

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

EXAMINATION REPORT

OF

TOWN OF PORTER

PORTER COUNTY, INDIANA

January 1, 2004 to December 31, 2005



FILED
11/01/2006

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STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF PORTER, PORTER COUNTY, INDIANA

We have examined the schedules of receipts, disbursements, and cash and investment balances of the Town of Porter (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

September 11, 2006



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STATE BOARD OF ACCOUNTS

September 12, 2006

TOWN OF PORTER
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, 2004 And 2005

	Cash and Investments 01-01-04	Receipts	Disbursements	Cash and Investments 12-31-04
Governmental Funds:				
General	\$ 355,928	\$ 2,095,274	\$ 2,251,780	\$ 199,422
Motor Vehicle Highway	100,333	469,947	316,297	253,983
Local Road and Street	127,848	66,855	33,200	161,503
Park and Recreation	(2,546)	121,370	75,571	43,253
Park Donations	10,599	1,014	7,593	4,020
Law Enforcement Continuing Education	9,430	8,592	8,476	9,546
Riverboat	31,440	-	31,440	-
Redevelopment Commission	556,607	1,738,474	1,178,295	1,116,786
Fire	(14,518)	182,128	149,376	18,234
Fire Grants	555	-	-	555
Fire DNR Grant	-	5,000	5,000	-
Police Donations	925	3,262	2,241	1,946
Debt Service	15,482	86,565	79,000	23,047
Cumulative Capital Improvement	20,292	18,555	-	38,847
Cumulative Capital Development	77,133	53,402	52,183	78,352
Park Nonreverting Capital	484	-	484	-
County Economic Development Income Tax (CEDIT)	-	246,177	105,429	140,748
Proprietary Fund:				
Wastewater Utility	1,094,268	990,652	977,907	1,107,013
Fiduciary Funds:				
Park Hall Deposits	5,678	8,975	9,175	5,478
Payroll	16,091	491,246	486,654	20,683
Totals	<u>\$ 2,406,029</u>	<u>\$ 6,587,488</u>	<u>\$ 5,770,101</u>	<u>\$ 3,223,416</u>

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ 199,422	\$ 2,001,441	\$ 2,048,447	\$ 152,416
Motor Vehicle Highway	253,983	390,762	472,805	171,940
Local Road and Street	161,503	67,427	186,506	42,424
Park and Recreation	43,253	115,714	105,792	53,175
Park Donations	4,020	490	-	4,510
Law Enforcement Continuing Education	9,546	7,656	8,296	8,906
Redevelopment Commission	1,116,786	774,256	966,717	924,325
Fire	18,234	153,012	139,113	32,133
Fire Grants	555	-	495	60
Fire DNR Grant	-	3,533	3,533	-
Police Grants	-	9,949	9,949	-
Police Donations	1,946	1,450	1,900	1,496
Debt Service	23,047	54,974	78,000	21
Cumulative Capital Improvement	38,847	24,470	43,013	20,304
Cumulative Capital Development	78,352	39,091	59,494	57,949
County Economic Development Income Tax (CEDIT)	140,748	246,177	127,711	259,214
Proprietary Fund:				
Wastewater Utility	1,107,013	1,324,939	1,109,299	1,322,653
Fiduciary Funds:				
Park Hall Deposits	5,478	11,555	10,230	6,803
Payroll	20,683	508,001	508,028	20,656
Totals	<u>\$ 3,223,416</u>	<u>\$ 5,734,897</u>	<u>\$ 5,879,328</u>	<u>\$ 3,078,985</u>

The accompanying notes are an integral part of the schedules.

TOWN OF PORTER
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, general administrative and wastewater 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 and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

TOWN OF PORTER
NOTES TO SCHEDULES
(Continued)

Note 6. Pension Plans

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 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.

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The Town contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Fund (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF issues a publicly available 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:

TOWN OF PORTER
NOTES TO SCHEDULES
(Continued)

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

Funding Policy and Annual Pension Costs

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 debts such as general obligation bonds for a new town hall, revenue bonds for improvements to the wastewater treatment facility, a loan for the buy back of the 1977 Police PERF, capital leases for the police station and various vehicles. The outstanding principal at December 31, 2005, was \$190,000, \$270,000, \$129,251 and \$730,700, respectively.

Note 8. Subsequent Events

The Town entered into an agreement with Indiana American Water Company. Under this agreement, beginning in October, 2006, the Water Company will be billing and collecting on wastewater. The Water Company is charging a fee of either \$1.78 (if also a water customer), or \$2.15 per customer per billing cycle for performing this service.

The Town applied for and will be receiving a \$100,000 Coastal Grant. The grant proceeds will be used to build a bridge over the Little Calumet River.

TOWN OF PORTER
EXAMINATION RESULTS AND COMMENTS

OLD OUTSTANDING CHECKS (WARRANTS)

Our review of the bank reconcilements as of December 31, 2005, revealed checks outstanding in excess of two years. The checks are still being carried as outstanding for the Town, have dates ranging from 2001 to 2003 and totaled \$11,981.69.

Indiana Code 5-11-10.5-2 states, in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

Indiana Code 5-11-10.5-3 states, in part: "Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the board of finance of the political subdivision or the fiscal body of a city or town. The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

Indiana Code 5-11-10.5-5 states:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision."

REDEVELOPMENT COMMISSION RECORDS

The Treasurer for the Redevelopment Commission maintains all of the financial records for the Commission, including a ledger maintained in "Excel" a commercially package software spreadsheet, the preparation of accounts payable vouchers, and the issuance of warrants. Such records are not maintained on prescribed forms, and receipts are not being written for the taxes and other revenues collected.

Indiana Code 36-7-14-8 (b) states, "The redevelopment commission may appoint a treasurer who need not be a member of the redevelopment commission. The redevelopment commission may provide for the payment of compensation to a treasurer who is not a member of the redevelopment commission. Notwithstanding any other provision of this chapter, the treasurer has charge over and is responsible for the administration, investment, and disbursement of all funds and accounts of the redevelopment commission in accordance with the requirements of this chapter. However, the treasurer may not perform any duties of the fiscal officer or any other officer of the unit that are prescribed by section 24 of this chapter or by any provisions of this chapter that pertain to the issuance and sale of bonds, notes, or warrants of the special taxing district."

TOWN OF PORTER
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-1-11 states, "There shall be kept in the office of each public officer, board, commission, agency, instrumentality, and institution in this state, a record of money collected for the public treasury, the forms and records for which, for each class of offices, shall be devised and formulated by the state board of accounts. Such records as are provided for in this section shall be public records and must be accessible to the public during regular office hours.

WASTEWATER CASH BALANCE AND UNTIMELY ADJUSTMENTS

In June 2005, the computer system did not compute the cash balance based upon true receipts and disbursements. For example, in June the Wastewater Utility had cash receipts of \$112,124.04, but the cash balance computed by the system realized cash receipts in the amount of \$189,029.21; thus, overstating the cash balance by \$76,905.17.

Officials recognized this error when performing the bank reconcilements, but an adjusting entry to correct the error was never made. Additionally, other adjustments discovered during the bank reconciliation process were not corrected, but carried forward as reconciling items. Officials agreed that as of December 31, 2005, an adjustment was required to correct the \$76,905.17 error; thus, the reported cash balance for the wastewater utility has been adjusted from \$284,774 to \$207,869.

Also, checks are being carried as outstanding in excess of two years on the bank reconcilements.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The accounting application system must be supported by computerized and manual procedures to assure the following controls related to error correction:

The type of error condition is recorded.

The original transaction creating the error is retained within the system.

A reversing transaction to eliminate the effect of the error on the appropriate value is entered and retained within the system.

The correct transaction is entered into the system and recorded.

The management approval for this error correction is documented. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Pursuant to Indiana Code 5-11-10.5, all checks outstanding and unpaid for a period of two years as of December 31 of each year shall be declared void.

Not later than March 1 of each year, the treasurer shall prepare or cause to be prepared a list in duplicate of all checks outstanding for two or more years as of December 31 last preceding. The original copy shall be filed with the fiscal body of the city or town and the duplicate copy maintained by the disbursing officer of the city or town. The treasurer shall enter the amounts so listed as a receipt to the fund or funds upon which they were originally drawn and remove the checks from the list of outstanding checks. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF PORTER
EXAMINATION RESULTS AND COMMENTS
(Continued)

CUSTOMER HISTORIES

In 2005, a computer software error caused some customer account histories to not display all account activity. Payments made on accounts were not displayed on the customer history, but the payments were deducted from the account balances, and were displayed in revenue detail reports. Officials could not explain why this had occurred. The software company attempted to rectify this and was unsuccessful.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DELINQUENT ACCOUNTS

The Sewage Utility currently records liens with the County Recorder for delinquent accounts; however, the accounts are not being certified to the County Auditor for inclusion on the property tax bill.

Indiana Code 36-9-23-33 Section (e) states: "Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. The county and its officers and employees are not liable for any material error in the information on this list."

EMPLOYEES NOT PAID IN ACCORDANCE WITH THE SALARY ORDINANCE

The 2005 salary ordinance sets specific dollar amounts for the positions listed (not ranges or maximums), yet some employees were not paid the rates listed for their positions. When this occurred, the affected employees were paid at a lesser rate.

Compensation of all town officers and employees shall be fixed by an ordinance of the town council, and for other than elected town officials, this compensation may be changed by another ordinance of the town council at any time. There is no limitation upon the amount fixed, only to the extent of available appropriations where tax funds are involved. [IC 36-5-3-2] At the time such compensation is fixed, it may be prorated between the general fund or any other applicable funds of the town, as well as any available utility funds. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

CONTRACTS

The Town has a contract with Northern Indiana Public Service Company (NIPSCO) to provide services to certain facilities. In accordance with the contract, NIPSCO is to pay the Town \$150,000 per year, with \$10,000 of this amount to be credited to the Parks and Recreation Fund.

TOWN OF PORTER
EXAMINATION RESULTS AND COMMENTS
(Continued)

For 2004 and 2005, the Town received \$139,077 and \$135,686, respectively from NIPSCO, and only credited \$5,000 each year to the Parks and Recreation Fund.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSETS

General Form 211 for the recording of the additions and deletions of capital assets is not in use by the Town of Porter. The Town currently maintains an inventory of capital assets. This inventory does not list the original value, or useful life of the assets. Additionally, no threshold has been set by the Town for the dollar value of assets to be included in the capital asset records.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The records of each governmental unit should reflect land owned, its location, its acquisition date and the cost (purchase price). If the purchase price is not available, appraised value may be used. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF PORTER
EXIT CONFERENCE

The contents of this report were discussed on September 11, 2006, with Carol L. Pomeroy, Clerk-Treasurer; and Paul L. Childress, President of the Town Council.