

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

EXAMINATION REPORT
OF
TOWN OF SCHNEIDER
LAKE COUNTY, INDIANA
January 1, 2004 to December 31, 2005



FILED
03/30/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Crista Stavros	01-01-04 to 01-15-04
	Ray E. Bowman	01-26-04 to 12-31-07
President of the Town Council	Terry Moore	01-01-04 to 12-31-04
	Richard Ludlow	01-01-05 to 12-31-07



STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the financial information presented herein of the Town of Schneider (Town), for the period of January 1, 2004 to December 31, 2005. The Town's management is responsible for the financial information presented herein. 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 financial information presented herein 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 financial information referred to above presents fairly, in all material respects, the financial information 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

February 1, 2007

TOWN OF SCHNEIDER
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	\$ 32,589	\$ 176,119	\$ 189,136	\$ 19,572
Motor Vehicle Highway	5,601	11,109	16,886	(176)
Local Road and Street	26,667	7,712	529	33,850
Law Enforcement Continuing Education	283	410	610	83
Operation Pullover	500	-	500	-
Criminal Justice Grant	2,333	55	2,388	-
Lake County HIDTA	-	240	240	-
Police Insurance Proceeds	-	2,605	-	2,605
Riverboat	-	6,756	-	6,756
Donation	-	2,450	1,974	476
Cumulative Capital Improvement	12,744	1,650	5,821	8,573
Proprietary Funds:				
Water Utility - Operating	4,848	44,544	52,435	(3,043)
Water Utility - Depreciation	21,005	-	-	21,005
Water Utility - Customer Deposit	6,140	445	165	6,420
Wastewater Utility - Operating	12,504	58,400	58,780	12,124
Wastewater Utility - Bond and Interest	12,240	19,959	12,700	19,499
Wastewater Utility - Debt Service Reserve	19,959	-	19,959	-
Fiduciary Fund:				
Payroll	2,893	89,717	109,099	(16,489)
Totals	<u>\$ 160,306</u>	<u>\$ 422,171</u>	<u>\$ 471,222</u>	<u>\$ 111,255</u>

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ 19,572	\$ 338,699	\$ 360,460	\$ (2,189)
Motor Vehicle Highway	(176)	12,050	18,287	(6,413)
Local Road and Street	33,850	8,590	883	41,557
Law Enforcement Continuing Education	83	998	-	1,081
Operation Pullover	-	500	500	-
Police Insurance Proceeds	2,605	-	-	2,605
Riverboat	6,756	4,106	-	10,862
Donation	476	1,139	400	1,215
Deferral	-	2,940	198	2,742
Cumulative Capital Improvement	8,573	1,150	4,990	4,733
Proprietary Funds:				
Water Utility - Operating	(3,043)	35,915	53,748	(20,876)
Water Utility - Depreciation	21,005	-	-	21,005
Water Utility - Customer Deposit	6,420	469	313	6,576
Wastewater Utility - Operating	12,124	116,091	121,700	6,515
Wastewater Utility - Bond and Interest	19,499	156,000	171,236	4,263
Fiduciary Fund:				
Payroll	(16,489)	108,944	108,941	(16,486)
Totals	<u>\$ 111,255</u>	<u>\$ 787,591</u>	<u>\$ 841,656</u>	<u>\$ 57,190</u>

The accompanying notes are an integral part of the schedules.

TOWN OF SCHNEIDER
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

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

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.

Note 6. Long-Term Debt

The Town has entered into a loan for wastewater improvements. The outstanding principal at December 31, 2005, was \$179,570.

Note 7. Subsequent Event

The Town issued water revenue bonds totaling \$155,000 to fund the renovation of the water tower facilities and other costs. The bonds will be repaid in 12 years and will carry an interest rate of 6.05%. The bonds closing occurred on December 22, 2006.

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS

In January 2004, the elected clerk-treasurer resigned and a new clerk-treasurer was appointed. Both clerk-treasurers attempted to use the existing financial software system, but they found it difficult to use and they had no user guide or customer support. This caused errors in creating and posting financial transactions, and resulted in inadequate financial records. A new financial software package was acquired in May 2004 to correct the situation. However, the lack of accurate financial data and balances from the beginning of 2004, combined with errors occurring during the implementation of the new financial system, resulted in the town having unreliable financial records during 2004 and 2005. Due to this lack of reliable records, the bank accounts were not reconciled during this time period.

The Town hired a consultant in 2006 who was able to recreate a financial record for the town using computer output, town documents and bank statements. The consultant used these financial records to perform bank to record transaction reconcilements through December 2005. The consultant then prepared spreadsheets from the data used in the reconcilements, to assist the town in preparing the City and Town Annual reports (CTAR) for 2004 and 2005.

Review of the spreadsheets and CTAR's noted some errors which required correction and corrections were made by the Clerk-Treasurer. Some differences remain in receipts and disbursements between the reconciliation data and the CTAR data, the cause of which can not be determined. The information provided by the town and its consultant for the CTAR, as examined, is the basis for the financial statements presented in this report. Based upon the financial statements, there is unidentified cash excess in the bank of approximately \$805 at December 31, 2005.

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)

Indiana Code 5-13-6-1(e) states in part: "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."

BOARD MINUTES

The minutes did not document or reflect all actions taken by the council. For example, the Town, in February 2005, refinanced a wastewater revenue bond with a bank loan and borrowed additional funds to make certain improvements to the wastewater facilities. The minutes do not document any authorization or approval of the council for this loan. Additionally, minutes of meetings of the governing body for one meeting in 2005 were not available for audit.

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.

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (4) A record of all votes taken, by individual members if there is a roll call.
- (5) Any additional information required under IC 5-1.5-2-2.5 or IC 20-12-63-7."

PUBLIC PURCHASES LAW

The Town of Schneider has not adopted a purchase policy to govern purchases under \$25,000. During 2005, purchases of a lawn tractor for \$5,049 and an ultraviolet lighting (UV) system for the wastewater plant for \$17,200 were made. The minutes either do not reflect that quotes were obtained or how the purchase was awarded. The Town, in December 2005, purchased a chipper/shredder with additional blades. The original cost was \$25,543; however, evidence of bids was not presented for audit.

Indiana Code 5-22-7-8 states: "A contract must be awarded with reasonable promptness by written notice to the lowest responsible and responsive bidder."

Indiana Code 5-22-8-2 states:

"(a) This section applies only if the purchasing agent expects the purchase to be less than twenty-five thousand dollars (\$25,000).

(b) A purchasing agent may make a purchase under small purchase policies established by the purchasing agency or under rules adopted by the governmental body."

Indiana Code 5-22-8-3 states in part:

"(a) This section applies only if the purchasing agent expects the purchase to be:

- (1) at least twenty-five thousand dollars (\$25,000); and
- (2) not more than seventy-five thousand dollars (\$75,000).

(b) A purchasing agent may purchase supplies under this section by inviting quotes from at least three (3) persons known to deal in the lines or classes of supplies to be purchased.

(c) The purchasing agent shall mail an invitation to quote to the persons described in subsection (b) at least seven (7) days before the time fixed for receiving quotes.

(d) If the purchasing agent receives a satisfactory quote, the purchasing agent shall award a contract to the lowest responsible and responsive offeror for each line of class of supplies required."

PENALTIES, INTEREST AND OTHER CHARGES

Penalties and interest totaling \$1,607.49 were paid to the Internal Revenue Service during the years of 2004 to 2006, for the periods 2004 and 2005. Additionally, penalties and interest totaling \$44.90 were paid to the Indiana Department of Revenue during the calendar years 2004 and 2005, due to late or insufficient withholding and sales tax remittances.

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ERRORS ON CLAIMS

We observed the following deficiencies regarding claims:

- (1) Claims were not prepared for all disbursements. Some claims could not be located and disbursements not made by check, such as electronically paid loan payments, did not have claims.
- (2) Seventeen percent of claims reviewed were not adequately itemized or documented.
- (3) All claims did not have Council approval. Although Council approval was often obtained for larger purchases, the actual payments were not approved.
- (4) Ten percent of claims or invoices reviewed were not accompanied by evidence in support of the receipt of goods or services.
- (5) Most claims were not certified by the clerk-treasurer.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services."

"(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

CAPITAL ASSET POLICY

The Town hired a consultant to develop capital asset records. The consultant developed a capital assets policy to assist in the development of the capital asset records. This policy was not approved by the Council.

The governing body should establish capitalization policy that sets a dollar amount as a threshold to be used in determining which items will be recorded. (Cities and Towns Bulletin and Uniform Compliance Guidelines, December 2004)

CUSTOMER DEPOSIT REGISTER

The detailed customer deposit register does not reconcile with the balance of the customer deposit fund recorded on the annual report. Our review determined that the fund balance included a number of old deposits for individuals who are no longer customers of the water utility. Also, the deposit register reports that the deposit was being both applied and refunded for several closed utility accounts.

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)

DEPOSITS

As stated in the prior two reports, some receipts were deposited later than the next business day. Twenty-five percent of receipts reviewed were deposited between three to eleven 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 (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

OVERDRAWN CASH BALANCES

The cash balances of the General Fund (\$2,189), Motor Vehicle Highway (MVH) Fund (\$6,413), Payroll Fund (\$16,486) and the Water Operating Fund (\$20,876) were overdrawn as of December 31, 2005, by the respective amounts listed.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF SCHNEIDER
EXIT CONFERENCE

The contents of this report were discussed on February 5, 2007, with Ray E. Bowman, Clerk-Treasurer.