

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

EXAMINATION REPORT

OF

CITY OF LAKE STATION

LAKE COUNTY, INDIANA

January 1, 2006 to December 31, 2006



**FILED**

10/03/2007



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Donna Smelley Dora Jean Vajner (Interim) Martha D. Kroledge	01-01-04 to 01-10-06 01-11-06 to 02-06-06 02-07-06 to 12-31-07
Mayor	Shirley Wadding	01-01-04 to 12-31-07
President of the Board of Public Works	Shirley Wadding	01-01-04 to 12-31-07
President of the Common Council	Keith Soderquist	01-01-06 to 12-31-07
President of the Board of Sanitary District Commissioners	Todd Lara Willie Westmoreland	01-01-06 to 12-31-06 01-01-07 to 12-31-07
Superintendent of Public Works	Henry M. Gilliana II	01-01-06 to 12-31-07
Utility Office Manager	Tammy Whisenant	01-01-06 to 12-31-07



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF LAKE STATION, LAKE COUNTY, INDIANA

We have examined the financial information presented herein of the City of Lake Station (City), for the period of January 1, 2006 to December 31, 2006. The City'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 City for the year ended December 31, 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial information. The schedule has not been subjected to the examination procedures applied to the basic financial information, and accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

August 20, 2007

CITY OF LAKE STATION  
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES  
As Of And For The Year Ended December 31, 2006

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
<b>Governmental Funds:</b>				
General	\$ 570,607	\$ 6,639,931	\$ 7,672,962	\$ (462,424)
Motor Vehicle Highway	327,030	702,035	763,648	265,417
Local Road and Street	79,010	172,522	166,219	85,313
Park and Recreation	37,130	606,762	606,062	37,830
Park Nonreverting	967	39,839	15,215	25,591
Civic Center	24,709	64,907	25,336	64,280
Riverboat	154,695	405,090	524,379	35,406
Cumulative Capital Improvement	117,410	175,735	74,031	219,114
Cumulative Capital Improvement - Firefighters	100	-	100	-
Park Capital Improvement	1,157,845	25,456	1,182,668	633
Major Moves Construction	-	331,674	-	331,674
Park General Obligation Bond	-	118,852	89,991	28,861
Nonreverting Unsafe Building	1,517	20,575	6,825	15,267
Economic Development	2,939	6,130	6,245	2,824
Street Lighting	28,150	141,932	97,203	72,879
Street and Sanitation Clothing	1,007	3,561	4,509	59
Alcohol Program Monitoring	9,250	2,050	3,000	8,300
Drunk Driving	561	41,477	46,621	(4,583)
Drug Seizure Monies	-	30,859	28,176	2,683
Clerk's Record Perpetuation	7,290	1,536	-	8,826
Continuing Education User Fees	193	2,347	2,540	-
Local Law Enforcement Continuing Education	287	9,463	8,115	1,635
Police Department Vests	1,530	-	500	1,030
Ambulance Nonreverting	64,599	105,552	198,187	(28,036)
Firefighter's Grant	31	-	-	31
Nonreverting Hazardous Materials	14,518	6,032	2,573	17,977
Compost	8,236	249,831	171,654	86,413
Sanitary District	72,958	486,843	410,513	149,288
Cumulative Sewage	112,454	464,688	209,030	368,112
Police Donation	(26)	50	75	(51)
Park Donation	1,061	3,584	3,061	1,584
Fire Donation	350	400	400	350
Ambulance Donation	113	300	180	233
Police Dog Donation	-	300	-	300
<b>Proprietary Funds:</b>				
Water Utility Operating	206,554	2,411,678	2,352,821	265,411
Sewage Utility Operating	430,722	1,551,129	1,776,246	205,605
<b>Fiduciary Funds:</b>				
Police Pension	79,168	292,666	304,469	67,365
Court Costs Due County	1,528	22,142	23,670	-
City Court	160,862	337,221	254,285	243,798
Park Security Deposit	910	6,551	6,622	839
Employees Health Insurance	81,787	542,263	505,515	118,535
Payroll	1,566	3,360,703	3,359,576	2,693
<b>Totals</b>	<b>\$ 3,759,618</b>	<b>\$ 19,384,666</b>	<b>\$ 20,903,222</b>	<b>\$ 2,241,062</b>

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

CITY OF LAKE STATION  
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

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

Note 2. Fund Accounting

The City 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 District 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 City 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.

CITY OF LAKE STATION  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City 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 City 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. Subsequent Event

Tax Anticipation Warrants

On May 22, 2007, the City borrowed \$1,630,000 in Tax Anticipation Warrants at 3.87% to be repaid by December 31, 2007.

Property Tax and Levies

2005 Pay 2006 Tax Rates and Levies:

Property tax rates and levies were not established by the Indiana Department of Local Government Finance as of February 15, 2005, as required by statute, due to the continued delay in the completion of the reassessment of Lake County. The 2005 pay 2006 property tax bills were mailed out in June 2006, with the first installment due in July 2006 and the second installment due in November 2006. The final settlement of the 2005 pay 2006 taxes was not received by the City until January 4, 2007.

CITY OF LAKE STATION  
NOTES TO FINANCIAL INFORMATION  
(Continued)

2006 Pay 2007 Tax Rates and Levies:

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 in the completion of the reassessment of Lake County. The 2006 pay 2007 tax bill mailing has yet to be determined.

CITY OF LAKE STATION  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2006

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Street Bobcat	\$ 8,005	\$ 8,005
Dump Truck	40,000	40,000
Ambulance	136,929	25,184
Park Truck	18,425	2,821
Bonds payable:		
General obligation bonds:		
2005 \$1,500,000 Park Bond	1,500,000	40,000
2005 \$5,500,000 Sanitary District Judgment Bond	5,090,000	525,000
Total governmental activities long-term debt	<u>\$ 6,793,359</u>	<u>\$ 641,010</u>

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The cash balance of the General Fund, Police Donation Fund, Drunk Driving Fund, and Ambulance Nonreverting Fund were overdrawn by \$462,424, \$51, \$4,584, and \$28,036 respectively at December 31, 2006.

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)

APPROPRIATIONS

The following funds were expended in excess of budgeted appropriations:

<u>Fund</u>	<u>Excess Amount Expended</u>
Police Pension	\$ 66,008
Park and Recreation	102,796
Park Bond	42,723
Sewer Bond	41,978

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

CREDIT CARDS

Credit card payments totaling \$3,485 were paid on the basis of the credit card statement only. Supporting documentation was not presented for examination.

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)

CAPITAL ASSET RECORDS

As also noted in prior reports, disposals of capital assets were not always recorded in the capital assets ledger. The Water and Wastewater Utilities only maintain an inventory of machinery and equipment in the capital asset ledger. Infrastructure is not included in the City's or Utilities' 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. 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)

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

POLICE TIME RECORDS

The Police Department maintains their own employee time records. Per City policy they are to submit time records to the Payroll Clerk on a monthly basis. The Police Department did not submit any time records to the Payroll Clerk during 2006.

The City of Lake Station Personnel Policy Handbook approved by the Common Council on December 15, 2005 states:

"All employees, mayoral appointments that are considered full time employees shall be responsible to submit time sheets/time cards to the Lake Station Clerk Treasurer prior to payment. The time cards shall include the date and hours worked and shall be signed by the employee AND supervisor/department head verifying the accuracy of the submitted time card. (Police department will submit on a monthly basis.)"

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 DEPOSITS

Receipts issued by the Police Department and the City Courts are not being completed properly. When a receipt is issued, the amount of cash and checks is not designated on the receipt; therefore, we were unable to determine whether the deposits were made intact.

Public funds shall be deposited in the same form in which they were received. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONFLICT OF INTEREST

Ruth Smith, a police detective, doing business as Hoosier Logo, did printing for the City in 2006 which totaled \$3,549. Richard Long, a Council member, doing business as Telephone Plus, Inc., provided telephone services for the City in 2006 which totaled \$1,658. Also the Park Superintendent's wife worked as the Aquatic Director and the aforementioned Council member's children worked as seasonal park help. Uniform Conflict of Interest Disclosure Statements were not filed.

Indiana Code 35-44-1-3 states in part:

"(a) A public servant who knowingly or intentionally: (1) has a pecuniary interest in; or (2) derives a profit from; a contract or purchase connected with an action by the governmental entity served by the public servant commits conflict of interest, a Class D felony."

"(c) This section does not prohibit a public servant from having a pecuniary interest in or deriving a profit from a contract or purchase connected with the governmental entity served . . . (3) If the public servant; (A) is an elected public servant. . . and (B) makes a disclosure under subsection (d)(1) through (d)(6)."

"(d) A disclosure required by this section must: (1) be in writing; (2) describe the contract or purchase to be made by the governmental entity; (3) describe the pecuniary interest that the public servant has in the contract or purchase; (4) be affirmed under penalty of perjury; (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

governmental entity prior to final action on the contract or purchase; (6) be filed within fifteen (15) days after final action on the contract or purchase with: (A) the state board of accounts; and (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase"

"(g) A public servant has a pecuniary interest in a contract or purchase if the contract or purchase will result or is intended to result in an ascertainable increase in the income or net worth of: (1) the public servant; or (2) a dependent of the public servant who: (A) is under the direct or indirect administrative control of the public servant; or (B) receives a contract or purchase order that is reviewed, approved, or directly or indirectly administered by the public servant."

"(k) As used in this section, 'dependent' means any of the following: (1) The spouse of a public servant. (2) A child, stepchild, or adoptee (as defined in IC 31-9-2-2) of a public servant who is: (A) unemancipated; and (B) less than eighteen (18) years of age. (3) Any individual more than one-half (1/2) of whose support is provided during a year by the public servant."

ORDINANCE TO ESTABLISH PARK AUTHORITY

On May 20, 2004, the Common Council passed Ordinance 2004-12 eliminating the Department of Parks and Recreation which was created under Indiana Code 36-10-3. The ordinance also stated: "The Mayor and the Board of Public Works and Safety will be known as the park authority." Then, on January 6, 2005, without amending Ordinance 2004-12, the Common Council approved to shift the Park Authority to the Common Council with a three member committee to meet once monthly at a minimum. An Ordinance to establish the Park Authority under Indiana Code 36-10-5-2(b) has not been approved.

The Park Authority should be established by Ordinance per Indiana Code 36-10-5-2(b).

INTERNAL CONTROLS OVER PARK RECEIPTS

The following internal controls over park receipt issuance were not in place:

1. When receipts were voided, the originals were not retained.
2. Amounts were changed on the duplicate copies.
3. Official receipts were not written for the daily pool and concession collections.
4. Cash register tapes were not available for 11 of 26 (42%) daily concession collections reviewed.
5. Some receipts were not marked cash, check or money order.

Public funds shall be deposited in the same form in which they were received. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

UNCLAIMED COURT TRUST FUNDS OVER FIVE YEARS OLD

The Court Trust Funds includes bonds from 2000 for \$500 and 2001 for \$5,925. These funds were not remitted to the State Attorney General as required by statute.

All items that can be legally disbursed should be paid immediately to the person or persons entitled thereto. All fees and funds five or more years old, including old outstanding checks, should be scheduled on forms provided by the Attorney General and paid over to the Attorney General as required by IC 32-34-1-20(c)(7). Items should not be allowed to accumulate beyond the five year anniversary date. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 4)

COMPOST INTAKE FEES

The ordinance establishing fees for the Lake Station Compost Facility only covered the sale of compost. The ordinance did not address money received from the drop-off of yard waste.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

HEALTH INSURANCE COSTS

The City of Lake Station assesses the Water and Wastewater Utilities a portion of the health insurance costs, since the City and its various departments are insured under the same policy. The Wastewater Utility owed the City for assessments from 1997 to 2002 totaling \$256,459. The Wastewater Utility made payments during 2005 and 2006 and the balance owed to the City at December 31, 2006, was \$94,000. The Wastewater Utility is determined to complete their payment plan by December 2007.

Payments or transfers which are not authorized by statute, ordinance, resolution or court order must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF LAKE STATION  
EXIT CONFERENCE

The contents of this report were discussed on August 20, 2007, with Shirley Wadding, Mayor; Martha D. Kroledge, Clerk-Treasurer; and Jean Vajner, Deputy Clerk.