

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

EXAMINATION REPORT

OF

CITY OF DUNKIRK

JAY COUNTY, INDIANA

January 1, 2006 to December 31, 2006



**FILED**  
10/10/2007



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jane Ann Kesler	01-01-04 to 12-31-07
Mayor	Sam Hubbard	01-01-04 to 12-31-07
President of the City Council	A. Craig Faulkner	01-01-06 to 12-31-07
Superintendent of the Water Utility	Dace Mumbower	01-01-06 to 12-31-07
Superintendent of the Wastewater Utility	Greg Buckner	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 DUNKIRK, JAY COUNTY, INDIANA

We have examined the financial information presented herein of the City of Dunkirk (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.

STATE BOARD OF ACCOUNTS

August 27, 2007

CITY OF DUNKIRK  
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	\$ 382,120	\$ 1,092,501	\$ 1,087,797	\$ 386,824
Motor Vehicle Highway	2,907	175,733	156,377	22,263
Local Road and Street	5,673	8,969	4,535	10,107
Nonreverting Repair and Maintenance	104	-	1,405	(1,301)
DTR Economic Development	216,390	-	20,000	196,390
Local Law Enforcement Continuing Education	3,933	699	3,450	1,182
Park Nonreverting Operating	54,490	23,116	28,093	49,513
Planning and Zoning	(1,225)	794	2,518	(2,949)
Firefighting Equipment	7,690	3,898	2,500	9,088
Drug Free Allotment	827	75	567	335
Highlands Subdivision	900	-	-	900
COPS Grant	17,094	-	-	17,094
Fire Equipment Donation	50	50	-	100
Rainy Day	17,634	-	10,000	7,634
Cumulative Capital Improvement	40,730	10,809	-	51,539
Cumulative Improvement	839	-	-	839
Economic Development Income Tax	16,558	1,738	-	18,296
<b>Proprietary Funds:</b>				
Water Utility - Operating	117,176	352,506	283,542	186,140
Water Utility - Bond and Interest	-	-	95,090	(95,090)
Water Utility - Depreciation	118,272	14,260	-	132,532
Water Utility - Customer Deposit	29,188	8,565	6,728	31,025
Wastewater Utility - Operating	970,855	891,464	666,502	1,195,817
Wastewater Utility - Bond and Interest	164,138	115,808	71,038	208,908
Wastewater Utility - Reserve	116,600	-	-	116,600
Wastewater Utility - Improvement	162,599	1,339	-	163,938
<b>Fiduciary Funds:</b>				
Police Officers' Pension	18,548	33,666	19,071	33,143
City Court	2,002	19,056	17,253	3,805
User Fees	5,147	993	-	6,140
Payroll	14,680	1,119,653	1,120,850	13,483
<b>Totals</b>	<u>\$ 2,485,919</u>	<u>\$ 3,875,692</u>	<u>\$ 3,597,316</u>	<u>\$ 2,764,295</u>

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

CITY OF DUNKIRK  
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, health and social services, culture and recreation, planning and zoning, water, wastewater, sanitation, economic development and general administrative services.

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 City 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. All property taxes collected by the County Treasurer and available for distribution were distributed to the City on or prior to December 31 of the year collected.

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 DUNKIRK  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Note 6. Pension Plans

A. 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.

B. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

CITY OF DUNKIRK  
NOTES TO FINANCIAL INFORMATION  
(Continued)

C. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City 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 Plan (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 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 Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF.

Note 7. Subsequent Event

Water Main Relocation Project

The City has started a water main relocation project on State Road 167, Main Street in Dunkirk. A construction contract has been awarded in the amount of \$755,691 but construction has not yet started. The project is being funded by a grant from the Indiana Department of Transportation.

CITY OF DUNKIRK  
EXAMINATION RESULTS AND COMMENTS

PRESCRIBED FORMS - CITY COURT

The following prescribed form was not in use: Register of Trust Funds, General Form 102.

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 City and Town Courts, Chapter 1)

SERVICE RECORDS

Employee service records for the year 2006 were not posted for the period October 3, 2006 through December 31, 2006.

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)

RECEIPT DEPOSITS

In our test of Utility collections, one instance was found where the Deputy Clerk-Treasurer had cashed a personal check using Utility collections.

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)

DEPOSITS - UTILITY COLLECTIONS

Our test of the receipt and deposit of Utility collections disclosed that receipts were deposited later than the next business day.

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."

SEWAGE RATE ORDINANCE

Sewage Rate Ordinance 1999-7 states in part: ". . . (a) The sewage rates and charges shall be based on the quantity of water used on or in the property or premises subject to such rates and charges, as the same is measured by the water meter there in use, plus a base charge, based on the size of the water meter installed . . ." In our test of customer billings, three customers' bills did not include the base charge. The calculation of another customer's bill in the test included a multiplier of 2.7 which could not be related to any provision of the Ordinance.

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)

CITY OF DUNKIRK  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

CONDITION OF RECORDS - PAYROLL FUND SUBACCOUNTS

As noted in Reports B26084 and B27751 and during the current examination period, the balances in payroll subaccounts do not accurately reflect net pay and payroll withholdings balances at December 31, 2006. Errors have occurred in both posting receipts and disbursements to the accounts.

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)

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)

ORDINANCES AND AGREEMENTS - STATE REVOLVING FUND (SRF) LOANS

The City has an SRF loan for their Water Utility and another for their Wastewater Utility. In October 2006, the SRF staff conducted a review of the City's loans and concluded that the City had not created a separate Water Utility Debt Service Reserve account as required by City Ordinance 1999-6 which authorized the SRF loans. The SRF staff also concluded that the Wastewater Reserve account was under funded in relation to the Wastewater Utility loan. As a result of the SRF staff review, the City was asked to enter into two paying agent agreements with the Bank of New York Trust Company, one for each loan. The agreements were entered into in February 2007 and a Bond and Interest account and Debt Service Reserve account was established for each Utility. The agreements stated that initial deposits of \$113,896 for the Water Utility and \$258,589 for the Wastewater Utility be made immediately followed by monthly deposits in amounts stated in the agreement. The City made the initial deposits February 22, 2007, as required and then made deposits on February 27, 2007, for the loan interest due March 1, 2007. The monthly deposits which were to follow the initial deposits have not been made.

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)

CUSTOMER DEPOSIT REGISTER

The detailed Customer Deposit Register balance does not reconcile with the cash balance in the Customer Deposit Fund. Our testing disclosed errors in recording both receipts and refunds of deposits in the Customer Deposit Register.

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)

CITY OF DUNKIRK  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

COLLECTION OF AMOUNTS DUE - POLICE PENSION

In the prior Report B27751 it was determined that the pensioner paid from the Police Pension Fund had been overpaid. After that examination, the City hired a private Certified Public Accounting firm to review the pension paid to the pensioner. The firm concluded that the pensioner had been overpaid by \$8,422. The overpayment has not been collected.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CLERK'S RECORD PERPETUATION FUND

The City receives remittances of document storage fees from the Dunkirk City Court. The fees have been receipted to the City General Fund instead of a Clerk's Record Perpetuation Fund.

Indiana Code 33-37-5-2 requires each city or town operating a city or town court to establish a clerk's record perpetuation fund. The following shall be deposited in the fund:

1. revenue received by the court clerk for the transmitting of documents by facsimile machine to a person under Indiana Code 5-14-3; and
2. document storage fees required under Indiana Code 33-37-5-20.

Such fees are to be remitted by the court to the city or town fiscal officer at the end of each month.

The clerk of a city or town court may use the money in the fund for the preservation of records and improvement of record keeping systems and equipment. The fund would require appropriation. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2004)

OVERDRAWN CASH BALANCES

The cash balance of the Nonreverting Repair and Maintenance Fund, Planning and Zoning Fund, and Water Utility Bond and Interest Fund were overdrawn in 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)

COMMERCIAL REHABILITATION LOAN RECEIVABLE

At the City Council meeting on November 28, 2005, the City Council approved issuing a commercial rehabilitation loan to American Legion Post 227 in the amount of \$20,000 for a period of five years at 4% interest. The loan agreement was signed January 3, 2006; however, the Terms of Loan section of the agreement with blanks to be completed for the period of the loan, the amount of the monthly payment, the date payments are to commence, the due date of the payments and the final payment were not completed. In the text of the Terms of Loan section the interest rate is 0%, not 4% as approved by the City Council. On January 4, 2007, the Legion made a payment of \$2,000.

CITY OF DUNKIRK  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

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)

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY COURT - DISTRIBUTION OF COLLECTIONS

Our review of the distribution of Dunkirk City Court collections disclosed that 100% of the Judicial Salaries Fees collected were being remitted to the Auditor of State. This included the City's 25% share of the fee.

In each action in which a person is:

- (1) convicted of an offense;
- (2) required to pay a pretrial diversion fee;
- (3) found to have violated an infraction; or
- (4) found to have a violated ordinance;

the clerk shall collect a judicial salaries fee of sixteen dollars (\$16). [Indiana Code 33-37-5-26(a)] Such fee is scheduled to raise one dollar (\$1) on July 1 for the next four years. The clerk shall semiannually distribute to the Auditor of State seventy-five percent (75%) of the fees and retain twenty-five percent (25%) as the city or town share. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 3)

DEPOSITS AND RECEIPT ISSUANCE - CITY COURT

In numerous instances, collections were deposited later than the next business day and copies of the receipts issued for the collections did not always indicate the form of the collection such as check, cash or other form.

All funds collected by a city or town court shall be deposited not later than the business day following the receipt of funds in depositories selected by the city or town as provided in an ordinance adopted by the city or town and approved as depositories of state funds. [Indiana Code 5-13-6-1(d)]

All funds shall be deposited in the same form in which they were received. (Accounting and Guidelines Manual for City and Town Courts, Chapter 4)

APPROPRIATIONS

The records presented for audit indicated the following disbursements in excess of budgeted appropriations:

CITY OF DUNKIRK  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

<u>Fund</u>	<u>Excess Amount Disbursed</u>
Park Nonreverting Operating	\$ 18,890
Local Law Enforcement Continuing Education	2,450

The records also indicated that disbursements from the following funds had not been appropriated by the City Council:

<u>Fund</u>	<u>Excess Amount Disbursed</u>
DTR Economic Development	\$ 20,000
Firefighting Equipment	2,500
Planning and Zoning	2,518

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."

BANK RECONCILIATIONS

Bank reconcilements presented for examination did not always accurately reconcile the record balances to the bank account balances. Errors found in the reconcilements reviewed included receipts which had been deposited but not recorded in the records, outstanding checks which had not been included on the outstanding check list, and corrections to the records which had been made improperly causing the record fund balance to be misstated. The bank reconciliation for December 31, 2006, included cash necessary to balance of \$100.

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)

DISTRIBUTIONS RECEIPTED TO THE WRONG FUND

The following distributions were receipted to the wrong fund:

<u>Distribution</u>	<u>Amount</u>	<u>Fund Receipted To</u>	<u>Correct Fund</u>
Cigarette Tax	\$ 1,356	Cumulative Capital	General
Excise Tax	375	Improvement	General
Financial Institution Tax	54	Motor Vehicle Highway	General
Financial Institution Tax	79	Motor Vehicle Highway	General
Vehicle Excise	83	General	Motor Vehicle Highway
Financial Institution Tax	28	General	Motor Vehicle Highway
Vehicle Excise	30	General	Police Pension
		General	Police Pension

CITY OF DUNKIRK  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONCESSIONS SALES CONTROLS

Information was not presented for audit to indicate that inventories of product purchased for swimming pool concession sales were maintained and that reconcilements of purchases to sales and inventory remaining were performed.

Internal controls over vending operations, concessions or other sales should include, at a minimum, a regular reconcilement of the beginning inventory, purchases, distributions, items sold and ending inventory to the amount received. Any discrepancies noted should be immediately documented in writing to proper officials. The reconcilement should provide an accurate accounting.

Persons with access to vending should be properly designated and access should be limited to those designated. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS

Controls over receiving and posting collections and reconciling the bank accounts were insufficient. The City office is staffed by two individuals, the Clerk-Treasurer and the Deputy Clerk-Treasurer. The Deputy Clerk-Treasurer bills Utility customers, receives customer payments, posts payments and adjustments to customer accounts, receives and posts park and police department collections, and performs the monthly bank reconcilements. The duties of receiving and posting collections should be separated from the duty of reconciling the bank account balances to the records. The City Council should review printouts of all adjustments made to customer accounts.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF DUNKIRK  
EXIT CONFERENCE

The contents of this report were discussed on August 27, 2007, with Jane Ann Kesler, Clerk-Treasurer; and A. Craig Faulkner, President of the City Council.