

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

FINANCIAL STATEMENT EXAMINATION REPORT

OF

TOWN OF SCHNEIDER

LAKE COUNTY, INDIANA

January 1, 2008 to December 31, 2010



FILED
02/16/2012

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OFFICIALS

Office

Official

Term

Clerk-Treasurer

Ray E. Bowman
Diana L. Wilson

01-01-08 to 09-30-10
10-01-10 to 12-31-11

President of the
Town Council

Richard M. Wright
Richard E. Ludlow

01-01-08 to 12-31-09
01-01-10 to 12-31-11



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the financial statements of the Town of Schneider (Town), for the period of January 1, 2008 to December 31, 2010. The Town's management is responsible for the financial statements. 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 statements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

The Town prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis noted above is a different basis than that used in the prior year.

The Town did not present financial statements and notes for the years ended December 31, 2008, 2009, and 2010, in accordance with reporting requirements established by the State Board of Accounts. Presentation of such statements and notes summarizing the Town's financial position and the results of its operations is required by state statute (IC 5-11-1-6).

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the financial position and results of operations of the Town for the years ended December 31, 2008, 2009 and 2010, on the basis of accounting described in the second preceding paragraph.

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 financial statements. It has not been subjected to the examination procedures applied to the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town's management, the Town Council, and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

November 3, 2011

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FINANCIAL STATEMENTS

The financial statements were approved by management of the Town. The financial statements are presented as intended by the Town.

TOWN OF SCHNEIDER
STATEMENTS OF CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Years Ended December 31, 2008, 2009, and 2010

	Cash and Investments 12-31-08
General	\$ 20,918
Motor Vehicle Highway	874
Local Road and Street	37,337
Law Enforcement Continuing Education	1,348
Riverboat	14,003
Donations	2,152
Deferral Program	18,209
Cumulative Capital Improvement	6,820
Major Moves	8,086
Innkeepers Tax	4,677
Payroll	(2,456)
Agency	2,527
Water Utility - Operating	15,121
Water Utility - Debt Service	560
Water Utility - Customer Deposits	4,974
Wastewater Utility - Operating	13,701
Wastewater Utility - Debt Service	(20,797)
Totals	\$ 128,054

	Cash and Investments 12-31-09
General	\$ 13,817
Motor Vehicle Highway	244
Local Road and Street	63,932
Law Enforcement Continuing Education	2,141
Riverboat	13,647
Donations	1,816
Deferral Program	32,255
Cumulative Capital Improvement	7,792
Major Moves	8,086
Innkeepers Tax	9,323
Agency	1,783
Water Utility - Operating	(35,510)
Water Utility - Customer Deposits	1,973
Wastewater Utility - Operating	(51,026)
Totals	\$ 70,273

	Cash and Investments 12-31-10
General	\$ (42,372)
Motor Vehicle Highway	(8,155)
Local Road and Street	95,110
Law Enforcement Continuing Education	2,386
Riverboat	18,271
Donations	1,086
Deferral Program	33,845
Cumulative Capital Improvement	8,237
Major Moves	8,086
Innkeepers Tax	9,323
Payroll	3,203
Agency	596
Water Utility - Operating	(45,918)
Water Utility - Customer Deposits	2,648
Wastewater Utility - Operating	(61,186)
Totals	\$ 25,160

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Town's Annual Report for 2010 can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

Differences may be noted between the financial information presented in the financial statements contained in this report and the financial information presented in the Annual Report of the Town which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the examination. This is a common occurrence in any financial statement examination. The financial information presented in this report is examined information, and the accuracy of such information can be determined by reading the opinion given in the Independent Accountant's Report.

The supplementary information presented was prepared and/or approved by management of the Town. It is presented as intended by the Town.

TOWN OF SCHNEIDER
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2010

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year	Fund/ Department
Loans payable:			
Police cars	\$ -	\$ -	Town - Police
Police lawsuit	-	-	Town - Police
Chipper shredder and lawn tractor	1,701	1,716	Town - Public Works
\$186,000 refunding wastewater loan of 2005	129,389	17,731	Wastewater Utility
Bonds payable:			
Revenue bonds:			
\$155,000 waterworks revenue bonds of 2006	<u>115,139</u>	<u>18,284</u>	Water Utility
Total debt	<u>\$ 246,229</u>	<u>\$ 37,731</u>	

Beginning in January 2011 the Town will pay \$1,591 monthly from the Fire Fund for the debt on the Fire Truck. The Fire Truck debt principal as of January 1, 2011, was \$103,586.

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS

PENALTIES, INTEREST, AND OTHER CHARGES

Sales Taxes

The Water Utility collects sales taxes for utility services and should remit them to the Indiana Department of Revenue on a monthly basis. Sales tax payments and the filing of the Sales and Use Tax Form ST-103 were not timely in 2008 and 2009. The payments and filing of the sales tax forms were late seven of twelve months in 2008 and six of twelve months in 2009. The Sales and Use Tax Form ST-103 for the last seven months of 2008 and the first three months of 2009 were all filed in August 2009. The other three months of 2009 were filed between eight and 20 days late. During 2009, the Water Utility paid penalties and interest to the Indiana Department of Revenue for the late remitting of sales and use taxes and filing of the related form for 2008 totaling \$190.67 and for 2009 totaling \$45.18. A similar comment appeared in the prior report covering 2004 and 2005. We requested the former Clerk-Treasurer, Ray E. Bowman, reimburse the Water Utility for the \$235.85 in penalty and interest payments for the late and insufficient sales tax remittances for 2008 and 2009. (See Summary, page 24)

The Indiana Department of Revenue revoked the Town's retail merchant certificate in 2009 due to unpaid sales and use tax debts. In December 2009, the Water Utility paid \$25 to reinstate the revoked retail merchant certificate. We requested the former Clerk-Treasurer, Ray E. Bowman, reimburse the Water Utility for the \$25 reinstatement fee. (See Summary, page 24)

Unemployment Taxes

Quarterly payments and filing of tax forms due the Indiana Department of Workforce Development (IDWD) for unemployment compensation were not timely for all quarters in 2008 and the first quarter in 2009. This resulted in the Town paying interest and penalties of \$208.11 and \$297.15, respectively, during 2009. We requested the former Clerk-Treasurer, Ray E. Bowman, reimburse the Town for the \$505.26 in interest and penalty payments for the late and insufficient tax remittances for unemployment compensation. (See Summary, page 24)

Indiana Withholding Taxes

During 2009, penalties and interest totaling \$1,452.49 were paid to the Indiana Department of Revenue or its collection agency for the late filing of the Indiana state withholding taxes for October 2004, July and December 2007, eight months during 2008, the annual withholding tax form for 2008, and May 2009. We requested the former Clerk-Treasurer, Ray E. Bowman, reimburse the Town for the \$1,452.49 in interest and penalty payments for the late filing of state withholding taxes and forms. (See Summary, page 24)

Federal Withholding Taxes and Employer Match

The Town withholds federal taxes, FICA, and Medicare from employees' compensation. The withheld taxes and a match from the Town for FICA and Medicare should be paid to the federal government each month. Then quarterly, the Town should file a Form 941, Employer's Quarterly Federal Tax Return, concerning the federal taxes withheld and the employer match. For 2008, the Form 941 was filed 30 days to 10 ½ months late for three of the four quarters. For 2009, the Form 941 was filed 1 1/2 months late for the first quarter. The withheld taxes and the employer match were not paid timely to the federal government in 2008 and 2009. In 2008, six of the twelve monthly payments were one to four months late. In 2009, eight of the twelve monthly payments were one to three months late. This caused the Internal Revenue Service (IRS) to assess penalties and interest. Penalties of \$6,461.12 and interest of \$152.34, totaling \$6,613.46, were paid in 2009 to the IRS for the late submission of tax returns and the late payment of federal withholding

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

taxes. Penalties of \$326.04 and interest of \$32.51, totaling \$358.55, were paid in March 2010 to the IRS for the late submission of tax returns and the late payment of federal withholding taxes. We requested the former Clerk-Treasurer, Ray E. Bowman, reimburse the Town for the \$6,972.01 in interest and penalty payments for the late monthly payments and late submission of federal tax returns. (See Summary, page 24)

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 questions concerning the law or procedure for paying and collecting sales tax should be directed to the Indiana Department of Revenue, Sales Tax Division. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OFFICIAL BOND

The Town has an Official Bond for the Clerk-Treasurer. Clerk-Treasurer Ray Bowman's \$15,000 bond was from the Ohio Casualty Insurance Company, bond 3-893-313, covering July 12, 2007 to July 12, 2008, July 12, 2008 to July 12, 2009, and July 12, 2009 to July 12, 2010. Clerk-Treasurer Ray Bowman was not covered by an Official Bond for the period July 12, 2010 through September 30, 2010, when he vacated office.

GOING CONCERN

There is substantial doubt about the government's ability to continue as a going concern. See the table below for some relevant statistics.

Fund Name	General	Motor Vehicle Highway	Fire	Water	Wastewater
Balance January 1, 2011	\$ (42,372)	\$ (8,155)	\$ -	\$ (45,918)	\$ (61,186)
Principal and Interest Debt Payments for One Year	(1,716)	-	(19,092)	(18,284)	(17,731)
Temporary Loans Between Funds from 2009 Repaid	(57,169)	-	-	36,630	20,539
Repay Utility for Town Fire Disbursements in 2010	-	-	(9,544)	4,772	4,772
Average Annual Disbursements	(277,506)	(19,414)	(3,500)	(80,113)	(84,752)
Estimated Property Taxes to be Received	95,894	3,807	23,874	-	-
Estimated Billings for Utility	14,364	-	-	54,065	57,989
Total Estimated Ending Balance					
December 31, 2011	<u>\$ (268,505)</u>	<u>\$ (23,762)</u>	<u>\$ (8,262)</u>	<u>\$ (48,848)</u>	<u>\$ (80,369)</u>

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

Here are the approved 2011 budgets and cash balances as of August 31, 2011, for various funds.

Fund Name	General	Motor Vehicle Highway	Fire	Water	Wastewater
Approved Budget	\$ 189,019	\$ 18,760	\$ 23,874	N/A	N/A
Cash Balance on August 31, 2011	10,113	(10,997)	96	(57,717)	(70,005)

N/A – Not applicable.

The Town and its utilities are not receiving enough income to pay the disbursements. Using estimates for the year 2011, the General, Motor Vehicle Highway, Fire, Water Utility Operating, and Wastewater Utility Operating funds will have deficit balances at the end of the year.

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)

ANNUAL REPORTS NOT FILED

Annual Reports for 2008 and 2009 were not submitted or published. A similar comment appeared in the prior report. An annual report for 2010 was filed on October 28, 2011.

The Town officials need to institute more effective controls to ensure that required reports are filed in a timely manner. Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.

Indiana Code 5-11-1-4 states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be filed electronically, in a manner prescribed by the state examiner that is compatible with the technology employed by the political subdivision."

FINANCIAL REPORT OPINION MODIFICATIONS

Electronic annual reports for the years 2008 and 2009 were not prepared. Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Accountant's Report for the financial statements. An electronic annual report for 2010 was filed on October 28, 2011.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Accountant's Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were not performed on a monthly basis. A consultant was hired in June 2009 to prepare the reconciliations. In September 2011 the consultant had prepared the reconciliations for June 2008 through August 2011. Depository reconciliations for January 2008 through May 2008 were not presented. The reconciliations have many reconciling items covering the period June 2008 through December 2010. The officials have not researched the reconciling items so that proper adjustment could be recorded in the Ledgers.

The December 31, 2010, reconciliation includes the following:

1. Deposits in transit from 2008, 2009 and one from September 2010, all totaling \$2,351.48, were included. The same deposits in transit were reported in the August 31, 2011, reconciliation.
2. Outstanding checks included 21 checks totaling \$17,841.49 dated 2004 through 2008. These checks were considered void on December 31, 2010.
3. Other reconciling items totaling \$6,228.97 included 30 items from 2008 and seven items from 2009.
4. One \$582.90 reconciling item, for three August 27, 2008 receipts erroneously dated August 27, 2010, was included.
5. One \$19,258.88 reconciling item reported since the June 2008 reconciliation has no explanation listed.

A similar comment appeared in the prior report.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

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)

Pursuant to Indiana Code 5-11-10.5, all checks outstanding and unpaid for a period of two years as of December 31 of each year shall be declared void. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

TOWN OF SCHNEIDER
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 Cities and Towns, Chapter 7)

OVERDRAWN CASH BALANCES

The cash balances of the following funds were overdrawn as of December 31:

Fund Name	2008	2009	2010
General	\$ -	\$ -	\$ (42,372)
Motor Vehicle Highway	-	-	(8,155)
Payroll	(2,456)	-	-
Water Utility Operating	-	(35,510)	(45,918)
Wastewater Utility Operating	-	(51,026)	(61,186)
Wastewater Utility Debt Service	(20,797)	-	-

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)

CONDITION OF RECORDS RECORDING OF RECEIPTS

There were a considerable number of posting errors in the records. The distributions from the Lake County Auditor for general property taxes and license excise taxes could not be easily traced to receipts in the records. Many distributions were recorded with incorrect amounts to incorrect funds or account numbers. A total of \$318,766 was recorded as general property tax receipts when only \$298,750 was distributed by the County, a difference of \$20,016. A total of \$22,013 was recorded as license excise tax receipts when \$30,430 was distributed by the County, a difference of (\$8,417). Incorrect recording of receipts causes inaccurate financial records. A similar comment appeared in the prior report.

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)

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF SCHNEIDER
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)

OVERPAYMENTS

Overpayments of \$1,839.28 were made to the Indiana Department of Workforce Development (IDWD) in July and August 2009 for the unemployment compensation taxes covering the first, third, and fourth quarters of 2008 and the first quarter of 2009. Refunds have not been received as of September 30, 2011.

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROPRIATIONS

The following deficiencies occurred in the budget and appropriations area:

For 2008

1. The Indiana Department of Local Government Finance (DLGF) did not approve and certify a budget for 2008 for the following funds: General, Local Road and Street, Motor Vehicle Highway, Cumulative Capital Improvement, and Major Moves. The proper paperwork was not submitted to DLGF.
2. The Ledger had appropriations entered that agreed with the Budget Estimate, Budget Form 1, approved by the Town Council for the following funds: General, Local Road and Street, Motor Vehicle Highway, Cumulative Capital Improvement, and Major Moves.
3. The Town Council locally appropriated the Riverboat Fund for \$17,818.47. An appropriation of \$12,500 was entered on the Ledger.
4. The Town Council locally appropriated the Donations Fund for \$2,150. An appropriation of \$2,350 was entered on the Ledger.
5. Two funds had disbursements in excess of the locally budgeted appropriations: General, \$202,455, and Motor Vehicle Highway, \$20,034.

For 2009

1. The Indiana Department of Local Government Finance (DLGF) did not approve and certify a budget for 2009 for the following funds: General, Local Road and Street, Motor Vehicle Highway, Cumulative Capital Improvement, and Major Moves. The proper paperwork was not submitted to DLGF.
2. The Ledger had appropriations entered that agreed with the Budget Estimate, Budget Form 1, approved by the Town Council for the following funds: General, Local Road and Street, Motor Vehicle Highway, Cumulative Capital Improvement, and Major Moves.

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

3. The Town Council locally appropriated the Law Enforcement Continuing Education Fund for \$1,600; however, an appropriation was not entered on the Ledger.
4. The Town Council locally appropriated the Riverboat Fund for \$7,064; however, an appropriation was not entered on the Ledger.
5. The Town Council locally appropriated the Deferral Program (IDP) Fund for \$33,894; however, an appropriation was not entered on the Ledger.
6. The Town Council did not locally appropriate the Innkeepers Tax Fund.
7. Three funds had disbursements in excess of the locally budgeted appropriations: General, \$189,540; Motor Vehicle Highway, \$14,702; and Innkeepers Tax, \$127.

For 2010

1. The Ledger had appropriations entered that agreed with the Budget Estimate, Budget Form 1, approved by the Town Council for the General Fund and Motor Vehicle Highway Fund. The Indiana Department of Local Government Finance (DLGF) approved and certified 2010 budgets were decreased by \$91,206 for the General Fund and \$4,852 for the Motor Vehicle Highway Fund.
2. Two funds had disbursements in excess of the budgeted appropriations: General, \$23,090, and Motor Vehicle Highway, \$2,706.

The failure to post the proper appropriations would make it difficult for the officials to know how much appropriation is left to spend during the year. A similar comment appeared in the prior report.

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."

Appropriations as stated in the budget, or as modified by additional appropriations, shall constitute the limitation of disbursements. No disbursement shall be made without an appropriation therefor unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

The law requires the annual enactment of a balanced budget. Appropriation accounts used in such budget shall be the framework of subsequent accounting for receipts and disbursements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 2)

SALES TAX NOT REMITTED

The Town collected sales taxes from customers who rented the community building. Collections for sales taxes were \$185.85 in 2008, \$37.45 in 2009, and \$25.55 in 2010. The collections were not remitted to the Indiana Department of Revenue. A similar comment appeared in the prior report.

Collections by a city or town from the retail sale of tangible property, utility service, or commodities in the performance of private or proprietary activities are subject to sales tax. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

All questions concerning the law or procedure for paying and collecting sales tax should be directed to the Indiana Department of Revenue, Sales Tax Division. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TEMPORARY LOANS BETWEEN FUNDS

Temporary loans from several utility funds to the General Fund (101) were made in 2009. The following deficiencies were noted:

1. The Town Council did not approve a resolution on the temporary loans between funds in 2009.
2. The Town Council board minutes did indicate approval of temporary loans between utility funds and the General Fund; however, the approval occurred two months after the temporary loans were actually made and no amounts were listed.
3. The temporary loans were from utility funds, not funds collecting property taxes.
4. The temporary loans between funds were not repaid by December 31, 2009, the year they were made.
5. As of December 31, 2010, the General Fund (101) still owes the utility funds a total of \$57,168.82, as follows:

Water Operating Fund (601), \$33,629.71
Water Customer Deposit Fund (604), \$3,000
Wastewater Operating Fund (606), \$4,039.11
Wastewater Debt Service Fund (607), \$16,500

6. The General Fund has not made any repayments during 2011.

Indiana Code 36-1-8-4 concerning temporary transfer states:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount for a prescribed period, to a depleted fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

- (1) It must be necessary to borrow money to enhance the depleted fund that is in need of money for cash flow purposes.
- (2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.
- (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.
- (5) Only revenues derived from the levying and collection of property taxes or special taxes or from operation of the political subdivision may be included in the amount transferred.

TOWN OF SCHNEIDER
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."

UTILITY OPERATING FUNDS USED FOR TOWN EXPENSES

During 2010, the Water Utility Operating Fund (601) and the Wastewater Utility Operating Fund (606) each paid \$4,772 for fire truck debt payments.

Indiana Code 8-1.5-3-11(d) states in part: ". . . transfers may not be made from any utility funds to the general fund except from the cash reserve fund."

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

LACK OF FIRE PROTECTION AND ATTORNEY WRITTEN CONTRACTS

Payments totaling \$1,750, in both 2009 and 2010, were made directly to the Schneider Volunteer Fire Department for fire protection services. Additionally, payments were made during 2009 and 2010 on behalf of the Schneider Volunteer Fire Department to various vendors for utilities, fuel, and fire radios. Detail on these payments was not available. Payments totaling \$4,772 in 2010 were made from the General Fund directly to the bank for fire truck lease purchase debt payments. All these payments in 2009 and 2010 were without a written contract. The Town Council did not approve a written contract with the Schneider Volunteer Fire Department for either 2009 or 2010.

Payments totaling \$1,194 in 2008 and \$2,626 in 2009 were made to the Town Attorney without a written contract. The Town Council did not approve a written contract with the Town Attorney for either 2008 or 2009. A similar comment appeared in the prior report.

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

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

PERSONAL USE OF TOWN OWNED VEHICLE

An automobile with emergency lights and labeled as a law enforcement vehicle is furnished by the Town to the Town Marshal. The Town Marshal is allowed to use this take home car for personal driving as well as for Town business. The Town Council has not approved a written policy on the personal use of the police vehicle. The Town Marshal has not maintained a log of personal miles driven. The non-cash benefit for personal use of a Town vehicle was not reported on the Town Marshal's W-2 forms.

Whenever an item or other asset owned by the political subdivision is entrusted to an officer or employee, to be used at times outside the normal work time for business purposes, such as a cellular phone, or vehicle, a log should be maintained which clearly shows the business use. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Compensation of all town officers and employees shall be fixed by an ordinance of the town council and, for other than elected town officials, this compensation may be changed by another ordinance of the town council at any time. There is no limitation upon the amount fixed, only to the extent of available appropriations where tax funds are involved. (IC 36-5-3-2) (Cities and Towns Bulletin and Uniform Compliance Guidelines, June 2009)

COMPENSATION AND BENEFITS

The Town Council did not adopt a salary ordinance for officers and employees of the Town for the years 2009 and 2010. In 2009, the Clerk-Treasurer's salary was reduced from \$25,800 to \$8,500.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Compensation of all town officers and employees shall be fixed by an ordinance of the town council and, for other than elected town officials, this compensation may be changed by another ordinance of the town council at any time. There is no limitation upon the amount fixed, only to the extent of available appropriations where tax funds are involved. (IC 36-5-3-2) (Cities and Towns Bulletin and Uniform Compliance Guidelines, June 2009)

Indiana Code 36-5-3-2(c) states: "The compensation of an elected town officer may not be changed in the year for which it is fixed, nor may it be reduced below the amount fixed for the previous year."

LIST OF EMPLOYEES NOT FILED WITH COUNTY TREASURER

A list of public employees was not filed with the Lake County Treasurer at any time during 2008, 2009, or 2010. A similar comment appeared in the prior report.

Indiana Code 6-1.1-22-14(a) states in part: "On or before June 1 and December 1 of each year . . . the disbursing officer of each political subdivision . . . shall certify the names and addresses of each person who has money due from the political subdivision to the treasurer of each county in which the political subdivision is located."

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

OFFICIAL BONDS

Clerk-Treasurer Ray E. Bowman did not have official bond coverage from July 12, 2010 to September 30, 2010.

The Clerk Treasurer's official bond was for \$15,000 annually, not the required \$30,000 annually.

The following official bonds were not filed in the Office of the Lake County Recorder:

Clerk-Treasurer
Public Employees Position Schedule Bond
Secretary in the Clerk-Treasurer's Office

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder. . . ."

Prior to its amendment, effective July 1, 2011, Indiana Code 5-4-1-18(c) (2) stated in part: "The amount of annual coverage may not be less than thirty thousand dollars (\$30,000)"

BOARD MINUTES

Not all minutes of the Town Council meetings were available for examination. Minutes were not available for the following meeting dates:

April 28, 2008
September 22, 2008
October 27, 2008
November 24, 2008
December 22, 2008
January 26, 2009
February 23, 2009
April 27, 2009

Indiana Code 5-14-1.5-4(b) states:

"As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes taken, by individual members if there is a roll call.
- (5) Any additional information required under IC 5-1.5-2-2.5."

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

CASH CHANGE FUND

In February, 2004, a cash change fund was created for \$200. The amount of the fund was not approved by the Town Council as required by statute. A similar comment appeared in the prior report.

Indiana Code 36-1-8-2 states:

"(a) The fiscal body of a political subdivision may permit any of its officers or employees having a duty to collect cash revenues to establish a cash change fund. Such a fund must be established by a warrant drawn on the appropriate fund of the political subdivision in favor of the officer or employee, in an amount determined by the fiscal body without need for appropriation to be made for it.

(b) The officer or employee who establishes a cash change fund shall convert the warrant to cash, shall use it to make change when collecting cash revenues, and shall account for it in the same manner as is required for other funds of the political subdivision.

(c) The fiscal body shall require the entire cash change fund to be returned to the appropriate fund whenever there is a change of the custodian of the fund or if the fund is no longer needed."

REGISTER OF INVESTMENTS

Register of Investments, General Form 350, was not used to record investment activity. A similar comment appeared in the prior report.

The Register of Investments is to be kept by the Clerk-Treasurer, who is custodian of the securities. A separate line should be used for recording each security, and a separate sheet should be used for each investment fund. This form is designed to record investment transactions as they occur. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

APPROVAL OF FORMS

The Town of Schneider began using a new computer software system in 2004. The financial record output of the system has not been approved for use in lieu of prescribed forms. A similar comment appeared in the prior report.

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)

CREATION OF FUNDS

Two funds recorded in the official ledgers of the Town were created in 2008. Ordinances to create these funds were not approved by the Town Council. The two funds were: Innkeepers Tax (518) and Agency (812).

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 36-1-3-6 states in part:

"(a) If there is a constitutional or statutory provision requiring a specific manner for exercising a power, a unit wanting to exercise the power must do so in that manner.

(b) If there is no constitutional or statutory provision requiring a specific manner for exercising a power, a unit wanting to exercise the power must either:

- (1) if the unit is a county or municipality, adopt an ordinance prescribing a specific manner for exercising the power;
- (2) if the unit is a township, adopt a resolution prescribing a specific manner for exercising the power; or
- (3) comply with a statutory provision permitting a specific manner for exercising the power.

(c) An ordinance under subsection (b)(1) must be adopted as follows:

- (1) In a municipality, by the legislative body of the municipality. . .

(d) A resolution under subsection (b)(2) must be adopted by the legislative body of the township."

The enabling ordinance should provide various types of information:

- (1) The ordinance should clearly indicate the type or types of revenue that is to go into the new fund.
- (2) The ordinance should list the purpose or purposes for which expenditures can be made from the new fund.
- (3) The ordinance should establish the life of the new fund and indicate if the fund balance is nonreverting at year end or perpetual until terminated either by the terms of the current ordinance or if another subsequent ordinance must be enacted.
- (4) The ordinance should provide guidance as to disposition of the fund balance on termination of the fund.
- (5) The ordinance should include any other terms or conditions the city or town attorney deems necessary. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS AND CAPITALIZATION POLICY

The Town does not have a complete detailed listing of the capital assets purchased for the Town, Water Utility, and Wastewater Utility.

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

The Town Council has not adopted a capital assets and capitalization policy to assist in the development of the capital asset records. A similar comment appeared in the prior report.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger, City and Town Form 211, or properly approved form, as applicable. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The governing body should establish a capitalization policy that sets a dollar amount as a threshold to be used in determining which items will be recorded. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CUSTOMER DEPOSIT REGISTER NOT RECONCILED

As of December 31, 2010, the detailed customer deposit register does not reconcile with the customer deposit amount recorded on the general ledger. The detailed customer deposit register shows an excess of \$2,471 when compared to the general ledger. Monthly reconcilements between the register and the ledger were not performed. Customer deposits received and disbursed during 2009 were not recorded in the ledger.

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)

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)

TOWN OF SCHNEIDER
EXIT CONFERENCE

The contents of this report were discussed on November 3, 2011, with Diana L. Wilson, Clerk-Treasurer; Richard E. Ludlow, President of the Town Council; and Lori Wilson, Deputy Clerk-Treasurer.

The contents of this report were discussed on November 3, 2011, with Richard M. Wright, Town Council member.

Ray E. Bowman, former Clerk Treasurer, was invited but did not attend an exit conference on November 3, 2011. An email was sent on November 3, 2011, with a request for a read receipt. No reply was received. The contents of this report were sent by certified mail on November 7, 2011, to Ray E. Bowman, former Clerk Treasurer. An official response has not been received.

TOWN OF SCHNEIDER
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Ray E. Bowman, former Clerk-Treasurer:			
Penalties, Interest, and Other Charges, pages 9 and 10:			
Penalties and Interest on Sales Taxes, 2008 and 2009	\$ 235.85	\$ -	\$ 235.85
Reinstatement Fee on Revoked Retail Merchant Certificate in 2009	25.00	-	25.00
Penalties and Interest on Unemployment Taxes in 2009	505.26	-	505.26
Penalties and Interest on Indiana Withholding Taxes in 2009	1,452.49	-	1,452.49
Penalties and Interest on Federal Withholding Taxes and Employer Match, 2009 and 2010	<u>6,972.01</u>	-	<u>6,972.01</u>
Totals	<u>\$ 9,190.61</u>	<u>\$ -</u>	<u>\$ 9,190.61</u>

