

**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, 2007 to December 31, 2008



**FILED**  
03/17/2009



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Martha Kroledge Brenda Samuels	02-07-06 to 12-31-07 01-01-08 to 12-31-11
Mayor	Shirley Wadding Keith Soderquist	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Common Council	Keith Soderquist Richard W. Long	01-01-07 to 12-31-07 01-01-08 to 12-31-09
President of the Board of Sanitary District Commissioners	Willie Westmoreland	01-01-07 to 12-31-09
Superintendent of Public Works	Henry M. Gilliana II Ruben Mendez	01-01-07 to 12-31-07 01-01-08 to 12-31-09



**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, 2007 to December 31, 2008. 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 years ended December 31, 2007 and 2008, 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. They have not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

February 17, 2009

CITY OF LAKE STATION  
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, 2007 And 2008

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
Governmental Funds:				
General	\$ (462,424)	\$ 4,875,058	\$ 4,961,332	\$ (548,698)
Motor Vehicle Highway	265,417	630,181	662,936	232,662
Local Road and Street	85,313	175,524	162,856	97,981
Park and Recreation	37,830	364,816	322,305	80,341
Park Nonreverting	25,591	42,599	62,705	5,485
Civic Center	64,280	31,200	25,137	70,343
Riverboat	35,406	186,927	142,455	79,878
Cumulative Capital Improvement	219,114	48,991	129,411	138,694
Park Capital Improvement	633	-	-	633
Major Moves Construction	331,674	8,454	171,197	168,931
Park General Obligation Bond	28,861	115,222	164,309	(20,226)
Nonreverting Unsafe Building	15,267	-	5,010	10,257
Economic Development	2,824	5,400	3,016	5,208
Street Lighting	72,879	65,986	95,978	42,887
Street and Sanitary Clothing	59	5,126	4,489	696
Alcohol Program Monitoring	8,300	650	3,056	5,894
Drunk Driving	(4,583)	43,351	38,768	-
Drug Seizure Monies	2,683	-	1,993	690
Clerk's Record Perpetuation	8,826	1,162	1,100	8,888
Continuing Education User Fees	-	1,809	1,524	285
Local Law Enforcement Continuing Education	1,635	8,822	7,370	3,087
Police Department Vests	1,030	1,000	-	2,030
Ambulance Nonreverting	(28,036)	145,219	173,781	(56,598)
Firefighter's Grant	31	-	-	31
Nonreverting Hazardous Materials	17,977	725	10,315	8,387
Compost	86,413	243,034	322,955	6,492
Sanitary District	149,288	898,317	738,156	309,449
Cumulative Sewage	368,112	268,522	637,236	(602)
Police Donation	(51)	1,717	642	1,024
Park Donation	1,584	6,512	7,736	360
Fire Donation	350	72	-	422
Ambulance Donation	233	-	108	125
Police Dog Donation	300	695	879	116
Grand Boulevard Lake Enhancement	-	10,000	-	10,000
Proprietary Funds:				
Water Utility - Operating	265,411	2,392,768	2,400,077	258,102
Wastewater Utility - Operating	205,605	1,547,509	1,731,747	21,367
Fiduciary Funds:				
Police Pension	67,365	330,010	314,787	82,588
Court Costs Due County	-	23,934	23,934	-
City Court	243,798	353,284	331,967	265,115
Park Security Deposit	840	6,790	7,020	610
Employees Health Insurance	118,534	174,269	292,803	-
Payroll	2,693	3,528,090	3,501,945	28,838
Totals	<u>\$ 2,241,062</u>	<u>\$ 16,543,745</u>	<u>\$ 17,463,035</u>	<u>\$ 1,321,772</u>

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

CITY OF LAKE STATION  
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, 2007 And 2008  
(Continued)

	Cash and Investments 01-01-08	Receipts	Disbursements	Cash and Investments 12-31-08
Governmental Funds:				
General	\$ (548,698)	\$ 7,350,625	\$ 7,951,259	\$ (1,149,332)
Motor Vehicle Highway	232,662	606,604	619,878	219,388
Local Road and Street	97,981	161,553	183,816	75,718
Park and Recreation	80,341	508,838	482,208	106,971
Park Nonreverting	5,485	77,624	11,041	72,068
Civic Center	70,343	31,200	29,981	71,562
Riverboat	79,878	193,648	-	273,526
Cumulative Capital Improvement	138,694	45,359	-	184,053
Park Capital Improvement	633	-	-	633
Major Moves Construction	168,931	-	14,442	154,489
Park General Obligation Bond	(20,226)	228,548	182,479	25,843
Nonreverting Unsafe Building	10,257	-	-	10,257
Economic Development	5,208	4,677	858	9,027
Street Lighting	42,887	92,594	93,785	41,696
Street and Sanitary Clothing	696	6,866	8,346	(784)
Alcohol Program Monitoring	5,894	300	3,452	2,742
Drunk Driving	-	46,206	46,093	113
Drug Seizure Monies	690	1,010	-	1,700
Clerk's Record Perpetuation	8,888	2,172	-	11,060
Continuing Education User Fees	285	4,133	2,377	2,041
Local Law Enforcement Continuing Education	3,087	12,675	17,364	(1,602)
Police Department Vests	2,030	-	-	2,030
Ambulance Nonreverting	(56,598)	244,432	178,888	8,946
Firefighter's Grant	31	-	-	31
Nonreverting Hazardous Materials	8,387	6,762	-	15,149
Compost	6,492	132,515	204,603	(65,596)
Sanitary District	309,449	947,363	981,010	275,802
Cumulative Sewage	(602)	363,402	257,139	105,661
Police Donation	1,024	1,826	2,350	500
Park Donation	360	2,401	-	2,761
Fire Donation	422	400	-	822
Ambulance Donation	125	-	-	125
Police Dog Donation	116	-	-	116
Grand Boulevard Lake Enhancement	10,000	-	-	10,000
Rainy Day	-	-	107,662	(107,662)
Police - Insurance Repair	-	64,924	53,871	11,053
Deferral Program	-	5,243	3,029	2,214
Lake Station Sanitary District	-	697,515	643,417	54,098
Proprietary Funds:				
Water Utility - Operating	258,102	963,352	1,173,739	47,715
Wastewater Utility - Operating	21,367	1,685,574	1,661,573	45,368
Fiduciary Funds:				
Police Pension	82,588	366,556	390,598	58,546
Court Costs Due County	-	30,005	30,005	-
City Court	265,115	428,861	432,368	261,608
Park Security Deposit	610	8,510	9,223	(103)
Employees Health Insurance	-	115,779	572,841	(457,062)
Payroll	28,838	3,660,725	3,655,486	34,077
Totals	<u>\$ 1,321,772</u>	<u>\$ 19,100,777</u>	<u>\$ 20,005,181</u>	<u>\$ 417,368</u>

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, 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 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.

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 Plans

Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

A. 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.

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 LAKE STATION  
NOTES TO FINANCIAL INFORMATION  
(Continued)

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

Note 7. Subsequent Events

Tax Anticipation Warrants

On January 2, 2009, the City borrowed \$1,436,533 in Tax Anticipation Refunding Warrants at 3.1% to be repaid by June 30, 2009.

On January 2, 2009, the City borrowed \$2,600,000 in Tax Anticipation Warrants at 3.89% to be repaid by December 31, 2009.

Property Taxes

Property tax levies were not established by the Indiana Department of Local Government Finance as of February 15, 2008, as required by statute, due to the continued delay caused by the reassessment of Lake County. The second installment of the 2007 pay 2008 property tax bills were mailed and were due the County by February 6, 2009.

CITY OF LAKE STATION  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF LONG-TERM DEBT  
December 31, 2008

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Capital leases:		
Ambulance	\$ 85,873	\$ 31,616
Park Tractor	16,268	9,739
Fire Department Pumper	278,000	47,021
Dump Truck	16,402	17,534
Local Road and Street Truck	20,380	10,263
Mayor Vehicle	23,997	5,609
Bonds payable:		
General obligation bonds:		
2005 \$1,500,000 Park Bond	1,370,000	60,124
2005 \$5,500,000 Sanitary District Bond	4,025,000	358,431
Total governmental activities debt	<u>\$ 5,835,920</u>	<u>\$ 540,337</u>
Business-type Activities:		
Wastewater Utility		
Capital leases:		
Sewage Truck	<u>14,417</u>	<u>10,233</u>
Total business-type activities debt	<u>\$ 14,417</u>	<u>\$ 10,233</u>

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS

CITY BANK RECONCILIATION

As of December 31, 2008, the reconciled bank balance is less than the ledger balance by an unidentified amount totaling \$3,062.80.

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)

APPROPRIATIONS

The following funds were expended in excess of budgeted appropriations:

Fund	Excess Amount Expended 2007	Excess Amount Expended 2008
General	\$ -	\$ 1,795,009
Motor Vehicle Highway	-	479
Park General Obligation Bond	59,061	-
Street Lighting	-	32,568
Ambulance Nonreverting	7,742	41,906
Sanitary District	-	300
Cumulative Sewage	-	257,139
Police Pension	-	41,906

IC 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."

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

OVERDRAWN CASH BALANCES

The cash balance of the following funds were overdrawn:

Fund	Balance at December 31, 2007	Balance at December 31, 2008
General	\$ 548,698	\$ 1,149,332
Park General Obligation Bond	20,226	-
Street and Sanitary Clothing	-	784
Local Law Enforcement Continuing Education	-	1,602
Ambulance Nonreverting	56,598	-
Compost	-	65,596
Cumulative Sewage	602	-
Rainy Day	-	107,662
Park Security Deposit	-	103
Employees Health Insurance	-	457,062

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)

CLAIMS

Out of seventy-four claims chosen for review, ten could not be located for audit. Of these ten, five were either for payments made directly to Indiana Association of Cities and Towns (IACT), or to reimburse expenses for the IACT Conferences.

Some claims tested for reimbursement of expenditures while on City business included payment for meals for multiple persons. No evidence was provided either on the claim or the invoice as to whom the additional meals were provided. Also, in accordance with the City's travel policy signed by former Mayor Shirley Wadding, "Meals will be reimbursed when supported by original receipts up to \$60.00 per day, including gratuities." Some claims included reimbursements to employees for receipts in excess of the \$60.00 per day. The policy also allows for the reimbursement of travel through payment of mileage at the rate allowed by the IRS. For one claim, reimbursement was based upon a gasoline receipt instead of a mileage claim.

Several claims either did not have invoices attached, or were incomplete. For example, payments made to credit card vendors were based solely upon the credit card statement. The original vendor invoices were not attached to substantiate the purchase made with the credit card. These included payments made to Mobil for fuel for the Police Department, and a payment made to Sam's Club for what appeared to be a computer, printer, and software for the Mayor. An example where the claim was incomplete include a payment made to the Executive Inn for hotel rooms for the IACT Conference in 2007. In this case, nine rooms were paid for by the City, but only five invoices were attached to support

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

the payment. Some additional claims for reimbursements for the IACT Conference made to individuals were selected for testing, but these claims could not be located for audit. Thus, we could not determine if the hotel charges were included for reimbursement for these individuals.

Checks and claims were issued for which the invoices attached did not agree. For example, the claim paid to the Executive Inn, and a claim paid for the fuel charge account. For the payment on the fuel charge account, the claim and check showed a payment of \$6,965.70, but based upon the charge statement, we could not determine how this amount was determined. The following month's charge account statement showed an overpayment on the account as a result. The amount overpaid was \$1,802.21.

Claims are not always being paid timely, which for some, resulted in the City paying finance charges and late fees. For example, a claim was paid on August 2, 2007, to reimburse meals from the 2006 IACT Conference which was held in September 2006. Two claims paid on October 4, 2007, had invoices attached which were dated May 31 and July 21, 2007. At least three claims paid for the fuel charge account for the Police Department were late which resulted in the payment of \$262.21 and \$149.46 of finance charges and late fees, respectively. In 2008, two claims for the payment of leased vehicles included late fees totaling \$85.06.

The Water Utility pays rent to the City for office space at the rate of \$4,000 per month. The Sanitary District shares the office space with the Water Utility, but does not share any of the rent expense.

Finally, none of the claims for 2007 and 2008 had any indications that they had been audited by the Clerk-Treasurer, or approved by the Council for payment.

IC 5-15-6-3(f) concerning destruction of public records, states in part:

"Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (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 are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
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.
8. If properly authorized, an annual fee may be paid. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

All claims, invoices, receipts, accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim, may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, utility funds should not be used to pay for personal items. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

A Clerk-Treasurer or Controller is not obligated to pay any bill or invoice which, in his judgment, should not be paid. Prejudice or personal feelings are not sufficient reasons for withholding payment. The correctness and legality of a bill or invoice should be the guide in disbursing public funds. The official surety bond requires that faithful accounting be made. It is advisable to proceed with caution in every instance where questions arise and advice of the city or town attorney should be requested. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

IC 5-11-10-2 states in part:

- "(a) Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against, a municipality (as defined in IC 36-1-2-11), the claim must be certified by the fiscal officer.
- (b) The state board of accounts shall prescribe a form which will permit claims from two (2) or more claimants to be listed on a single document and, when such list is signed by members of the governing body showing the claims and amounts allowed each claimant and the total claimed and allowed as listed on such document, it shall not be necessary for the members to sign each claim."

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

BOND PAYMENT FROM WRONG FUND

The City issued Sanitary District Judgment Funding Bonds in 2005 in the amount of \$5,500,000. Per the Official Statement Concerning the issue, "The 2005 Bonds are payable solely from a special tax to be levied annually on all taxable property in the Sanitary District." In 2007, \$151,950 of the principal and interest paid on the bonds were paid directly from the Wastewater Utility Fund. Additionally, the Wastewater Utility transferred \$255,000 to the Sanitary District Fund for the purpose of making the bond payment. Resolution 2005-2, Section 8, allows for the Wastewater Utility to set aside revenues in a "revenue account" to allow for payment of bonds, therefore reducing the tax levy. However, this revenue account was not established and the tax levy for 2007 was not reduced. The Sanitary District Fund also received tax revenue in the amount of \$404,554 to use for the payment of the bonds, this did not include \$679,314 which was distributed on March 20, 2008, as the final 2007 settlement of taxes.

IC 36-9-25-30 states in part:

- "(b) As the tax is collected by the county treasurer, it shall be accumulated and kept in a separate fund to be known as the sanitary district bond fund. It shall be applied to the payment of the bonds and interest as they mature and not to another purpose. All accumulations of the fund before their use for the payment of the bonds and interest shall be deposited with the depository or depositories of other public funds in the municipality. The fund may also be invested as other funds are invested. In determining the amount of levy necessary for this section, the board shall consider the amount of revenue, if any, to be derived from the collection of fees for sewage treatment service above the amount of revenues necessary to be applied to the operation, maintenance, and administrative expenses of the district.
- (c) In lieu of making a levy under this section, or to reduce the amount of the levy, the board may set aside, by resolution, the revenues of the district to be collected before the maturity of the principal and interest of the bonds payable in the following calendar year. If the board adopts the resolution, then the board may not use any part of the amount set aside out of the revenues for any purpose other than the payment of the bonds and interest. A proportionate payment of the amount shall be made to the bond fund monthly."

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

MAJOR MOVES FUND DISBURSEMENTS

In 2007, the City spent \$171,197.43 of their Major Moves funds. Of this amount, only \$81,090 was spent for paving. A John Deere Tractor was purchased for \$85,000 for the Street Department, and the remaining funds were used for expenses relating to "emulsion tank total patcher."

In 2008, \$14,442.50 was spent from the Major Moves Fund. This consisted of two disbursements, the first involved setting up workstations and computer networks for the City Departments including the police, clerk, and court, and the second was to pay for a software maintenance agreement.

IC 8-14-16-5 states:

"Money in the fund may be expended only for the following purposes:

- (1) Construction of highways, roads, and bridges.
- (2) In a county that is a member of the northwest Indiana regional development authority, or in a city or town located in such a county, any purpose for which the regional development authority may make expenditures under IC 36-7.5.
- (3) Providing funding for economic development projects (as defined in IC 6-3.5-7-13.1(c)(1) or IC 6-3.5-7-13.1(c)(2)(A) through IC 6-3.5-7-13.1(c)(2)(K)).
- (4) Matching federal grants for a purpose described in this section.
- (5) Providing funding for interlocal agreements under IC 36-1-7 for a purpose described in this section.
- (6) Providing the county's, city's, or town's contribution to a regional development authority established under IC 36-7.6-2-3.

PUBLIC WORKS AND PURCHASES

The City purchased a John Deere tractor for \$85,000 for which neither quotes or bids were solicited.

Indiana Code 5-22-8-3 states:

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

- (1) at least fifty thousand dollars (\$50,000); and
- (2) not more than one hundred fifty thousand dollars (\$150,000).

(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.

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

(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 or class of supplies required.

(e) The purchasing agent may reject all quotes.

(f) If the purchasing agent does not receive a quote from a responsible and responsive offeror, the purchasing agent may purchase the supplies under IC 5-22-10-10."

(This code was amended in 2007 to increase the thresholds from \$25,000 and \$75,000 to \$50,000 and \$150,000, respectively. The \$75,000 maximum threshold would have been in effect at the time this transaction took place.)

IC 5-22-8-3 states:

"A purchasing agent shall follow the procedure described in this chapter in awarding a contract for supplies, unless another purchasing method is required or authorized by this article."

IC 5-22-8-4 states in part:

"(a) A purchasing agent shall issue an invitation for bids."

#### INTERNAL CONTROLS - LEDGER DISBURSEMENTS

In December 2008, there were disbursements posted to the ledger. Officials determined there were not sufficient funds to pay for those disbursements, subsequently several disbursements were reversed in the ledger. These checks were mailed to the vendors with a December 2008 date but will not be posted to the ledger until January 2009. Also, checks were not written in sequential date order in December 2008. This made it difficult to verify the outstanding check list.

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)

#### TEMPORARY TRANSFER OF FUNDS

1. In 2007, a temporary transfer was made from the Cumulative Capital Improvement (CCI) fund to the Compost fund totaling \$40,000. The temporary transfer was repaid from the Compost fund to the Cumulative Sewer fund instead of the CCI fund.
2. In 2008, a temporary transfer was made from the Water Utility Fund to the General fund. An ordinance was not submitted or approved by the governing board as required.

IC 36-1-8-4 concerning temporary transfer states in part:

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs. (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . ."

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following: (1) Passes an ordinance or a resolution that contains the following: (A) A statement that the fiscal body has determined that an emergency exists. (B) A brief description of the grounds for the emergency. (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs. (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

IC 8-1.5-3-12 states:

"(a) A municipality may, by ordinance of its legislative body, borrow money from a utility owned by the municipality for current purposes in anticipation of taxes levied and to be collected during the current or following year.

PAYROLL DEFICIENCIES

1. Payroll claims or time records were not approved by the appropriate official or the governing board.
2. In 2007, an animal control employee was overpaid totaling \$900.11. The salary ordinance was not amended.
3. In 2007, service records were not available for audit for two employees.
4. In 2007, the board of works superintendent was overpaid by \$152.70. A service record was not available for audit to determine if the hours were correct.
5. There were several errors on the calculation of compensatory time earned and used by police department employees.
6. The police department is not remitting time records to the payroll clerk for each pay period to support the hours worked.

IC 5-11-10-2(a) states:

"Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer."

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)

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)

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

RAINY DAY FUND

Officials established a Rainy Day Fund in 2004. The City has not transferred any allowable revenue into this Fund since it was established. In 2008, expenses relating to the flood totaling \$107,662 were made from this Fund. This is not an appropriate use for this Fund. In January 2009, the City received a reimbursement check from the Federal Emergency Management Agency (FEMA) for a material portion of the expenses made from this Fund. We instructed officials to reimburse the Rainy Day Fund.

The purpose of this special revenue fund is to account for transfers of unused and unencumbered funds under IC 36-1-8-5. IC 36-1-8-5(b) states that whenever the purposes of a tax levy have been fulfilled and an unused and unencumbered balance remains in the fund, the fiscal body of the city or town shall order the balance of the fund to be transferred to the general fund or rainy day fund of the municipality, as provided in IC 36-1-8-5.1, unless a statute provides that it be transferred otherwise. In any fiscal year a city or town may transfer not more the ten percent (10%) of the city or town's annual budget for that fiscal year to the rainy day fund. The fund should be established by ordinance and the ordinance should state the purposes and sources of funding for the fund (IC 36-1-8-5). Transfers to the rainy day fund may be made at any time during the year. [IC 36-1-8-5.1]

Supplemental distributions of CAGIT under IC 6-3.5-1.1-21.1, COIT under IC 6-3.5-6-17.3, and CEDIT under IC 6-3.5-7-17.3 must also be deposited in the Rainy Day Fund.

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)

CONFLICT OF INTEREST

Mrs. Richard Long works in the Water Utility and Sanitary District Office. Mr. Richard Long is a member of the Common Council. Mrs. Keith Soderquist works as the Mayor's Secretary. Additionally, she has an ownership interest in World Refrigeration and HVAC, of which the City paid \$2,222.51 for services performed. Mr. Keith Soderquist is the Mayor of the City. Uniform Conflict of Interest Disclosure Statements do not appear to have been filed by the parties involved. The appropriate conflict of interest statements were filed for 2009.

IC 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 governmental entity prior to final action on the contract or purchase; (6) be

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

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."

CAPITAL ASSET RECORDS

The City, Water, and Wastewater Utilities only maintain an inventory of land and 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)

WASTEWATER USER FEES

The City entered into a contractual agreement with the Sanitary District whereby the City would provide the employees, supplies, and equipment to operate the Wastewater Utility. Under this agreement, the Wastewater Utility would reimburse the City the costs. Under this same agreement, all Wastewater Utility user fees are to be receipted to the Sanitary District Fund. On a monthly basis, collections are to be transferred to the Wastewater Utility Fund according to the approved agreement to allow for the Wastewater Utility to pay the City for the operation expenses. This agreement began in September 2008. Prior to this time, Wastewater Utility user fees were receipted directly to the Wastewater Utility Fund.

IC 36-9-25 allows for a City to establish a Sanitary District.

IC 36-9-25-7(c,d) states:

(c) Adoption of this chapter by ordinance does not affect the system of fees for sewage treatment. All revenue derived from fees shall be applied only to the following purposes:

- (1) The administrative expense, operation, construction, and maintenance of sewage works.

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

- (2) The retirement of outstanding revenue bonds and any additional revenue bonds that may be issued for construction of sewage works and improvements, additions, and extensions to them.
- (3) The payment of the cost of improvements, additions, and extensions to the extent permitted by the ordinances authorizing the issuance of revenue bonds.
- (d) The ordinance adopting this chapter must specify that the district initially includes all territory, addition, platted subdivision, or unplatted land lying outside the corporate boundaries of the city that has been taken into or has been connected with the public sanitation system of the city in accordance with another statute if the sewage or drainage of that area discharges into or through the sewage system of the city.

UTILITY RECORDS

The Simplified Cash Journal for the Water and Wastewater Utilities were not maintained from September 2007 through December 2008. The Utility records were maintained using the City's computer system. The computer software does not utilize the prescribed chart of accounts.

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)

The major principles of accounting which underlie the Uniform System contained in this manual are:

- 1. Records shall be kept in full compliance with all legal requirements.
- 2. Accounting shall be based on a separation of funds.
- 3. Distinction with respect to character of expenditure shall be maintained.
- 4. The uniform classification of accounts shall be used in budgeting, accounting and reporting.(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

UTILITY BILLING RECEIPT AND DEPOSIT COMPOSITION

Twelve days of deposit composition of cash and checks were compared to the billing stub composition of cash and checks. The deposit composition was not in agreement with the billing stub composition for any of the days tested. Additional testing had to be completed to determine if the checks received by the bank coincided with the billing stubs. The checks received by the bank for a single deposit were verified to the billing stubs for that day. There were remaining billing stubs totaling \$1,381.36 that were not marked and could not be verified to the checks or cash.

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)

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

COURT BANK RECONCILEMENT

Court personnel have not reconciled the court cash book to the depository since September 2007. The total receipts and disbursements, as reported in the financial information were based on the actual source documents (i.e. duplicate receipts and checks). Based on our calculations at December 31, 2007, the bank balance exceeded our calculated balance by \$1,641.15. At December 31, 2008, the bank balance was less than our calculated balance by \$443.35.

Financial records of a city or town court shall be reconciled with the balance statements provided by the respective depository (or depositories) at least monthly. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 4)

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 City and Town Courts, Chapter 4)

COURT CASH BONDS

The following were noted concerning cash bonds:

1. Bonds were posted to the court records and deposited in the bank up to 95 days after being collected by the Police Department.
2. The register of trust funds was not maintained since September 27, 2007.
3. The manual trust register did not agree to the computerized trust register at September 2007. The cash balance in the manual ledger exceeded the computerized record by \$77,589.50.
4. For December 2007 and December 2008 the only trust register available was the computerized version. No attempt was made to reconcile to the depository.
5. The Court Trust Funds include bonds from 2001 for \$5,925, 2002 for \$8,100, and 2003 for \$15,685. These funds should be remitted to the State Attorney General as unclaimed property.
6. Bonds received prior to using the court view system were reentered into the system causing a double posting of collections.
7. Old bonds were posted into the computer system less the five dollar fee for the death benefit.

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. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 4)

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

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.

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 City and Town Courts, Chapter 4)

CITY COURT - RECEIPTS AND DISBURSEMENTS

1. Daily cash amounts posted to the Courtview computer system did not agree to the daily deposits. Any overages or shortages were not researched or identified.
2. The correct statutory fees were not always charged for the violation or what was court ordered.
3. Negative receipts were issued for corrections without proper explanation.
4. Designation of cash, check, and money order were not always marked correctly on the receipts.
5. The bank was not notified of bank errors, therefore the errors were left uncorrected.
6. Monthly balance reports provided did not include the manual receipts written by court personnel.
7. Collections remitted to the state, county, and city were based on the monthly reports which did not include the manual receipts.

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.

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 City and Town Courts, Chapter 4)

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 City and Town Courts, Chapter 4)

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

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

PARK RECEIPTS

The following were noted concerning Park receipts:

1. Purchases were made from concession proceeds thus bypassing the claims process.
2. The daily register tapes for concessions were not provided for examination for 2008.
3. Deposits were made up to 13 days after the receipt was written.
4. Pool passes were not prenumbered, therefore, we could not verify collections.

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)

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All collections made by any department or person connected with a city or town shall be turned in to the Clerk-Treasurer or Controller at least weekly. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 6)

PARK DEPARTMENT CIRCUS RECEIPTS

The City Park Department sponsored a circus to perform at the Riverview Park on September 5, 2007. Money received from the tickets sales were to be used for the completion of the Riverview Park log cabin. The City was given advance tickets to sell and would receive a percentage of sales based on the number of presale tickets sold. Tickets were given to various departments and individuals to sell. A list was maintained on who tickets were given to. All remaining tickets not sold and the money was to be returned by September 4, 2007. Two councilmen did not return or pay for tickets issued to them. These amounted to \$246.00. This resulted in the park department losing approximately \$196.80 (80% of the \$246) in commissions from the circus.

The City collected the ticket sale money but did not deposit the collections to the City bank account. Instead, the collections were held and remitted directly to the circus, less the City's share. The City's share of the ticket sales was finally deposited on December 20, 2007. In addition, the circus was not required to pay any fee for the use of the park facilities in accordance with the fee schedule. There was no evidence in the Park Board minutes waiving the fee.

All collections made by any department or person connected with a city or town shall be turned in to the Clerk-Treasurer or Controller at least weekly. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 6)

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

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)

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (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)

POLICE DEPARTMENT RECEIPTS

The following deficiencies were noted:

1. Collections were remitted to the Clerk-Treasurer from 8 to 19 days after being received at the Police Department.
2. Receipts for handgun permits or the application did not specify the type of permit to be issued.
3. A \$15 fee was charged for a four year handgun license when only \$10 fee was to be charged.

All collections made by any department or person connected with a city or town shall be turned in to the Clerk-Treasurer or Controller at least weekly. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 6)

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 managements 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.

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)

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)

CITY OF LAKE STATION  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

EMERGENCY MEDICAL SERVICES (EMS) BILLING

On June 15, 2008, a contract was signed with Accumed to take over current EMS billing. Accumed was not responsible for EMS services provided prior to the effective date of their contract. The prior billing company, Classic Collection Services, did provide reports on outstanding accounts totaling \$320,868.85. These open accounts were not maintained regarding follow-up billings or payments made. The City did not maintain the accounts receivable balances by recording any payments. Also, although there is a policy concerning unpaid accounts, there was no effort made to collect these balances due the City.

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)

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 managements 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.

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)

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)

COMPOST FEES

The fees charged for compost did not agree to the approved fee schedule. In addition, yard tickets and receipts issued at the drop off location did not have information that allowed the comparison of fees charged to the fee schedule. The fee schedule is based on type of vehicle which the yard tickets did not specify the type of vehicle.

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 managements 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.

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).

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 LAKE STATION  
EXIT CONFERENCE

The contents of this report were discussed on February 17, 2009, with Brenda Samuels, Clerk-Treasurer; Keith Soderquist, Mayor; Jayne Addison, Deputy Clerk-Treasurer; Ray Szarmach, City Attorney; and Jim Meyer, Lake Station Sanitary District Attorney. The official response has been made a part of this report and may be found on pages 27 through 32.



3701 Fairview Ave. Lake Station, IN 46405  
Phone: (219) 962-3111 Fax: (219)963-9275  
Clerk-Treasurer: Brenda Samuels

**“OFFICIAL RESPONSE”**

February 26, 2009

State Board of Accounts  
302 West Washington Street  
Room E418  
Indianapolis, IN 46204-2765

State Examiner  
Bruce Hartman

RE: SBOA exit conference of 02/17/09  
For years 2007 and 2008

Since we didn't come into office until 01/01/08, we can't reply fully to the comments relating to 2007.

**Responses**

- 1) Continued extensive research will be performed to assure future balancing.
- 2) We did not receive the “official approved budget” from the DLGF for the year 2008 until 12/03/08, at this late date there was very little we could change or adjust to. Knowing the approved budget for 2008 will help us estimate the amount which may be approved for 2009.
- 3) Several of the overdrawn cash balances are due to late payment of taxes to the City, and the TAW (tax anticipation warrant) money did not come through until 01/02/09, General (101). Park Bond (205) was fine in 2008. Street/Sanitary Clothing (250) had lower revenue than prior years, we will watch this more closely. Ambulance Non-reverting (296) was fine in 2008. Compost (310) had “unplanned” expenses moving the compost facility to a different location, which was a one time event. Rainy Day (410) was fused for expenses incurred for the Emergency Floods of September 2009. We have

applied to FEMA for reimbursement. In the future we will use the appropriation line item they came from as you advised. Park Security (205) is currently being researched to identify why there was a posting error. Employee Health Insurance (309), this fund appears to have been used as a clearing account for insurance. In 2007 it was overdrawn until the year end at which time it was charged to just one appropriated line item in the police department, this was incorrect. In 2008 we posted the same as 2007, but knew we'd need to address the issue before closing the year end. SBOA advised each appropriated line item should be charged when payment is made, and very little would go to Fund 309, but stated we could not make the posting correction even though we had not "closed" our year end which will cause us to have to file for an additional appropriation in 2009. 2009 postings have been changed to the correct appropriated line items.

- 4) Issues referencing improper documentation or documentation missing were 2007. Referencing late fees, we were originally unaware the City doesn't pay late fees, but have notified all departments to deter having any late payments assessed to begin with. Since, unlike the Water Utility, the Sanitary District is contracting with the City for the services performed by the clerical employees of the City who work in that space, the Sanitary district's contract payment covers all liabilities to the City, including for the overhead for that office space used by City employees to provide the services contracted for. However, a line item for "Rent to City" will be added to the District's Budget for the space taken up by the Board for its use of the City's building for Board meetings and records storage. In 2008 the Clerk Treasurer was the one that input and paid all of the claims but was unaware the Board of Works needed to sign off on them. A form has been created for this purpose, the Board of Works now signs this when approved by them.
  
- 5) In 2009 and thereafter the Sanitary District Bond payments will be made from Fund 609 (Sanitary District Bond Fund) with either tax distributions directly to that Fund or transfer from Fund 610 (Sanitary District Operating fund), or both. In the event any borrowing from other City Fund(s) becomes necessary, all appropriate Resolutions and Ordinance will be adopted as required by Indiana law for temporary interfund loans and timely repayment will be made. An appropriate level of reserve funds as may be required by the Bond documents will be established for Fund 609 by Board resolution and appropriate transfers will be made and documented accordingly. In 2008 all bond payments were made from Fund 609.
  
- 6) We felt the computers, software and agreements should be posted to Major Moves as this was a huge economic development project within the City as a whole. We are now on a server which all departments tie into, and also protection of software and files which the old did not. This was not just a purchase for new computers but a complete

overhaul. We have been given the list of allowed expenses for this line item and will be careful to adhere.

- 7) This mistake was done in 2007, but will continue to monitor for correct postings in the future.
- 8) We knew the TAW money was to come in either December 31, 2008 or January 2, 2009, so we mailed out payments knowing they were covered. Only after the checks were sent out (dated December 31, 2008), did we realize that in doing so, some of the individual appropriated line items would be in the red. We reversed the entries from December 31, 2008 to January 1 (2), 2009. Had we realized the checks should have been voided and reissued with the different date, we would have done so. This also caused the check numbers to be out of sequence, by date. This is an isolated incident that should not reoccur.
- 9) In 2008 the temporary transfer from the Water Utility to the General Fund was made on December 31, 2008 and repaid on January 1, 2009. Based on the opinion of our financial advisor that all funds from all of our accounts would be needed to make the Bond Payments (due January 1, 2009), and in our attempt to close out the year, we didn't realize we needed an ordinance, but understand this completely now.
- 10) According to our research, payroll vouchers were never signed. Made aware it is a necessity in late 2008, we implemented getting these signatures/authorizations immediately, and currently comply with every payroll. No comment on 2007. The calculation of compensatory time earned and used by police department employees, now uses a modified form which is checked by the payroll clerk for accuracy. The Police Department turned in time records previously on a monthly basis, they currently turn them in with each and every payroll.
- 11) In the hectic chaos of the Emergency Floods in September 2008 which devastated the City, we had many personnel working extra hours and emergency purchases made for this emergency. We believed the Rainy Day fund would be the appropriate place to post, as when FEMA reimburses the City, it should zero the account but the payment from FEMA would not be received until 2009. We have been supplied with information concerning the correct usage of this Fund and will comply.
- 12) All persons addressed in the Conflict of Interest comment have been advised they need to file a disclosure, several, including, but not limited to, the Mayor and applicable his

staff and the members of the Board of Commissions of the Sanitary District already have filed for 2009.

- 13)** The City, Water Department and Sanitary District (Wastewater) will take appropriate steps to compile a schedule of its infrastructure capital assets. Due to monetary constraints and a lack of previous record keeping and documentation of the identity and value of most of the infrastructure capital assets for many years, the process may take in excess of a year to complete
  
- 14)** As a point of information only, unlike the Water Department, the Sanitary District is excluded from the definition of "utility" by Indiana law, IC8-1-2-1(g). However, the City and the Sanitary District agree that, once the Council established the Sanitary District by Ordinance pursuant to IC 36-9-25-1, et seq., in 2005, all of the revenues generated for the operation of the sewage works should have been deposited into a Sanitary District Operating fund, now Fund 610, controlled by the Sanitary District and all payments and transfers there from to be made by the Clerk-Treasurer only with the approval of the Board of Commissioners, including the contractual payments to the City for operating and maintaining the sewage system for the Sanitary District. The necessary funds and the proper process and procedure have now been established and implemented.
  
- 15)** The Clerk Treasurer's Office has worked with the Utility Department clerks concerning the record keeping and identifying each line item of revenue previously used in the old journals. We have created new Revenue line items based on the SBOA accounting chart for posting with the daily deposits. Water, Sanitary District and Refuse (garbage) receipts will all be posted to the new Revenue line items within the same software used for the City's accounting (Keystone), therefore eliminating the Simplified Cash Journal.
  
- 16)** Since the Utilities do not have a "clearing account" for monies receipt in on a daily basis for Water, Sewer and Garbage, and since there was one bill and one check for all three charges, using the money and checks received, they had split the deposits and made one for each fund to attempt to equate the amount deposited with the amount owed to each fund. Effective January 1, 2009, all monies received have been deposited into the Water bank account (using it as a "clearing account"). When the receipt from the bank is posted, it divides the monies into the correct Fund and line items resolving this issue.
  
- 17)** As we understand it, the full time clerk for the court retired in September 2007. When we came into office January 1, 2008, there was only one part time clerk processing everything. Shortly thereafter, the part time clerk quit and the replacement was unaware of many processes that needed to be followed.

Court personnel had no knowledge of a City Court Cashbook nor the need to balance it against the depository. After being advised by SBOA, Court personnel ordered the prescribed book and will reconcile as directed.

- 18)** 1) Court personnel will post bonds to the court records and deposit into the bank in by the following day. 2) New court personnel (January 2008) were unaware a Register of Trust Funds existed. While the SBOA were here during the audit and questioned the whereabouts of the Register, the Clerk Treasurer contacted the previous full time clerk of the court and located the Register, Court personnel will now maintain the Register. 3) Court personnel will compare all the computerized records to the manual trust register and try to reconcile them to date. 4) Court personnel were unaware the Trust Register existed or that it needed to be reconciled to the depository. With this knowledge, they will reconcile as prescribed. 5) Court personnel now being made aware of funds due the State Attorney General as unclaimed property will remit the funds immediately and all future remittances will be done in a timely manner. 6) Court personnel will correct the issue with the double posting of collections.
- 19)** 1) The discrepancies in balancing the daily amounts posted to Courtview computer system, were due to the court personnel using two databases, Courtview and Courtworks. Any future differences in balancing will be fully researched and identified. 2) Court personnel did not have the proper charts for fees. They have acquired new charts and will follow them accurately. 3) The reason for posting negative receipts were for a receipt processed in error, all future negative receipts will have a full explanation and documentation. 4) Court personnel will make sure all future receipts are marked clearly as to the payment tendered. 5) Any future bank errors will be brought to the attention of the bank and make sure the errors are corrected. 6) All future monthly balance reports will include the manual receipts written. 7) Court personnel will review previous remittances to the State, County and City for the deficiency of the manual receipts and remit same as appropriate. All future remittances will include the manual receipts.
- 20)** 1) All future concession purchases will either have an accounts payable claim or request an Ordinance or Resolution to acquire petty cash for the purchases. 2) All future daily register tapes for concessions will be kept on file in an orderly fashion for future reference. 3) All future deposits will be made within a week of the written receipt. 4) All future pool passes will be pre-numbered to help verify collections.
- 21)** It appears in 2007 the Circus event was handled improperly and any future activities will be handled correctly.

**22) 1) All future receipts being remitted to the Clerk Treasurer's office will be within a week from the date received. 2) All future permits and applications will clearly specify the type of permit being issued. 3) Forms being used for the amount of the fee were not accurate, new forms have been created and will be used to correct the fee collected.**

**23) The Board of Works will review the old EMS outstanding invoices to determine which are and are not collectable. The ones deemed uncollectable will be waived.**

**24) We were unaware there was a fee schedule to be used. The issue of more information on the tickets to allow comparison of fees to the fee schedule, is now being addressed along with the fee schedule, in a new ordinance being prepared to properly amend both.**

**Respectfully submitted,**

A handwritten signature in cursive script that reads "Brenda Samuels". The signature is written in black ink and is positioned above the printed name.

**Brenda Samuels**