$15,000).

If you have any questions, please do not hesitate to contact the undersigned.

Very truly yours,
Town of St. John, Lake County, Indiana,
an Indiana Municipal Corporation



Stephen Z. Kil,
Town Manager

ENC.
Copy: Town Council members
File

STATE OF INDIANA)
)
COUNTY OF LAKE) SS:

IN THE LAKE SUPERIOR COURT
COUNTY DIVISION II
SITTING AT CROWN POINT, INDIANA

In Re the)
)
ST. JOHN VIOLATIONS BUREAU)

Miscellaneous Docket

ORDER

Comes now THE TOWN OF ST. JOHN, by counsel, and files its Petition to Establish St. John Driver Education Program, which Petition is in the following words and figures, to-wit:

(H.I.).

And the Court, having examined the same and being duly in the premises, now FINDS that a St. John Driver Education Program should be created.

IT IS, THEREFORE, ORDERED, ADJUDGED, AND DECREED that the St. John Driver Education Program is hereby created with the following particulars, to-wit:

1. That the Program shall be operated consistent with the St. John Driver Education Program Manual containing the Mission Statement, Eligibility/Attendance, Schedule of Classes/Length/Validity, Instructors, and Protocol, which Manual is hereby incorporated in this Order by reference.

2. That the Chief of Police of the Town of St. John shall be, and is hereby, authorized in conjunction with the Clerk-Treasurer to create such forms and bulletins to effectively administer the Program.

3. That the fee currently shall be in the sum of \$50.00 to

Filed in Clerk's Office

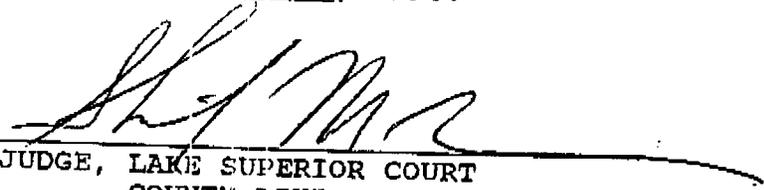
Anna M. Austin
CLERK LAKE SUPERIOR COURT

defray the cost of the Program.

4. That all instructors in the Program shall be state-certified as such.

The above-listed items are enumerated by way of explanation and not as words of limitation.

SO ORDERED this 1 day of November, 1996.

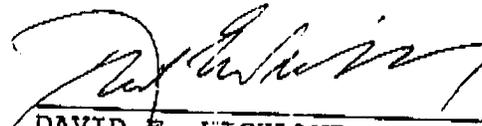

 JUDGE, LAKE SUPERIOR COURT
 COUNTY DIVISION II

Filed in Clerk's Office

NOV 19 1996


 ANNA M. ANTON
 CLERK LAKE SUPERIOR COURT

Education Program; and for all other just and proper relief in the premises.



DAVID E. WICKLAND
8146 Calumet Avenue
Munster, IN 46321
(219) 836-8766 FAX: (219) 836-8826
Attorney No. 1231-45
Attorney for The Town of St. John

Filed in Clerk's Office

NOV 19 1996

Carla M. Anton
CLERK OF SUPERIOR COURT

**Office of the
Clerk-Treasurer**

St. John Municipal Building
10955 West 93rd Avenue
St. John, Indiana 46373-8822



**Sherry P. Sury, IAMC
Clerk-Treasurer**

(219) 365-4800 Voice
(219) 365-6041 Facsimile
E-Mail ssury.ct@stjohnin.com

August 30, 2006

**VIA FACSIMILE &
FIRST CLASS MAIL**

Mr. Bruce A. Hartman, CPA, State Examiner
Indiana State Board of Accounts
302 Washington Street, Room E418
Indianapolis, Indiana 46204-2765

Ms. Mary Jo Small, Field Supervisor
for Lake, LaPorte and Porter Counties
c/o: Porter County Administration Center
Attn: Indiana State Board of Accounts
155 Indiana Avenue
Valparaiso, Indiana 46383

Re: Town of St. John Clerk-Treasurer's Response to the
State Board of Accounts Audit Results and Comments
[Audit Period: January 1, 2004 - December 31, 2005]

c/o: Mary Jo Small, Field Supervisor, Valparaiso, Indiana

Dear Mr. Hartman and Ms. Small:

As Chief Fiscal Officer of the Town of St. John (Ind. Code § 36-5-6-2), I am sending you my response to the August 2, 2006 exit conference and the written Audit Results and Comments of the Town of St. John Audit as of December 31, 2005, and for the two year period then ended (2004 - 2005).

Although the town officials in attendance at the exit conference were given ten business days from that exit meeting in which to file a written Response, I was informed and

assured that because there was a delay in the forwarding of the Audit Report from the Field Supervisor to the Office Supervisor in Indianapolis, this Response will be included, so long as it was dispatched to, and received by the Field Supervisor before the end of the business day (5:00 p.m. local time) August 31, 2006. Furthermore, I understand that this Response will be included in the final Audit Report as it is expected to arrive before the Audit Report is released.

Although the Clerk-Treasurer has historically submitted the written Response for the Town, I am aware of the fact that the Town Manager of the Town of St. John submitted a Response to the attention of Field Supervisor Mary Jo Small dated August 17, 2006 in the name of the Town.

Below, by audit topic, are my comments as the Clerk Treasurer of the Town of St. John:

TOWN MANAGEMENT

The Town of St. John is a Political Subdivision of the state of Indiana and as a municipality has the Town form of organization with a Town Manager. The Town Council is the governing body as it is both the Legislative Body, the Fiscal Body and performs the executive branch functions of the local town government. The post of Town Council President exists but is limited by State Statute as the being the executive of the Town Council. The Town Manager is recognized by Ordinance and the promulgated job description as the "Town Manager / Town Administrator" pursuant to Ordinance # 1208. As you know, the Clerk-Treasurer is the fiscal officer of the town and according to statute, the clerk and record keeper for the Town Council.

ORDINANCES AND RESOLUTIONS

(Escrow monies being retained)

The present Audit Results and Comment, makes reference to "the prior report" (which presumably is a reference to the State Board of Accounts "Annual Finance Report" of 2003) concerning town Ordinance 985 concerning "Building Rules, Codes, and Standards Required to Be Enforced," in addition to matters pertaining to "the Issuance of Permits, Penalties for Violations" "and all related matters," and comments that "escrow monies are being retained beyond the expiration of permits." The Town Manager and Building Commissioner have control over the release of these monies.

RECEIPT ISSUANCE

(Building Department Permit Fees and Park Impact Fees)

The reference to the "prior report" is again presumed to be the Audit Report of 2003. As the Clerk-Treasurer, I do not control the Building Department's permits and Park impact fee transactions. The Clerk-Treasurer's staff issues a receipt, which is later mailed to the owner and/or builder, but the Audit Comments stated the Building Department does not complete its form for the receipt and disbursement of escrow monies as it omits the receipt date and receipt number because the department does not issue receipts at the time of transaction.

TRAFFIC SCHOOL RECEIPT REMITTANCES

(Police Department)

As the Clerk-Treasurer, I can only adhere to the statutory deposit rule (Ind. Code 5-13-6-1(d)) to the extent to which remittances are made to the Clerk-Treasurer's Office by the Police Department, pursuant to the provisions of Ordinance No. 1080.

CREDIT CARD USE

The Clerk-Treasurer's Office is in full compliance with the procedures established by ordinance and governing use of credit cards. However, the Clerk-Treasurer has no means to force other officials to adhere to the Town's credit card policy and remit the original charge slips to the Clerk-Treasurer at all, let alone "no later than five business days after the original charge is incurred."

Pursuant to the Town's policies (Ordinance No. 1308), the Town Manager has physical control over the credit cards and does maintain a sign in and out sheet. Under the policy, the Town Manager makes the determination of what constitutes an extreme emergency and is to pre-authorize such credit card use. As Clerk-Treasurer, I do not condone or approve of the improper credit card purchases as those cited in the Audit for such things as luncheons for workers and independent contractors, pet finder stickers food and drinks for ground breaking, prizes and supplies, furniture, fabric, supplies for Christmas in the Park, software, photo enlargements, photo development, copies, tarps, plywood, videos, and stamps and it is the Town Manager, not the Clerk-Treasurer, who is charged with the duty to pre-authorize credit card use. Sales tax exemptions certificates are not always being used in conjunction with these purchases. For example, I have accepted reimbursement from an employee to recover improper credit card expenditures. Approvals given after the purchases are made are not coming from the Clerk-Treasurer's

Office and my insistence on supporting documentation (such as paid bills and receipts) is not being met. Records are so minuscule and the sign in and sign out sheet is so seldom used that the Clerk-Treasurer questions the Town's ability to identify noncompliant officials or employees who should be made to pay interest and penalties.

I am concerned that a lack of credit card control is being used to bypass the purchase order and accounting system. The current credit card policy does not address Internet purchases with credit cards and the failure to print receipts. Nor does it address the instantaneous nature of Internet purchases which lends itself to further purchases being made without permission. The credit card policy and current credit card misuse does not allow me to adequately encumber and track appropriations for timely or accurate accounting. I am being forced to make payments based on approval from the Town Manager which is often made on the basis of the statement or a credit card slip only in order to avoid the risk of impermissible interest and penalty charges.

I am concerned that the Town's policies are insufficient as internal controls and the apparent noncompliance with the existing policies allow abuses (such as those cited in the Audit to occur) and, this circumstance, lends itself to the threat of further shortages, misappropriation and fraudulent activity.

FUND SOURCES AND USES

My Response to the specifically cited disbursements are as follows:

(1) On February 28, 2005, I issued a memo to the Council President that an ordinance enactment would be necessary with the creation of a line item and an appropriation of funds for the Motor Vehicle Fund expenditure for lunches for employees and independent contractors of \$461.88 in 2005, but was instructed to pay it without the ordinance.

(2) Similarly, the Water Utility Operating Fund account expenditure for Transmission and Distribution/Pensions and Benefits for pizza for employees totaling \$112.41 in 2005 was challenged as needing the ordinance, authorization, a line item and an appropriation of funds but I was instructed to pay it without the necessary undertakings.

(3) General Fund under Town Council/Other Services & Charges for \$50 gift certificates from various stores and restaurants for Christmas gifts for 159 Town employees totaling \$7,950 in 2005 were challenged along with the necessity of showing these as taxable fringe benefits (pursuant to instruction from the recent Clerk-Treasurer training and as memorialized in my memo of October 25, 2005) and was directed by the Town Manager

and Town Council President to make payment and not to include the value on the beneficiaries W-2s.

(4) Embroidered jackets for four out of five of the council members and one for the Police Chief in 2004 were purchased from the General Fund under "Town Council/Other Supplies" which was their purchase and I was directed to pay it.

(5) Motor Vehicle Funds, Water and Wastewater Operating under Pensions & Benefits for a total of \$1,098 for 158 T-Shirts. Although I and my deputies routinely questioned the Town Manager regarding these invoices, he ultimately approved payment.

(6) General Fund under Building and Planning/Other Supplies for \$230 for a jacket and 5 shirts. These were approved by the Town Manager with direction to pay.

(7) General Fund under Town Council/Other Supplies for \$420 for 14 shirts. These were approved by the Town Manager with direction to pay.

Although the Audit Report correctly states that sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement, the Town Manager and/or Town Council authorized payment.

MOVING VIOLATIONS

This matter was cited in the State Board of Accounts Annual Finance Report, Audit Results and Comment, of 2003. The Town previously stated it would comply and send fees and stated that "this matter has been corrected." In December 2005 Ordinance No. 1409 was formally passed requiring me to forward fees. Although a motion was made during a subsequent Town Council meeting not to send the fees, I continued to send fees.

During the field exam, I was questioned about the status of the traffic school fees and provided status along with the copy of the June 22, 2006 meeting minutes in draft form. I was instructed by the field auditor to continue sending the payments pending formal action by the Town Council.

TRAVEL POLICY

The Town's credit card charge of \$150 for five dinners for Town Officials exceed the maximum amount under the Town Ordinance. Although I was in attendance at the IACT Conference, I was not among those attending this dinner. Payment was made pursuant to the claim presented.

COUNCIL BOARD MINUTES

(bid information and purchase records)

The overall completeness of the Town Council Board's actions were not clearly recorded in the Minutes in regards to purchase awards. For example, the purchase of the three police vehicles purchased through the State Bid was not documented and the electrical work for Prairie Park West for the Festival of Lights.

I take handwritten notes and make audio tape recordings of all the Council Meetings. Any reference made to any proposed projects or purchases anticipated, will be included in the minutes. If there is no meeting minutes concerning purchase awards, proposed projects or purchases it is because there was no public meeting action taken regarding the same. For example, the purchase of the three police cars were never verbally addressed in a public meeting.

Since 2001 with the enactment of Ordinance No. 1213, the Town Manager is designated as having the power to approve or deny requests. If approved, the request is transmitted to my office for processing and payment, but the requests go through the Town Manager. (Also see Comment to Request For Purchase on last page.)

PERSONAL USE OF TOWN OWNED VEHICLES

After attending Clerk-Treasurer School, I advised by a memo dated October 25, 2005 with the IRS Taxable Fringe Benefit Guide that we take steps to come into compliance immediately regarding the taxable fringe benefits that need to be put on employee's tax statements. Mr. Austgen, the Town Attorney, finally wrote an ordinance (Ordinance No. 1419) addressing these items and the council passed it in August, 2006. The deficiency with maintenance of mileage logs, cell phones, etc. is a repeat of the 2002 Audit. Although direction for correction was given by the Town Manager, to my knowledge, as of this date, it is still unresolved.

PUBLIC WORKS PROJECT

While the Town entered into a contract for the Patterson Street Sewer Repair in a public meeting, the Town Council never made a declaration for a change order, approved a change order, or approved additional work in a Council Meeting. Therefore, there is no record in the Council's minutes to show official action on a change order and no documentation for quotes are available for audit.

Verbal quotes taken by the Town Manager and/or the Public Works Director and/or other officials are not always documented to my office. For example, verbal quotes were taken for the Patterson Rail Road Right of Way ditch cleaning, but never supplied to my office in spite of the fact that this information is to be subject to public inspection pursuant to IC 5-22-7-9.

I have numerous files that do not contain original documentation of contracts, proposals and/or bids that are secured by the Town Council, Town Manager, and/or the Public Works Director.

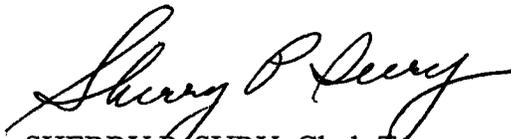
Similarly, I adhere to the requirements of claim submission as required by Ind. Code § 5-11-10-1 *et seq.* but cannot always get documentation required and complained in a January 18, 2005 memo to officials and department heads that my office is not receiving materials consistent with the 5-day rule in IC 5-11-10.

REQUEST FOR PURCHASE

Pursuant to Town Ordinance No. 1213 establishing administrative rules on purchases, the Town Manager shall approve or deny requests. As Town Clerk-Treasurer, I adhere to the Ordinance and with proper Town Manager approval, then issue a Purchase Order or payment.

Sincerely,

TOWN OF ST. JOHN, LAKE COUNTY,
INDIANA, a Municipal Corporation,



SHERRY P. SURY, Clerk-Treasurer

SPS:JS/L4